

**TOWN OF DOBSON
NORTH CAROLINA**

FINANCIAL STATEMENTS

Year Ended June 30, 2013

JACK L. WILSON, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT
136 Moore Avenue
Mount Airy, N.C. 27030

TOWN OF DOBSON
NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2013

TOWN OF DOBSON
NORTH CAROLINA

TOWN COUNCIL MEMBERS

Ricky K. Draughn, Mayor
J. Wayne Atkins
Todd C. Dockery
John D. Lawson
Robin D. Testerman

OFFICIALS

Josh C. Smith
Laura R. Hill
Ricky K. Draughn
Hugh B. Campbell

Town Manager
Finance Officer
Fire Chief
Attorney

TOWN OF DOBSON
NORTH CAROLINA

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NORTH CAROLINA

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CERTIFIED PUBLIC ACCOUNTANTS

NORTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board
of Commissioners
Town of Dobson, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Dobson, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Dobson, North Carolina as of June 30, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on pages 7-15 and 43-51, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

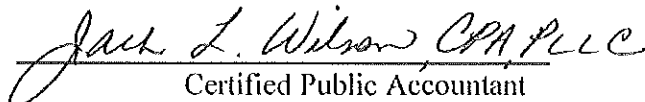
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Dobson, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013 on our consideration of Town of Dobson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Dobson's internal control over financial reporting and compliance.


Certified Public Accountant
Mount Airy, NC

November 11, 2013

Management's Discussion and Analysis

As management of the Town of Dobson, we offer readers of the Town of Dobson's financial statements this narrative overview and analysis of the financial activities of the Town of Dobson for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

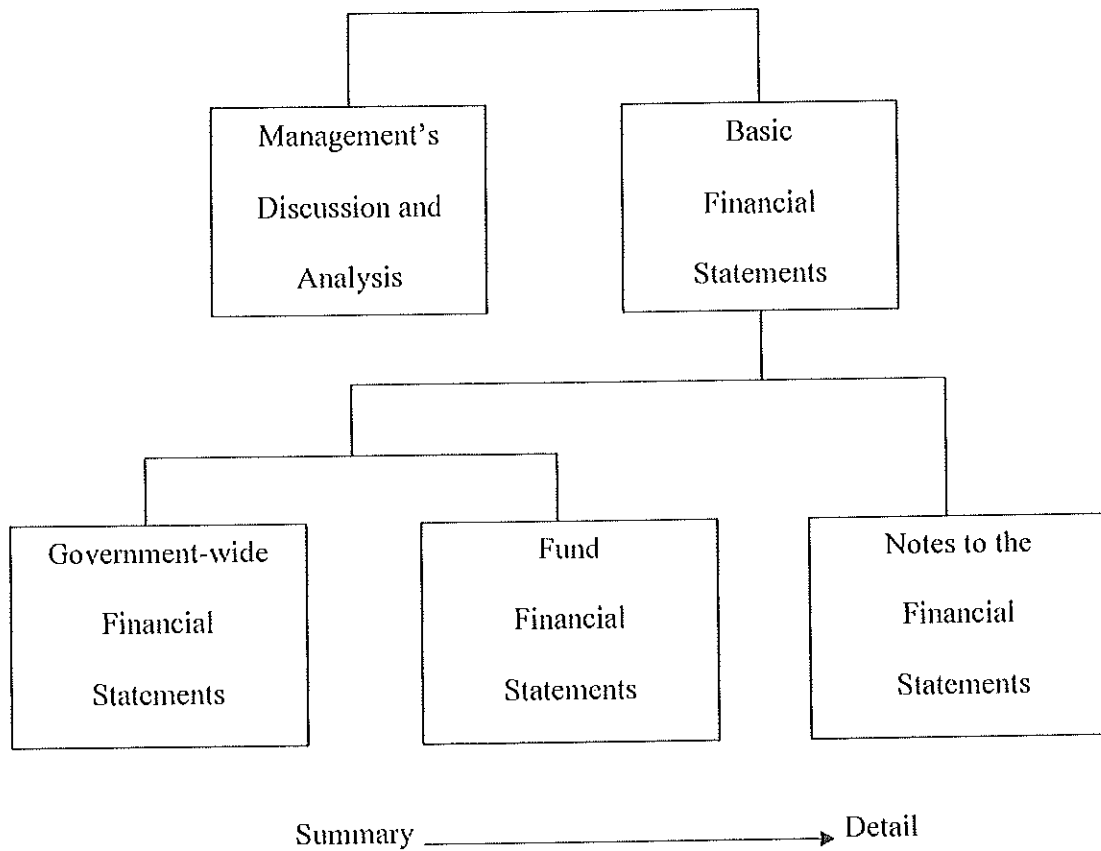
- The assets of the Town of Dobson exceeded its liabilities at the close of the fiscal year by \$6,636,157 (*net positions*).
- The government's total net positions *decreased* by \$198,416, primarily due to the increase in expenditures of the Water/Sewer Fund as compared to the prior year.
- As of the close of the current fiscal year, the Town of Dobson's governmental funds reported combined ending fund balances of \$1,396,981 an increase of \$61,430 in comparison with the prior year. Approximately 87 percent of this total amount, or \$1,211,533, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, *unassigned* fund balance for the General Fund was \$1,211,533 or 98 percent of total general fund expenditures for the fiscal year.
- Debt for the Town decreased by \$48,766 in this fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Dobson's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Dobson.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net positions and how they have changed. Net positions are the difference between the Town's total assets and total liabilities. Measuring net positions is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Dobson. The final category is the component units. Although legally separate from the Town, the ABC Board is an important part of the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. The Town exercises no control over the Tourism Authority's board.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Dobson, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Dobson can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Positions and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Dobson adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – Town of Dobson has one proprietary fund. *Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Dobson uses enterprise funds to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Positions and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28-59 of this report.

Government-Wide Financial Analysis

The Town of Dobson's Net positions

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,427,384	\$ 1,370,659	\$ 871,640	\$ 903,013	\$ 2,299,024	\$ 2,273,672
Capital assets	1,115,297	1,146,957	5,326,788	5,556,840	6,442,085	6,703,797
Total assets	2,542,681	2,517,616	6,198,428	6,459,853	8,741,109	8,977,469
Long-term liabilities outstanding	391,962	407,965	1,481,064	1,631,216	1,873,026	2,039,181
Other liabilities	30,785	17,468	210,141	86,247	240,926	103,715
Total liabilities	422,747	425,433	1,691,205	1,717,463	2,113,952	2,142,896
Net position:						
Invested in capital assets, net of related debt	894,445	903,608	3,897,890	4,034,472	4,792,335	4,938,080
Restricted	185,448	179,814			185,448	179,814
Unrestricted	1,040,041	1,008,761	618,333	707,918	1,658,374	1,716,679
Total net position	\$ 2,119,934	\$ 2,092,183	\$ 4,516,223	\$ 4,742,391	\$ 6,636,157	\$ 6,834,573

As noted earlier, net positions may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Dobson exceeded liabilities by \$6,636,157 as of June 30, 2013. The Town net positions decreased by \$198,416 for the fiscal year ended June 30, 2013. However, the largest portion (72%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Dobson uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Dobson's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Dobson's net positions \$185,448 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,658,374 (25%) is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net positions:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98%, which is comparable to the statewide average of 97%.
- Capital contribution for capital outlay projects amounted to \$72,204.
- Water/Sewer operating expenditures increased from prior year.

Town of Dobson Changes in Net Positions
Figure 3

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 22,607	\$ 19,293	\$ 1,056,156	\$ 1,024,473	\$ 1,078,763	\$ 1,043,766
Operating grants and contributions	189,400	200,848	286,922	245,609	476,322	446,457
Capital grants and contributions				20,225		
General revenues:						
Property taxes	523,033	488,990			523,033	488,990
Other taxes	10,197	10,871			10,197	10,871
Grants and contributions not restricted to specific programs	525,076	514,685			525,076	514,685
Other	35,842	30,994	11,414	21,733	47,256	52,727
Total revenues	1,306,155	1,265,681	1,354,492	1,312,040	2,660,647	2,557,496
Expenses:						
General government	315,952	342,759			315,952	342,759
Public safety	560,442	526,375			560,442	526,375
Transportation	117,995	117,712			117,995	117,712
Environmental Protection	99,770	81,835			99,770	81,835
Economic development	118,946	99,742			118,946	99,742
Culture and recreation	55,307	39,035			55,307	39,035
Interest on long-term debt	9,993	10,878			9,993	10,878
Water and sewer			1,580,658	1,282,899	1,580,658	1,282,899
Total expenses	1,278,405	1,218,336	1,580,658	1,282,899	2,859,063	2,501,235
Increase in net position before transfers	27,750	47,345	(226,166)	29,141	(198,416)	76,486
Transfers						
Increase in net position	27,750	47,345	(226,166)	29,142	(198,416)	76,487
Net position, July 1	2,092,183	2,044,838	4,742,390	4,713,248	6,834,573	6,758,086
Net position, June 30	\$ 2,119,934	\$ 2,092,183	\$ 4,516,223	\$ 4,742,390	\$ 6,636,157	\$ 6,834,573

Governmental activities. Governmental activities increased the Town's net positions by \$27,750 thereby accounting for (14 %) of the total decrease in the net positions of the Town of Dobson. Key elements of this increase are as follows:

- Property taxes increased during the year.
- Cost increased in all departments except general government during the fiscal year.

Business-type activities: Business-type activities decreased the Town of Dobson's net position by \$226,166, accounting for 114% of the total decrease in the government's net positions. Key elements of this increase are as follows:

- Charges for water/sewer were up.
- Total overall operating expenses were up.
- Increase in depreciation due to asset purchases.

Financial Analysis of the Town's Funds

As noted earlier, the Town of Dobson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Dobson's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Dobson's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Dobson. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,211,533, while total fund balance reached \$1,396,981. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 87 percent of total General Fund expenditures.

At June 30, 2013, the governmental funds of Town of Dobson reported a combined fund balance of \$1,396,981, a 7 percent increase over last year. Included in this change in fund balance are increases in fund balance in the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Expenditures were higher than budgeted primarily due to capital equipment purchases and improvements. Revenues also exceeded projections allowing for budget amendments that covered realized expenditures without any fund balance appropriation.

Proprietary Funds. The Town of Dobson's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer District at the end of the fiscal year amounted to \$618,333. The total decrease in net position for the fund was \$226,166. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Dobson's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Dobson's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$6,442,085 (net of accumulated depreciation). These assets include buildings, roads, land, machinery, equipment, vehicles, and construction in progress.

Town of Dobson's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Land	\$ 35,000	\$ 35,000	\$ 29,269	\$ 29,269	\$ 64,269	\$ 64,269
Buildings and systems	591,858	609,548	4,833,170	3,376,715	5,425,028	3,986,263
Improvements other than buildings						
Machinery and equipment	122,347	111,495	379,314	402,589	501,661	514,084
Infrastructure						
Vehicles and motorized equipment	366,092	390,913	85,036	102,377	451,128	493,290
Construction in progress				1,645,891		1,645,891
Total	\$ 1,115,297	\$ 1,146,957	\$ 5,326,788	\$ 5,556,840	\$ 6,442,085	\$ 6,703,797

Additional information on the town's capital assets can be found in note III. A. 3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2013, the Town of Dobson had total bonded debt outstanding of \$305,775. Of this, \$197,500 is debt backed by the full faith and credit of the town. The remainder of the town's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Town of Dobson's Outstanding Debt General Obligation and Revenue Bonds

Figure 5

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
General obligation bonds	\$ -	\$ -	\$ 185,000	\$ 197,500	\$ 185,000	\$ 197,500
Notes Payable	220,852	246,349	1,123,125	1,163,838	1,343,977	1,410,187
Revenue bonds	-	-	120,772	161,030	120,772	161,030
Total	\$ 220,852	\$ 246,349	\$ 1,428,897	\$ 1,522,368	\$ 1,649,749	\$ 1,768,717

The Town of Dobson's total debt decreased by \$48,766 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Dobson is \$11,136,238.

Additional information regarding the Town of Dobson's long-term debt can be found in note III. B. 4 beginning on page 53-58 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the town.

- The Town continues to sell water to Surry County, which increases utility revenues.
- The Town is working towards developing a Town park which will increase the quality of life for residents. Since there is a strong relationship between quality of life and economic development, the Town expects this project to have a positive impact on economic development efforts.
- Several new businesses have located in town including an Italian restaurant, Sheetz, and several sole proprietorships that have redeveloped vacant commercial space.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: Property tax collection rate should remain steady at 98% with a slight growth in revenues due to several newly developed and redeveloped properties in town.

The Town continues to reduce budget expenditures through strict spending oversight and the adoption of policies intended to increase efficiencies. Revenues are expected to increase due to a new commercial garbage fee and several fee and penalty increases and through aggressive collection of various penalties and fees. The Town has adopted a project ordinance for the construction of a new Town park that will improve the quality of life for residents and hopefully increase property values.

Business Activities: The Town agreements with Surry County to maintain County water lines provide the Town with 1.5 FTEs, approximately \$90,000 in capital costs, and several directly reimbursed expenses related to the County's water lines. This provides additional revenues and enables the Town to continue to offer competitive water rates to utility customers.

The Town has entered into an inter-local agreement with the city of Mount Airy for the purchase of treated water. The agreement guarantees Dobson the availability of 1.5 million gallons of water per day for the duration of the agreement. This increased capacity allows economic expansion without capital improvement costs related to the expansion of the Town's water treatment plant. Water rates have been restructured and increased in the fiscal year ending June 30, 2014, to provide additional revenues and cover anticipated expenditures as a result of the agreement with the city of Mount Airy.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Mayor, Ricky K. Draughn or the Town Finance Officer, Laura Hill, Post Office Box 351, Dobson, NC 27017, (336) 356-8962 or email address at customerservice@dobson-nc.com.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Town of Dobson Tourism Development Authority	Town of Dobson ABC Board
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,218,900	\$ 672,287	\$ 1,891,187	\$ 181,070	\$ 126,687
Taxes receivables (net)	21,102	-	21,102	-	-
Accrued interest receivable on taxes	1,935	-	1,935	-	-
Accounts receivable (net)	2,754	91,494	94,248	12,029	151
Due from other governments	68,191	31,335	99,526	-	-
Due from component units	21,658	-	21,658	-	-
Inventories	-	39,941	39,941	-	65,890
Prepaid items	-	-	-	-	6,821
Restricted cash and cash equivalents	92,844	36,583	129,427	-	-
Total current assets	\$ 1,427,384	\$ 871,640	\$ 2,299,024	\$ 193,099	\$ 199,549
Non-current assets:					
Capital assets (Note 1):					
Land, non-depreciable improvements, and construction in progress	\$ 35,000	\$ 29,269	\$ 64,269	\$ -	\$ 4,500
Other capital assets, net of depreciation	1,080,297	5,297,519	6,377,816	-	16,462
Total capital assets	\$ 1,115,297	\$ 5,326,788	\$ 6,442,085	\$ -	\$ 20,962
Total non-current assets	\$ 1,115,297	\$ 5,326,788	\$ 6,442,085	\$ -	\$ 20,962
Total assets	\$ 2,542,681	\$ 6,198,428	\$ 8,741,109	\$ 193,099	\$ 220,511
DEFERRED OUTFLOWS OF RESOURCES					
Total deferred outflows of resources	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 7,367	\$ 70,588	\$ 77,955	\$ -	\$ 54,552
Accrued interest payable	-	-	-	-	-
Customer deposits	-	36,583	36,583	-	-
Due to primary government	-	-	-	-	-
Due to other governments	-	-	-	-	-
Payable from restricted assets	-	-	-	-	-
Long-term liabilities:					
Due within one year	23,418	93,970	117,388	-	-
Due in more than one year	391,962	1,481,064	1,873,026	-	-
Total liabilities	\$ 422,747	\$ 1,682,205	\$ 2,104,952	\$ -	\$ 54,552
DEFERRED INFLOWS OF RESOURCES					
Total deferred inflows of resources	\$ -	\$ -	\$ -	\$ -	\$ -
NET POSITION					
Net investment in capital assets	\$ 894,445	\$ 3,897,890	\$ 4,792,335	\$ -	\$ 20,962
Restricted for:					
Capital projects	-	-	-	-	-
Stabilization by State Statute	92,604	-	92,604	12,029	-
Streets	92,844	-	92,844	-	-
Other functions	-	-	-	-	15,926
Unrestricted	1,040,041	618,333	1,658,374	181,070	129,070
Total net position	\$ 2,119,934	\$ 4,516,223	\$ 6,636,157	\$ 193,099	\$ 165,958

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 315,952	\$ 1,250	\$ -	\$ -
Public safety	560,442	2,501	14,867	-
Transportation	117,995	-	47,013	-
Economic and physical development	118,946	-	119,672	-
Environmental protection	99,770	-	7,848	-
Cultural and recreation	55,307	18,856	-	-
Interest on long-term debt	9,993	-	-	-
Total governmental activities (See Note 1)	<u>1,278,405</u>	<u>22,607</u>	<u>189,400</u>	<u>-</u>
Business-type activities:				
Water and sewer	\$ 1,580,658	\$ 1,056,156	\$ 286,922	\$ -
Total business-type activities	<u>\$ 1,580,658</u>	<u>\$ 1,056,156</u>	<u>\$ 286,922</u>	<u>\$ -</u>
Total primary government	<u>\$ 2,859,063</u>	<u>\$ 1,078,763</u>	<u>\$ 476,322</u>	<u>\$ -</u>
Component units:				
Town of Dobson TDA	\$ 93,701	\$ -	\$ -	\$ -
ABC Board	529,786	535,057	-	-
Total component units	<u>\$ 623,487</u>	<u>\$ 535,057</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purpose

Other taxes

Grants and contributions not restricted to specific programs

Payments from Town of Dobson

Unrestricted investment earnings

Miscellaneous

Total general revenues not including transfers

Transfers

Total general revenues and transfers

Change in Net position

Net position-beginning

Net position-ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Town of Dobson Tourism Development Authority	Town of Dobson ABC Board
\$ (314,702)	\$ -	\$ (314,702)	\$ -	\$ -
(543,074)	-	(543,074)	-	-
(70,982)	-	(70,982)	-	-
726	-	726	-	-
(91,922)	-	(91,922)	-	-
(36,451)	-	(36,451)	-	-
(9,993)	-	(9,993)	-	-
<u>(1,066,398)</u>	<u>-</u>	<u>(1,066,398)</u>	<u>-</u>	<u>-</u>
\$ -	\$ (237,580)	\$ (237,580)	\$ -	\$ -
\$ -	\$ (237,580)	\$ (237,580)	\$ -	\$ -
<u>\$ (1,066,398)</u>	<u>\$ (237,580)</u>	<u>\$ (1,303,978)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (93,701)	\$ -
-	-	-	-	5,271
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(93,701)</u>	<u>5,271</u>
\$ 523,033	\$ -	\$ 523,033	\$ -	\$ -
10,197	-	10,197	-	-
525,076	-	525,076	-	-
-	-	-	119,672	-
2,394	761	3,155	170	156
33,448	10,653	44,101	200	-
<u>1,094,148</u>	<u>11,414</u>	<u>1,105,562</u>	<u>120,042</u>	<u>156</u>
<u>\$ 1,094,148</u>	<u>\$ 11,414</u>	<u>\$ 1,105,562</u>	<u>\$ 120,042</u>	<u>\$ 156</u>
\$ 27,750	\$ (226,166)	\$ (198,416)	\$ 26,341	\$ 5,426
2,092,183	4,742,390	6,834,573	166,757	160,532
<u>\$ 2,119,934</u>	<u>\$ 4,516,223</u>	<u>\$ 6,636,157</u>	<u>\$ 193,099</u>	<u>\$ 165,958</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>Major Funds</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 1,218,900	\$ 1,218,900
Restricted cash	92,844	92,844
Receivables, net:		
Taxes	21,102	21,102
Accounts	2,754	2,754
Due from other governments	68,191	68,191
Due from component unit	21,658	21,658
Total assets	\$ 1,425,449	\$ 1,425,449
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,367	\$ 7,367
Due to other funds	-	-
Unearned revenue	-	-
Total liabilities	\$ 7,367	\$ 7,367
 DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	21,102	21,102
Total deferred inflows of resources	\$ 21,102	\$ 21,102
 Fund balances:		
Restricted:		
Stabilization by State Statute	\$ 92,604	\$ 92,604
Streets	92,844	92,844
Unassigned	1,211,533	1,211,533
Total fund balances	\$ 1,396,981	\$ 1,396,981
Total liabilities, deferred inflows of resources and fund balances	\$ 1,425,449	\$ 1,425,449

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds		\$ 1,396,981
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 2,200,914	
Accumulated depreciation	(1,085,617)	1,115,297
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		1,935
Liabilities for earned but deferred revenues in fund statements.		21,102
Some long term liabilities, including bonds payable, accrued interest, and other postemployment benefits are not due and payable in the current period and therefore are not reported in the funds.		(415,380)
Net position of governmental activities		\$ 2,119,934

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	
REVENUES		
Ad valorem taxes	\$ 517,636	\$ 517,636
Other taxes and licenses	10,197	10,197
Unrestricted intergovernmental	525,076	525,076
Restricted intergovernmental	189,272	189,272
Investment earnings	2,522	2,522
Miscellaneous	56,055	56,055
Total revenues	<u>\$ 1,300,758</u>	<u>\$ 1,300,758</u>
EXPENDITURES		
Current:		
General government	\$ 302,907	\$ 302,907
Public safety	488,918	488,918
Transportation	135,089	135,089
Environmental protection	110,670	110,670
Culture and recreation	50,307	50,307
Payments to Dobson Tourism Authority	118,946	118,946
Debt service:		
Principal	22,497	22,497
Interest and other charges	9,993	9,993
Total expenditures	<u>\$ 1,239,328</u>	<u>\$ 1,239,328</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 61,430</u>	<u>\$ 61,430</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$ -	\$ -
Transfers to other funds	-	-
Capital Contributions	-	-
Sales of capital assets	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 61,430	\$ 61,430
Fund balances-beginning	1,335,551	1,335,551
Fund balances-ending	<u>\$ 1,396,981</u>	<u>\$ 1,396,981</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ 61,430

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 68,056	
Depreciation expense for governmental assets	<u>(99,716)</u>	(31,660)

In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of capital assets disposed of.

-

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets	
Change in deferred revenue for tax revenues	5,396

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

22,497

Decrease in accrued interest payable

-

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	
Net pension obligation	
Other postemployment benefits	<u>(29,913)</u>

Total changes in net position of governmental activities	<u>\$ 27,750</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad Valorem Taxes	\$ 483,000.00	\$ 514,700.00	\$ 517,636.01	\$ 2,936.01
Other Taxes and Licenses	9,000.00	9,000.00	10,196.50	1,196.50
Unrestricted Intergovernmental	487,100.00	499,100.00	525,075.84	25,975.84
Restricted Intergovernmental	150,800.00	187,100.00	189,272.38	2,172.38
Investment Earnings	4,150.00	4,150.00	2,522.28	(1,627.72)
Miscellaneous	39,400.00	54,400.00	56,054.69	1,654.69
Total Revenues	\$ 1,173,450.00	\$ 1,268,450.00	\$ 1,300,757.70	\$ 32,307.70
Expenditures:				
Current:				
General Government	\$ 293,500.00	\$ 313,500.00	\$ 302,907.42	\$ 10,592.58
Public Safety	492,650.00	503,450.00	488,918.13	14,531.87
Transportation	133,200.00	145,200.00	135,089.16	10,110.84
Environmental Protection	93,000.00	112,000.00	110,670.36	1,329.64
Cultural and Recreation	36,500.00	52,700.00	50,307.17	2,392.83
Payment to Dobson Tourism Authority	95,000.00	120,000.00	118,945.53	1,054.47
Debt Service:				
Debt Service Principal	22,600.00	22,600.00	22,496.93	103.07
Debt Service Interest	10,000.00	10,000.00	9,992.86	7.14
Total Expenditures	\$ 1,176,450.00	\$ 1,279,450.00	\$ 1,239,327.56	\$ 40,122.44
Revenues Over (Under) Expenditures	\$ (3,000.00)	\$ (11,000.00)	\$ 61,430.14	\$ 72,430.14
Other Financing Sources (Uses):				
Sale of Capital Assets	3,000.00	3,000.00		(3,000.00)
Total Other Financing Sources (Uses)	\$ 3,000.00	\$ 3,000.00	\$	\$ (3,000.00)
Fund Balance Appropriated		8,000.00		(8,000.00)
Net Change in Fund Balance			\$ 61,430.14	61,430.14
Fund Balance, Beginning			1,335,550.95	
Fund Balance, Ending			\$ 1,396,981.09	

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Fund	
	Water and Sewer Fund	Total
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 672,287.18	\$ 672,287.18
Accounts receivable (net)-billed	91,493.75	91,493.75
Due from other governments	31,335.33	31,335.33
Inventories	39,940.76	39,940.76
Restricted Cash and Cash Equivalents	\$ 36,583.43	\$ 36,583.43
Total Current Assets	\$ 871,640.45	\$ 871,640.45
Capital Assets:		
Land, construction in progress and other non-depreciable assets	\$ 29,268.96	\$ 29,268.96
Other capital assets, net of depreciation	5,297,518.88	5,297,518.88
Capital asset (net)	5,326,787.84	5,326,787.84
Total noncurrent assets	5,326,787.84	5,326,787.84
Total Assets	\$ 6,198,428.29	\$ 6,198,428.29

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 70,587.91	\$ 70,587.91
Customer Deposits	36,583.43	36,583.43
General Obligation Bonds Payable-Current	13,000.00	13,000.00
Notes Payable-Current	80,970.10	80,970.10
Total Current Liabilities	<u>\$ 201,141.44</u>	<u>\$ 201,141.44</u>
Noncurrent Liabilities:		
General Obligation Bonds Payable-Noncurrent (net)	\$ 172,000.00	\$ 172,000.00
Note Payable-Noncurrent	1,162,927.70	1,162,927.70
Other Post Employment Benefits	146,136.00	146,136.00
Total Noncurrent Liabilities	<u>\$ 1,481,063.70</u>	<u>\$ 1,481,063.70</u>
Total Liabilities	<u>\$ 1,682,205.14</u>	<u>\$ 1,682,205.14</u>
NET POSITION		
Net Investment in Capital Assets	\$ 3,897,890.04	\$ 3,897,890.04
Unrestricted	618,333.11	618,333.11
Total Net Position	<u>\$ 4,516,223.15</u>	<u>\$ 4,516,223.15</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Fund	
	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for Services	\$ 1,224,972.35	\$ 1,224,972.35
Water and Sewer Taps	12,281.50	12,281.50
Other Operating Revenues	105,823.20	105,823.20
Total Operating Revenues	\$ 1,343,077.05	\$ 1,343,077.05
OPERATING EXPENSES		
Total Operating Expenses	\$ 1,299,151.77	\$ 1,299,151.77
Depreciation	234,199.46	234,199.46
Total Operating Expenses	\$ 1,533,351.23	\$ 1,533,351.23
Operating Income (loss)	\$ (190,274.18)	\$ (190,274.18)
NON-OPERATING REVENUES (EXPENSES)		
Investment Earnings	\$ 761.34	\$ 761.34
Tax Refunds	10,652.70	10,652.70
Interest Fees on Long-Term Debt	(47,306.31)	(47,306.31)
Total Non-operating Revenues (Expenses)	\$ (35,892.27)	\$ (35,892.27)
Income (Loss) Before Contributions and Transfers	\$ (226,166.45)	\$ (226,166.45)
Capital Contributions		
Transfers from General Fund		
Change in Net Position	\$ (226,166.45)	\$ (226,166.45)
Total Net Position, Beginning	4,742,389.60	4,742,389.60
Total Net Position, Ending	\$ 4,516,223.15	\$ 4,516,223.15

The notes to the financial statements are an integral part of this statement.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds	
	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,238,510.84	\$ 1,238,510.84
Cash Paid for Goods and Services	(577,888.68)	(577,888.68)
Cash Paid to or on Behalf of Employees for Services	(617,622.20)	(617,622.20)
Customer Deposits Received	9,081.50	9,081.50
Customer Deposits Returned	(9,597.20)	(9,597.20)
Other Operating Revenues	105,823.20	105,823.20
Net Cash Provided (Used) by Operating Activities	\$ 148,307.46	\$ 148,307.46
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Other Funds	\$	\$
Transfers to Other Funds		
Due from other governments	10,652.68	10,652.68
Total Cash Flows from Noncapital Financing Activities	\$ 10,652.68	\$ 10,652.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	\$ (4,147.74)	\$ (4,147.74)
Proceeds from Capital Debt		
Principal Paid on Bond Maturities and Notes	(93,470.10)	(93,470.10)
Interest Paid on Bond Maturities and Notes	(48,128.04)	(48,128.04)
Capital Contributions		
Tax Refunds		
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (145,745.88)	\$ (145,745.88)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	\$ 761.34	\$ 761.34
Sale of Property & Equipment		
Total Cash Flows from Investing Activities	\$ 761.34	\$ 761.34
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 13,975.60	\$ 13,975.60
Balance, Beginning of the Year	694,895.01	694,895.01
Balance, End of the Year	\$ 708,870.61	\$ 708,870.61

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds	
	Water and Sewer Fund	Totals
Reconciliation of Operating Income to Net		
Cash Provided (Used) by Operating Activities	\$ (190,274.18)	\$ (190,274.18)
Operating Income		
Adjustments to Reconcile Operating Income to		
Net Cash Provided (Used) by Operating Activities		
Depreciation	\$ 234,199.46	\$ 234,199.46
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,256.99	1,256.99
(Increase) Decrease in Inventories	2,106.70	2,106.70
(Increase) Decrease in Prepaid Items		
(Increase) Decrease in due from other governments	41,984.67	41,984.67
Increase (Decrease) in Accounts Payable and Accrued Liabilities	59,549.52	59,549.52
(Increase) Decrease in amounts payable related to equipment purchases		
Increase (Decrease) in due to other governments	(515.70)	(515.70)
Increase (Decrease) in Customer Deposits		
Total Adjustments	\$ 338,581.64	\$ 338,581.64
Net Cash Provided (Used) by Operating Activities	\$ 148,307.46	\$ 148,307.46

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Dobson, North Carolina, and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. REPORTING ENTITY

The Town of Dobson, North Carolina is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Dobson ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office at Town of Dobson ABC Board, P.O. Box 825, Dobson, North Carolina 27017.

Town of Dobson Tourism Development Authority

The members of the Town of Dobson Tourism Development Authority's (Authority) governing board are appointed by the Town. The Authority receives revenue through a six percent occupancy tax, which is levied and collected by the Town of Dobson. The Town remits the taxes collected to the Authority. The Authority, which has a June 30 year-end, is presented as if it were a governmental fund. Additional information should be directed to Town of Dobson Tourism Development Authority, P.O. Box 351, Dobson, NC 27017.

B. BASIS OF PRESENTATION

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, and general government services.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Concluded)

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

In accordance with North Carolina Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund is charges to customers for sales and service. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Surry County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Dobson.

For motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Surry County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Concluded)

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. BUDGETARY DATA

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Water and Sewer Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. A budget calendar is included in the North Carolina General Statutes, which prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed:

- | | |
|------------|--|
| April 30 - | Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year. |
| June 1 - | The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time. |
| July 1 - | The budget ordinance shall be adopted by the governing board. |

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND FUND EQUITY

1. Deposits and Investments

All deposits of the Town, the Tourism Authority, and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town, the Tourism Authority, and the ABC Board may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town, Tourism Authority, and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized costs. Non-participating interest earnings and investment contracts are reported at cost.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursements and investments and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board and the Tourism Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND FUND EQUITY (Continued)

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2010. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventories and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased. The ABC Board's inventory consists of merchandise for resale. The costs of these inventories are recorded as an expense as the inventories are sold.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND FUND EQUITY (Continued)

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are set at \$2,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Infrastructure	30 years
Plant and distribution systems	40 years
Equipment	3 to 10 years
Furniture and maintenance equipment	3 to 20 years
Vehicles	3 to 20 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	40 years
Paving	5 to 10 years
Furniture and Equipment	5 to 20 years

Property, plant, and equipment of the Town of Dobson Tourism Development Authority are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Equipment	3 to 10 years
Furniture and Maintenance Equipment	3 to 10 years
Vehicles	3 to 10 years

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND FUND EQUITY (Continued)

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, an unamortized loss on a bond defeasance for Water and Sewer Refunding bonds. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only two items that meet the criterion for this category - prepaid taxes and property taxes receivable.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND FUND EQUITY (Continued)

10. Compensated Absences

The vacation policies of the Town do not provide for the accumulation or vesting of vacation leave. Therefore, no provision has been made in the accompanying financial statements for accrued vacation pay. The ABC Board employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. Accumulated earned vacation at June 30, 2013 amounted to approximately \$4,800, which was accrued at year-end.

The Town's sick leave policy provides for an accumulation of up to 180 days of earned sick leave. The ABC Board employees can accumulate an unlimited amount of sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town and ABC Board have no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net position/Fund Balances

Net position

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Concluded)

11. Net position/Fund Balances (Concluded)

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

 Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

 Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Dobson’s governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance – portion of fund balance that Town of Dobson intends to use for specific purposes.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditure made in the Town’s Water and Sewer Fund exceeded the authorized appropriations made by the governing board for by \$24,938. Management has been notified of these excess expenditures and will closely monitor their budget process in the future.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS

A. ASSETS

1. Deposits

All of the deposits of the Town, the ABC Board, and the Town of Dobson Tourism Development Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal depository insurance coverage level are collateralized with securities held by the Town's, the ABC Board's, or the Authority's agents in these units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the ABC Board and the Authority, these deposits are considered to be held by the Town's, the ABC Board's and the Authority's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, and the Authority or the escrow agent.

Because of the inability to measure the exact amounts of collateral pledged for the Town, the ABC Board, and the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town, the ABC Board, and the Tourism Authority have no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town, ABC Board and Tourism Authority complies with the provisions of G.S. 159-31 when designating official depositors and verifying that deposits are properly secured.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

A. ASSETS (Continued)

1. Deposits (Concluded)

At June 30, 2013, the Town's deposits had a carrying amount of \$2,020,614 and a bank balance of \$2,071,893. Of the bank balance, \$500,000.00 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board's was \$125,987 and a bank balance of \$122,635. Of the bank balance, \$122,635 was covered by Federal depository insurance. The carrying amount of deposits for the Authority's was \$181,070 and a bank balance of \$185,887. Of the bank balance, \$185,887 was covered by Federal depository insurance. The Pooling Method is used for collateralization of the bank balance over the federal depository insurance limits. At June 30, 2013, the Town's petty cash fund totaled \$175.

2. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net position are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>June 30, 2013</u>
General Fund:	
Taxes Receivable	<u>\$ 8,655</u>
Total	<u>\$ 8,655</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

A. ASSETS (Continued)

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Construction in progress				
Total capital assets not being depreciated	<u>\$ 35,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 35,000</u>
Capital assets being depreciated:				
Buildings	\$ 834,523	\$	\$	\$ 834,523
Equipment	364,749	40,020		404,769
Vehicles	898,586	28,036		926,622
Infrastructure				
Total capital assets being depreciated	<u>\$ 2,097,858</u>	<u>\$ 68,056</u>	<u>\$</u>	<u>\$ 2,165,914</u>
Less accumulated depreciation for:				
Buildings	\$ 224,975	\$ 17,690	\$	\$ 242,665
Equipment	253,254	29,168		282,422
Vehicles	507,672	52,858		560,530
Infrastructure				
Total accumulated depreciation	<u>\$ 985,901</u>	<u>\$ 99,716</u>	<u>\$</u>	<u>\$ 1,085,617</u>
Total capital assets being depreciated, net	<u>1,111,957</u>			<u>1,080,297</u>
Governmental activity capital assets, net	<u>\$ 1,146,957</u>			<u>\$ 1,115,297</u>

Depreciation expense was charged to function/programs of the primary government as follows:

General government	\$ 12,264
Public safety	79,816
Transportation	7,636
Total depreciation expense	<u>\$ 99,716</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

3. Capital Assets (Concluded)

Business-type activities:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
	<u>Balances</u>			<u>Balances</u>
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 29,269	\$	\$	\$ 29,269
Construction in progress	<u>1,645,891</u>	<u> </u>	<u>1,645,891</u>	<u> </u>
Total capital assets not being depreciated	<u>\$ 1,675,160</u>	<u>\$</u>	<u>\$1,645,891</u>	<u>\$ 29,269</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 5,885,712	\$1,645,891	\$	\$ 7,531,603
Furniture and maintenance equipment	933,462	4,148		937,610
Vehicles	<u>186,133</u>	<u> </u>	<u> </u>	<u>186,133</u>
Total capital assets being depreciated	<u>\$ 7,005,307</u>	<u>\$1,650,039</u>	<u>\$</u>	<u>\$ 8,655,346</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 2,508,998	\$ 189,435	\$	\$ 2,698,433
Furniture and maintenance equipment	530,873	27,423		558,296
Vehicles	<u>83,756</u>	<u>17,341</u>	<u> </u>	<u>101,097</u>
Total accumulated depreciation	<u>\$ 3,123,627</u>	<u>\$ 234,199</u>	<u>\$</u>	<u>\$ 3,357,826</u>
Total capital assets being depreciated, net	<u>3,881,680</u>			<u>5,297,519</u>
Water and Sewer fund capital assets, net	<u>5,556,840</u>			<u>5,326,788</u>
Business-type activities capital assets, net	<u>\$ 5,556,840</u>			<u>\$ 5,326,788</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2013, was as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
	<u>Balances</u>			<u>Balances</u>
Capital assets not being depreciated:				
Land	\$ 4,500	\$	\$	\$ 4,500
Total capital assets not being depreciated	<u>4,500</u>	<u> </u>	<u> </u>	<u>4,500</u>
Capital assets being depreciated:				
Buildings	\$ 42,431	\$	\$	\$ 42,431
Paving	12,768			12,768
Equipment	<u>62,482</u>	<u>1,850</u>	<u> </u>	<u>64,332</u>
Total capital assets being depreciated	<u>\$ 117,681</u>	<u>\$ 1,850</u>	<u>\$</u>	<u>\$ 119,531</u>
Less accumulated depreciation for:				
Buildings	\$ 41,957	\$ 344	\$	\$ 42,301
Paving	1,915	639		2,554
Equipment	<u>57,713</u>	<u>501</u>	<u> </u>	<u>58,214</u>
Total accumulated depreciation	<u>101,585</u>	<u>\$ 1,484</u>	<u>\$</u>	<u>103,069</u>
ABC capital assets, net	<u>\$ 16,096</u>			<u>\$ 16,462</u>

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town and ABC Board contribute to the statewide Local Governmental Employees' Retirement System (LGERS), a cost sharing, and multiple-employer, defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80% of annual covered payroll. The contribution requirements of members and of the Town of Dobson and of the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to the LGERS for the years ended June 30, 2013, 2012 and 2011 were \$40,742, \$40,078 and \$32,072, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$1,479, \$1,394 and \$1,248, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town of Dobson administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to benefits but not Yet receiving them	0
Active plan members	<u>6</u>
Total	<u>6</u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures will be made from the General Fund, which is maintained on the modified accrual basis of accounting.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance (Concluded)

2. *Summary of Significant Accounting Policies (Concluded):*

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These funds are to be paid as they come due.

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The Town has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013, were \$26,002, which consisted of \$13,785 from the Town and \$12,217 from the law enforcement officers.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Dobson, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month per member to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes money to the Fund for the plan members. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits

Healthcare Benefits

Plan Description. The Town administers a single-employer defined Healthcare Benefits Plan (“the Retiree Health Plan”). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and are at least 55 years of age with at least twenty years of creditable service with the Town. The retiree pays 35% and the Town pays 65% cost of coverage for these benefits. Also, the Town’s retirees can purchase coverage for their dependents at the Town’s group rates. The Town’s Board may amend the benefit provisions. A separate report was not issued for the plan.

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	1	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>11</u>	<u>6</u>
Total	<u>12</u>	<u>6</u>

Funding Policy. The Town pays 65% and the retiree pays 35% of the cost of healthcare benefit coverage to qualified retirees and the plan can be amended by the Town’s Board. The Town members pay 35% of cost of insurance per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2013, the Town made no contributions and total member contributions were \$0.00.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 65,397
Interest on net OPEB obligation	1,804
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	67,201
Contributions made	<u>0</u>
Increase (decrease) in net OPEB obligation	67,201
Net OPEB obligation, beginning of year	<u>273,464</u>
Net OPEB obligation, end of year	<u>\$ 340,665</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>For Year Ended</u> <u>June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$ 67,201	0.0%	\$ 340,665
2012	\$ 119,409	0.0%	\$ 273,464
2011	\$ 111,251	0.0%	\$ 154,055

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Continued)

Funding Status and Funding Progress. As of June 30, 2013, the actuarial accrued liability for benefits was \$811,012 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$601,606 and the ratio of the UAAL to the covered payroll was 135 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value assets, consistent with the long-term perspective of the calculations.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Concluded)

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center of Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections from the Town's private insurance carrier. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.0 percent after nine years, was used.

Health insurance premiums – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 4.0 percent.

Payroll growth rate – The expected long-term growth rate of 3.0 percent was assumed.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Concluded)

e. Other Post-employment Benefits (Concluded)

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000.00 or be less than \$25,000.00. All death benefit payments are made from the Death Benefit Plan.

The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

2. Deferred Outflows and Inflows of Resources

Deferred inflows of resources at year end is comprised of the following elements:

	<u>Unavailable Revenue</u>
Taxes receivable (General Fund)	<u>\$ 21,102</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has worker's compensation coverage up to the statutory limit and employee health coverage up to a \$1,000,000 lifetime limit. The pools are reinsured for annual employee health claims in excess of \$150,000 Long-Term Debt.

The Town carries commercial insurance coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town carries no flood insurance on the property or equipment. This is due to the areas around the Town are not susceptible to flooding.

In accordance with G.S. 159-29, the Town's employees that have access of \$100 or more at any given time are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000. All remaining employees are bonded under a blanket bond for \$10,000 each.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

4. Long-Term Obligations

a. Loan Agreements

In July 2007, the Town entered into a loan agreement for the purchase of a fire truck. The agreement requires annual payments of \$24,769 including interest until maturity in August 2018.

A summary of the annual requirements of the General Fund long-term debt outstanding follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 20,270	\$ 4,499	\$ 24,769
2015	21,099	3,669	24,768
2016	21,962	2,806	24,768
2017	22,861	1,908	24,769
2018	<u>23,796</u>	<u>974</u>	<u>24,770</u>
	<u>\$ 109,988</u>	<u>\$ 13,856</u>	<u>\$ 123,844</u>