

**CHOWAN COUNTY
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

This page left blank intentionally.

CHOWAN COUNTY, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-13
<u>Exhibit</u>	
Basic Financial Statements:	
Government-Wide Financial Statements:	
A Statement of Net Position	14
B Statement of Activities	15-16
Fund Financial Statements:	
C Balance Sheet - Governmental Funds	17
D Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
E Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	19
F Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	20
G Statement of Net Position - Proprietary Funds	21
H Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	22
I Statement of Cash Flows - Proprietary Funds	23
J Statement of Fiduciary Net Position - Fiduciary Funds	24
Notes to the Financial Statements	25-60

CHOWAN COUNTY, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Required Supplemental Financial Data:	
A-1	Other Post-Employment Benefits - Healthcare for Retirees	61
	Supplementary Information:	
	General Fund:	
B-1	Statement of Revenues, Expenditures, and Changes in Fund Balance - Actual - General Fund Consolidated	62-63
B-2	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	64-70
B-3	Revaluation Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	71
B-4	School Capital Reserve Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	72
B-5	Street Assessment Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	73
B-6	General Capital Reserve Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	74
B-7	Major Fund - Debt Service Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	75
	Nonmajor Governmental Funds:	
C-1	Combining Balance Sheet	76
C-2	Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	77

CHOWAN COUNTY, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Nonmajor Special Revenue Funds:	
D-1	Combining Balance Sheet	78
D-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79
D-3	Emergency Telephone System Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	80
D-4	Fire District Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	81
D-5	Disaster Recovery Fund: Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	82
	Nonmajor Capital Projects Funds:	
E-1	Combining Balance Sheet	83
E-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	84
E-3	DSS Renovation Project: Schedule of Revenues and Expenditures - Budget and Actual	85
E-4	Lottery Project: Schedule of Revenues and Expenditures - Budget and Actual	86
	Enterprise Funds:	
F-1	Water Fund: Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP)	87-88
F-2	Solid Waste Fund: Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	89

CHOWAN COUNTY, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
F-3	Emergency Medical Services Fund: Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	90-91
F-4	Water Development Capital Reserve Fund: Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	92
	Agency Funds:	
G-1	Combining Balance Sheet	93
G-2	Combining Statement of Changes in Assets and Liabilities	94
	Additional Financial Data:	
H-1	Schedule of Ad Valorem Taxes Receivable - General Fund	95
H-2	Analysis of Current Tax Levy - County-Wide Levy	96
I-1	Chowan County Tourism Development Authority Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual	97
J-1	Emergency Telephone System Fund Unspent Balance: PSAP Reconciliation	98
	Compliance Section:	
	Report On Internal Control Over Financial Reporting And On Compliance Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	99-100
	Report On Compliance For Each Major Federal Program: Report on Internal Control Over Compliance; In Accordance with OMB Circular A-133 And The State Single Audit Implementation Act	101-102

CHOWAN COUNTY, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Compliance Section (continued):	
	Report On Compliance For Each Major State Progam: Report on Internal Control Over Compliance; In Accordance with OMB Circular A-133 And And The State Single Audit Implementation Act	103-104
	Schedule of Findings and Questioned Costs	105-109
	Summary Schedule of Prior Year's Audit Findings	110
	Schedule of Expenditures of Federal and State Awards	111-113

This page left blank intentionally.

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Chowan County
Edenton, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Chowan County, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County'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 basic financial statements are free from material misstatement. The financial statements of the Chowan County ABC Board were not audited in accordance with *Government Auditing Standards*.

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 to 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Chowan County, North Carolina, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows 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 and the Other Post-Employment Benefits Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a 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 assurance.

Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chowan County, North Carolina's basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, 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, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate 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. In our opinion, the combining and individual fund statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, 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 issued our report dated October 14, 2013, on our consideration of Chowan County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that 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 the 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 Chowan County's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 14, 2013

This page left blank intentionally.

Management's Discussion and Analysis

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

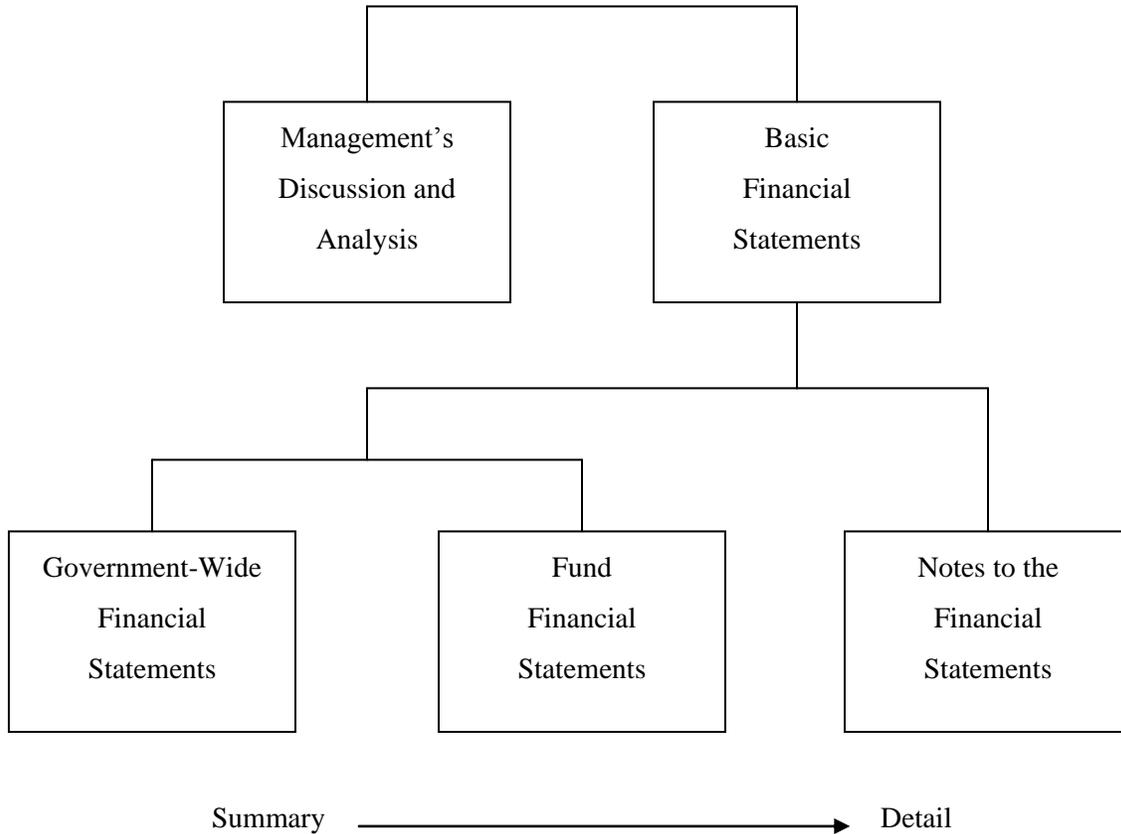
Financial Highlights

- The assets of Chowan County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$29,454,822 (net position).
- The government's total net position increased by \$744,978 primarily due to increased net position in the governmental activities.
- As of the close of the current fiscal year, Chowan County's governmental funds reported combined ending fund balances of \$6,963,530, after a net increase in fund balance of \$1,060,926. Approximately 28% of this total amount, or \$1,972,126, is restricted or non-spendable.
- At the end of the current fiscal year, available fund balance for the General Fund was \$5,107,715, or 31% of total General Fund expenditures and transfers to other funds for the fiscal year.
- Chowan County's total debt decreased by \$1,509,753 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Chowan County's basic financial statements. Chowan County's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (Figure 1). The basic financial statements present two different views of the County 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 Chowan County.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements, Exhibits A and B, in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information concerning the County's financial status.

The next statements, Exhibits C through J, are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government, providing more detail than the government-wide statements. There are four parts to the fund financial statements: (1) the governmental funds statements, (2) the budgetary comparison statements, (3) the proprietary fund statements, and (4) the fiduciary and agency fund statements.

The final section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements offer a detailed explanation about various information contained in the statements. Following the notes, **Supplemental Information** provides details of the County's nonmajor governmental funds, all of which are combined in one column on the basic financial statements. Budgetary information required by the North Carolina General Statutes can also 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 County's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of Chowan County's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Chowan County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of Chowan County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Chowan County include general governmental, public safety, transportation, public education, economic development, and general administration. The business-type activities of Chowan County consist of the solid waste (landfill) operation, the Water Fund, the Water Development Capital Reserve Fund, and the Emergency Management Fund.

The government-wide financial statements include not only Chowan County itself (known as the primary government), but also the Chowan County ABC Board and the Chowan County Tourism Development Authority for which Chowan County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B of this report.

Fund Financial Statements

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. Chowan County, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Chowan County 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 County'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, which provides a current financial resources 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 County's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Chowan County 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 County, the management of the County, and the decisions of the Board of Commissioners about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County 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. Chowan County maintains only one type of proprietary fund, an Enterprise Fund. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Chowan County has seven agency funds.

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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Chowan County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information immediately follows the notes to the financial statements.

Chowan County's Net Position
Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 7,543,414	\$ 6,616,938	\$ 2,487,693	\$ 2,358,917	\$10,031,107	\$ 8,975,855
Capital assets	<u>36,676,715</u>	<u>38,090,023</u>	<u>5,602,946</u>	<u>5,949,720</u>	<u>42,279,661</u>	<u>44,039,743</u>
Total assets	<u>44,220,129</u>	<u>44,706,961</u>	<u>8,090,639</u>	<u>8,308,637</u>	<u>52,310,768</u>	<u>53,015,598</u>
Liabilities:						
Long-term liabilities, outstanding	20,169,675	22,162,418	385,582	334,392	20,555,257	22,496,810
Other liabilities	<u>2,081,747</u>	<u>1,498,512</u>	<u>154,842</u>	<u>212,396</u>	<u>2,236,589</u>	<u>1,710,908</u>
Total liabilities	<u>22,251,422</u>	<u>23,660,930</u>	<u>540,424</u>	<u>546,788</u>	<u>22,791,846</u>	<u>24,207,718</u>
Deferred Inflows of Resources	<u>64,100</u>	<u>98,036</u>	-	-	<u>64,100</u>	<u>98,036</u>
Net Position:						
Net investment in capital assets	16,753,264	16,660,070	5,602,946	5,946,469	22,356,210	22,606,539
Restricted	1,951,126	1,724,218	-	-	1,951,126	1,724,218
Unrestricted	<u>3,200,217</u>	<u>2,563,707</u>	<u>1,947,269</u>	<u>1,815,380</u>	<u>5,147,486</u>	<u>4,379,087</u>
Total net position	<u>\$21,904,607</u>	<u>\$ 20,947,995</u>	<u>\$ 7,550,215</u>	<u>\$ 7,761,849</u>	<u>\$29,454,822</u>	<u>\$28,709,844</u>

As noted earlier, net position, over time, may serve as a useful indicator of a government's financial position. For Chowan County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$29,454,822 at the close of the most recent fiscal year.

By far, the largest portion of Chowan County's net position reflect its net investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. Chowan County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Chowan County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay these liabilities.

At the end of the current fiscal year, Chowan County is able to report positive balances in unrestricted net position in the amount of \$5,147,486 for the government as a whole.

Chowan County's Changes in Net Position
Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for services	\$ 3,342,522	\$ 3,642,439	\$ 3,516,780	\$ 3,751,708	\$ 6,859,302	\$ 7,394,147
Operating grants and contributions	247,585	385,186	-	-	247,585	385,186
Capital grants and contributions	306,343	103,767	-	52,400	306,343	156,167
General revenues:						
Property taxes	11,168,730	10,612,134	-	-	11,168,730	10,612,134
Other taxes	3,233,097	3,011,202	-	-	3,233,097	3,011,202
Other	8,835	2,461	2,739	543	11,574	3,004
Total revenues	<u>18,307,112</u>	<u>17,757,189</u>	<u>3,519,519</u>	<u>3,804,651</u>	<u>21,826,631</u>	<u>21,561,840</u>
Expenses:						
General government	4,038,000	4,097,352	-	-	4,038,000	4,097,352
Public safety	3,634,925	3,510,768	-	-	3,634,925	3,510,768
Economic and physical development	173,027	174,088	-	-	173,027	174,088
Environmental protection	254,135	285,652	-	-	254,135	285,652
Human services	3,268,371	3,312,175	-	-	3,268,371	3,312,175
Cultural and recreation	862,987	804,804	-	-	862,987	804,804
Education	4,140,914	3,710,359	-	-	4,140,914	3,710,359
Interest on long-term debt	948,121	919,289	-	-	948,121	919,289
Water Fund	-	-	1,404,834	1,632,160	1,404,834	1,632,160
Solid Waste Fund	-	-	888,635	930,591	888,635	930,591
Emergency Management Fund	-	-	1,467,703	1,445,036	1,467,703	1,445,036
Total expenses	<u>17,320,481</u>	<u>16,814,488</u>	<u>3,761,172</u>	<u>4,007,787</u>	<u>21,081,653</u>	<u>20,822,274</u>
Increase (decrease) in net assets before transfers	986,631	942,701	(241,653)	(203,136)	744,978	739,565
Transfers	(30,019)	196,920	30,019	(196,920)	-	-
Change in net position	<u>956,612</u>	<u>1,139,621</u>	<u>(211,634)</u>	<u>(400,056)</u>	<u>744,978</u>	<u>739,565</u>
Net Position:						
Net position, beginning as stated	20,947,995	19,923,252	7,761,849	8,047,027	28,709,844	27,970,279
Prior period adjustment	-	(114,878)	-	114,878	-	-
Beginning of year - July 1	<u>20,947,995</u>	<u>19,808,374</u>	<u>7,761,849</u>	<u>8,161,905</u>	<u>28,709,844</u>	<u>27,970,279</u>
End of year - June 30	<u>\$ 21,904,607</u>	<u>\$ 20,947,995</u>	<u>\$ 7,550,215</u>	<u>\$ 7,761,849</u>	<u>\$ 29,454,822</u>	<u>\$ 28,709,844</u>

Governmental Activities. Of total net position, governmental activities accounted for \$21,904,607 (74.0%). Property taxes provided 61.0% of funding at \$11,168,730. Charges for services funded \$3,342,522, and operating grants funded \$247,585 of Chowan County's governmental activities. The increase in governmental activities net position of \$956,612 was primarily due to an increase from General Fund activities of \$900,778.

Business-Type Activities. Business-type activities decreased Chowan County's net position by \$211,634. The main reason for the decrease was due to increase in operating costs and annual depreciation expense.

Financial Analysis of the County's Funds

As noted earlier, Chowan County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, Chowan County's governmental funds reported combined ending fund balances of \$6,963,530, an increase of \$1,060,926 from 2012. The increase is primarily due to an increase of \$900,778 in the General Fund.

The General Fund is the chief operating fund of Chowan County. At the end of the current fiscal year, Chowan County's fund balance available in the General Fund was \$5,107,715, while total fund balance reached \$6,073,624. The County currently has an available fund balance of 31.0% of General Fund expenditures and transfers to other funds, while total fund balance represents 37.0% of that same amount.

General Fund Budgetary Highlights. During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into 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. Total amendments to the General Fund increased total budgeted revenues and expenditures by roughly \$314,958. These amendments were necessary to reflect changes made by the governing board to more accurately reflect expected revenues and to reflect cost-cutting measures implemented by management to improve the financial condition of the County.

Proprietary Funds. Chowan County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Fund at the end of the year totaled \$843,956, the Solid Waste Fund totaled \$702,900, the Water Development Capital Reserve Fund totaled \$605,399, and the Emergency Management Fund had negative unrestricted net position of \$204,986.

Capital Asset and Debt Administration

Capital Assets. Chowan County's capital assets for its governmental and business-type activities as of June 30, 2013 amounts to \$42,279,661 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery, and equipment. The total decrease in Chowan County's investment in capital assets for the current fiscal year was 4.0% (a 4.0% decrease for governmental activities).

Chowan County's Capital Assets
Figure 4

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2013</u>
Governmental Activities:					
Non-Depreciable Assets:					
Land	\$ 3,329,162	\$ -	\$ -	\$ -	\$ 3,329,162
Construction in progress	<u>200,606</u>	<u>33,811</u>	<u>-</u>	<u>(234,417)</u>	<u>-</u>
Total non-depreciable assets	<u>3,529,768</u>	<u>33,811</u>	<u>-</u>	<u>(234,417)</u>	<u>3,329,162</u>
Depreciable Assets:					
Buildings	45,050,040	-	-	234,417	45,284,457
Equipment	<u>6,691,898</u>	<u>115,835</u>	<u>(142,841)</u>	<u>-</u>	<u>6,664,892</u>
Total depreciable assets	<u>51,741,938</u>	<u>115,835</u>	<u>(142,841)</u>	<u>234,417</u>	<u>51,949,349</u>
Less Accumulated Depreciation:					
Buildings	11,604,713	1,110,649	-	-	12,715,362
Equipment	<u>5,576,970</u>	<u>452,060</u>	<u>(142,596)</u>	<u>-</u>	<u>5,886,434</u>
Total accumulated depreciation	<u>17,181,683</u>	<u>\$ 1,562,709</u>	<u>\$ (142,596)</u>	<u>\$ -</u>	<u>18,601,796</u>
Total depreciable capital assets, net	<u>34,560,255</u>				<u>33,347,553</u>
Governmental activities capital assets, net	<u>\$ 38,090,023</u>				<u>\$ 36,676,715</u>

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Business-Type Activities:				
Water Fund:				
Non-Depreciable Assets				
Land	\$ 140,847	\$ -	\$ -	\$ 140,847
Depreciable Assets:				
Plant and systems	10,303,025	-	-	10,303,025
Building and improvements	1,513,062	41,698	-	1,554,760
Equipment	<u>431,991</u>	<u>24,222</u>	<u>(21,414)</u>	<u>434,799</u>
Total	<u>12,248,078</u>	<u>65,920</u>	<u>(21,414)</u>	<u>12,292,584</u>
Less Accumulated Depreciation:				
Plant and distribution systems	5,483,408	266,836	-	5,750,244
Buildings and improvements	906,722	35,764	-	942,486
Equipment	<u>363,535</u>	<u>16,280</u>	<u>(21,414)</u>	<u>358,401</u>
Total accumulated depreciation	<u>6,753,665</u>	<u>\$ 318,880</u>	<u>\$ (21,414)</u>	<u>7,051,131</u>
Depreciable capital assets, net	<u>5,494,413</u>			<u>5,241,453</u>
Water Fund capital assets, net	<u>5,635,260</u>			<u>5,382,300</u>

Emergency Management Fund:	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Depreciable Assets:				
Building	217,000	-	-	217,000
Equipment	<u>1,061,238</u>	-	<u>(5,434)</u>	<u>1,055,804</u>
Total	<u>1,278,238</u>	-	<u>(5,434)</u>	<u>1,272,804</u>
Less Accumulated Depreciation:				
Building	156,222	4,675	-	160,897
Equipment	<u>807,556</u>	<u>89,139</u>	<u>(5,434)</u>	<u>891,261</u>
Total accumulated depreciation	<u>963,778</u>	<u>\$ 93,814</u>	<u>\$ (5,434)</u>	<u>1,052,158</u>
Depreciable capital assets, net	<u>314,460</u>			<u>220,646</u>
Business-type activities capital assets, net	<u>\$ 5,949,720</u>			<u>\$ 5,602,946</u>

Additional information on Chowan County's capital assets can be found in the notes to the financial statements.

Long-Term Debt. At the end of the current fiscal year, Chowan County had no bonded debt outstanding.

**Chowan County's Outstanding
General Obligation Bonds and Other Debt
Figure 5**

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>	<u>Current Portion of Balance</u>
Governmental Activities:					
Qualified Zone Academy Bonds	\$ 1,378,562	\$ -	\$ (103,573)	\$ 1,274,989	\$ 103,573
Notes payable	<u>20,051,391</u>	<u>13,153,000</u>	<u>(14,555,929)</u>	<u>18,648,462</u>	<u>1,837,399</u>
Total governmental activities	<u>\$ 21,429,953</u>	<u>\$ 13,153,000</u>	<u>\$ (14,659,502)</u>	<u>\$ 19,923,451</u>	<u>\$ 1,940,972</u>

Chowan County's total governmental debt decreased by \$1,506,502 during the past fiscal year.

More detailed information on Chowan County's long-term debt and capital asset activity can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

- Like other counties in eastern North Carolina, unemployment is a major economic factor for the county. Chowan County's employment rate was 10.4 % for the month of June 2013 compared to 10.8% for the same period last year. While the state's unemployment rate for the same periods were 8.8% and 9.6 % respectfully. The lack of economic opportunities makes it difficult for individuals not only to meet the physical needs but their financial obligations.
- Chowan County will be applying new property values in January of 2014 with the completion of the County's 2014 Re-Valuation. According to the County's Tax Assessor, the most current sales ratio indicates ad valorem values may decline by as much as 10 to 15%, causing an upward shift in the tax rate. In preparation for these potential values, the Board of Commissioners has continued to be conservative in the upcoming year's expenditures in hopes of minimizing the impact in the county's 2015 budget.

All of these factors were considered in preparing Chowan County's budget for the 2013/2014 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities. Over the past several years, Chowan County's revenues and expenditures have experienced little change in this uncertain economy. As the county's Tax Collection Rate continues to improve, the likelihood of additional revenues being generated by a virtually unchanging tax base diminishes. Like last year, Management anticipates minimal growth in the tax base and other revenues. Based on the abovementioned factors and a conservative projection in revenues, Chowan County's General Fund budget increase a mere 1.0 %, from \$15, 996,380.00 to \$16,158,266.00 for fiscal year 2014.

Although Chowan County was forced to make some critical decisions to improve its financial condition, from scaling back services to postponing capital projects, Chowan County has been able to regain its financial footing with the supports of her citizens. Their commitment to become financial sound amidst The Great Recession is commendable, if not remarkable. With their support, Management is now able to go back and address some the county facilities' needs that were forced to be put on hold during the county's recovery.

Chowan County's approach of, living within their means while looking ahead, ensures her citizens of a brighter tomorrow.

Business-Type Activities. Emergency Medical Services' future looks promising in the upcoming year with the possibility of implementing a higher level of care in its medical transport subdivision. With these additional revenues, the unit's dependence on the General Fund will be lessened if not eliminated. Likewise, the Water System's financial outlook appears promising with the installation of more radio read meters. Through the replacement of these older meters, the system will reduce the volume of unmetered water thereby generating additional revenue while becoming more efficient in the reduction of man hours needed for monthly readings.

Requests for Information

This financial report is designed to provide a general overview of Chowan County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the County Manager, 305 West Freemason Street, Edenton, North Carolina 27932.

CHOWAN COUNTY, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Primary Government</u>			<u>Component Unit</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Chowan County Tourism Development Authority</u>	<u>Chowan County ABC Board</u>
Assets:					
Cash and cash equivalents	\$ 6,014,479	\$ 2,066,854	\$ 8,081,333	\$ 82,029	\$ 56,789
Restricted cash	92,553	41,311	133,864	-	-
Taxes receivable, net	408,989	-	408,989	-	-
Accounts receivable, net	39,344	583,578	622,922	668	-
Due from other governments	752,772	-	752,772	-	-
Internal balances	214,277	(214,277)	-	-	-
Inventories	-	10,227	10,227	-	142,593
Prepaid items	21,000	-	21,000	-	24,527
Capital assets:					
Non-depreciable capital assets	3,329,162	140,847	3,470,009	-	-
Capital assets, net	<u>33,347,553</u>	<u>5,462,099</u>	<u>38,809,652</u>	-	<u>411,784</u>
Total capital assets	<u>36,676,715</u>	<u>5,602,946</u>	<u>42,279,661</u>	-	<u>411,784</u>
Total assets	<u>44,220,129</u>	<u>8,090,639</u>	<u>52,310,768</u>	<u>82,697</u>	<u>635,693</u>
Liabilities:					
Accounts payable and accrued expenses	106,795	96,566	203,361	1,308	87,317
Unearned revenue	-	-	-	-	-
Customer deposits	-	41,311	41,311	-	-
Long-term liabilities:					
Due within one year	1,974,952	16,965	1,991,917	-	19,347
Due in more than one year	20,169,675	385,582	20,555,257	-	99,164
Liabilities to be paid from restricted assets:					
Customer deposits	-	41,311	41,311	-	-
Total liabilities	<u>22,251,422</u>	<u>540,424</u>	<u>22,791,846</u>	<u>1,308</u>	<u>205,828</u>
Deferred Inflows of Resources:					
Prepaid taxes	<u>64,100</u>	-	<u>64,100</u>	-	-
Total deferred inflows of resources	<u>64,100</u>	-	<u>64,100</u>	-	-
Net Position:					
Net investment in capital assets	16,753,264	5,602,946	22,356,210	-	392,437
Restricted for:					
Stabilization for State statute	1,025,609	-	1,025,609	668	-
Restricted, all other	925,517	-	925,517	80,721	36,980
Unrestricted	<u>3,200,217</u>	<u>1,947,269</u>	<u>5,147,486</u>	-	<u>448</u>
Total net position	<u>\$ 21,904,607</u>	<u>\$ 7,550,215</u>	<u>\$ 29,454,822</u>	<u>\$ 81,389</u>	<u>\$ 429,865</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 4,038,000	\$ 430,569	\$ 16,347	\$ -
Public safety	3,634,925	497,973	-	35,503
Environmental protection	254,135	116,426	50,564	-
Economic and physical development	173,027	40,813	59,634	-
Human services	3,268,371	2,160,616	5,369	-
Cultural and recreational	862,987	96,125	12,098	-
Education	4,140,914	-	103,573	270,840
Interest on long-term debt	948,121	-	-	-
Total governmental activities	<u>17,320,481</u>	<u>3,342,522</u>	<u>247,585</u>	<u>306,343</u>
Business-Type Activities:				
Water Fund	1,404,834	1,189,657	-	-
Solid Waste Fund	888,635	1,231,124	-	-
Emergency Medical Services Fund	1,467,703	1,066,049	-	-
Water Development Capital Reserve Fund	-	29,950	-	-
Total business-type activities	<u>3,761,172</u>	<u>3,516,780</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 21,081,653</u>	<u>\$ 6,859,302</u>	<u>\$ 247,585</u>	<u>\$ 306,343</u>
Component Units:				
Chowan County Tourism Development Authority	<u>\$ 119,470</u>	<u>\$ 127,928</u>	<u>\$ -</u>	<u>\$ -</u>
Chowan County ABC Board	<u>\$ 1,245,877</u>	<u>\$ 1,245,742</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes and licenses

Investment earnings

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net Position:

Beginning of year - July 1

End of year - June 30

The accompanying notes are an integral part of the financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit	Component Unit
Governmental Activities	Business-Type Activities	Total	Chowan County Tourism Development Authority	Chowan County ABC Board
\$ (3,591,084)	\$ -	\$ (3,591,084)	\$ -	\$ -
(3,101,449)	-	(3,101,449)	-	-
(87,145)	-	(87,145)	-	-
(72,580)	-	(72,580)	-	-
(1,102,386)	-	(1,102,386)	-	-
(754,764)	-	(754,764)	-	-
(3,766,501)	-	(3,766,501)	-	-
(948,121)	-	(948,121)	-	-
<u>(13,424,031)</u>	<u>-</u>	<u>(13,424,031)</u>	<u>-</u>	<u>-</u>
-	(215,177)	(215,177)	-	-
-	342,489	342,489	-	-
-	(401,654)	(401,654)	-	-
-	29,950	29,950	-	-
-	<u>(244,392)</u>	<u>(244,392)</u>	-	-
<u>(13,424,031)</u>	<u>(244,392)</u>	<u>(13,668,423)</u>	<u>-</u>	<u>-</u>
			8,458	-
			-	(135)
11,168,730	-	11,168,730	-	-
2,582,240	-	2,582,240	-	-
650,857	-	650,857	-	-
8,835	2,739	11,574	80	135
14,410,662	2,739	14,413,401	80	135
(30,019)	30,019	-	-	-
<u>14,380,643</u>	<u>32,758</u>	<u>14,413,401</u>	<u>80</u>	<u>135</u>
956,612	(211,634)	744,978	8,538	-
<u>20,947,995</u>	<u>7,761,849</u>	<u>28,709,844</u>	<u>72,851</u>	<u>429,865</u>
<u>\$ 21,904,607</u>	<u>\$ 7,550,215</u>	<u>\$ 29,454,822</u>	<u>\$ 81,389</u>	<u>\$ 429,865</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>Major</u>	<u>Nonmajor</u>	
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 5,170,137	\$ 844,342	\$ 6,014,479
Restricted cash	92,553	-	92,553
Taxes receivable, net	387,800	21,189	408,989
Due from other funds	233,493	-	233,493
Due from other governments	711,416	41,356	752,772
Accounts receivable, net	-	39,344	39,344
Prepaid items	21,000	-	21,000
Total assets	<u>\$ 6,616,399</u>	<u>\$ 946,231</u>	<u>\$ 7,562,630</u>
Liabilities:			
Accounts payable and accrued liabilities	\$ 90,875	\$ 15,920	\$ 106,795
Due to other funds	-	19,216	19,216
Total liabilities	<u>90,875</u>	<u>35,136</u>	<u>126,011</u>
Deferred Inflows of Resources:			
Unavailable taxes	387,800	21,189	408,989
Prepaid taxes	64,100	-	64,100
Total deferred inflows of resources	<u>451,900</u>	<u>21,189</u>	<u>473,089</u>
Fund Balances:			
Non-spendable:			
Prepays	21,000	-	21,000
Restricted:			
Stabilization for State statute	944,909	80,700	1,025,609
Restricted, all other	84,491	841,026	925,517
Committed, all other	390,297	-	390,297
Unassigned	4,632,927	(31,820)	4,601,107
Total fund balances	<u>6,073,624</u>	<u>889,906</u>	<u>6,963,530</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,616,399</u>	<u>\$ 946,231</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	36,676,715
Deferred inflows of resources	408,989
Long-term debt	(19,923,451)
Accrued vacation and other post-employment benefits	<u>(2,221,176)</u>
Net position of governmental activities	<u>\$ 21,904,607</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Major		Nonmajor	Total Governmental Funds
	General	Debt Service Fund	Other Governmental Funds	
Revenues:				
Ad valorem taxes	\$ 10,596,571	\$ -	\$ 511,256	\$ 11,107,827
Local option sales taxes	2,544,702	-	37,538	2,582,240
Other taxes and licenses	353,090	-	222,947	576,037
Unrestricted intergovernmental revenues	74,820	-	-	74,820
Restricted intergovernmental revenues	2,366,162	-	270,840	2,637,002
Permits and fees	356,334	-	-	356,334
Sales and services	873,940	-	-	873,940
Investment earnings	7,899	-	936	8,835
Miscellaneous	33,651	-	7,421	41,072
Total revenues	<u>17,207,169</u>	<u>-</u>	<u>1,050,938</u>	<u>18,258,107</u>
Expenditures:				
Current:				
General government	2,765,829	-	-	2,765,829
Public safety	2,863,936	-	515,541	3,379,477
Environmental protection	144,229	-	48,306	192,535
Economic and physical development	172,535	-	-	172,535
Human services	3,199,471	-	33,811	3,233,282
Cultural and recreational	827,967	-	-	827,967
Education	3,870,074	-	270,840	4,140,914
Debt service	97,376	2,367,047	-	2,464,423
Total expenditures	<u>13,941,417</u>	<u>2,367,047</u>	<u>868,498</u>	<u>17,176,962</u>
Revenues over (under) expenditures	<u>3,265,752</u>	<u>(2,367,047)</u>	<u>182,440</u>	<u>1,081,145</u>
Other Financing Sources (Uses):				
Transfers in	261,233	2,367,047	54,843	2,683,123
Transfers (out)	(2,636,007)	-	(77,135)	(2,713,142)
Payment to refunded bond escrow agent	(13,143,200)	-	-	(13,143,200)
Refunding bonds issued	13,153,000	-	-	13,153,000
Total other financing sources (uses)	<u>(2,364,974)</u>	<u>2,367,047</u>	<u>(22,292)</u>	<u>(20,219)</u>
Net change in fund balances	900,778	-	160,148	1,060,926
Fund Balances:				
Beginning of year - July 1	<u>5,172,846</u>	<u>-</u>	<u>729,758</u>	<u>5,902,604</u>
End of year - June 30	<u>\$ 6,073,624</u>	<u>\$ -</u>	<u>\$ 889,906</u>	<u>\$ 6,963,530</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds \$ 1,060,926

Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 60 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenues types:

Property taxes	58,661
Grant revenue	(9,656)

Change in liabilities for other post-employment benefits for retirees and compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement. (246,513)

Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets. 149,646

Gain/(loss) on disposal of capital assets is reported in the Statement of Activities; however, proceeds from the sale of assets are not effected by gain/(loss) in the fund statements (245)

The refunding of bonds issued for long-term debt provides current financial resources to governmental funds. However in the Statement of Activities, these transactions are not revenue, rather they are an increase in liabilities. (13,153,000)

Payment to refunded bond escrow agent for refunding of debt are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities. 13,143,200

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement. (1,562,709)

Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities. 1,516,302

Change in net position of governmental activities (Exhibit B) \$ 956,612

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

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

	General Fund			Variance from Final Budget Over/Under
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 10,290,275	\$ 10,371,463	\$ 10,596,571	\$ 225,108
Local option sales taxes	1,769,996	1,770,328	1,913,513	143,185
Other taxes and licenses	78,000	78,000	88,749	10,749
Unrestricted intergovernmental revenues	74,700	78,424	74,820	(3,604)
Restricted intergovernmental revenues	2,418,174	2,584,339	2,262,589	(321,750)
Permits and fees	355,605	366,675	356,334	(10,341)
Sales and services	793,163	845,121	873,940	28,819
Investment earnings	4,000	4,000	7,460	3,460
Miscellaneous	64,200	64,721	33,651	(31,070)
Total revenues	<u>15,848,113</u>	<u>16,163,071</u>	<u>16,207,627</u>	<u>44,556</u>
Expenditures:				
Current:				
General government	3,212,873	2,850,083	2,687,516	162,567
Public safety	2,951,615	3,081,721	2,863,936	217,785
Environmental protection	161,324	168,338	144,229	24,109
Economic and physical development	207,732	239,357	172,535	66,822
Human services	3,518,795	3,610,187	3,199,471	410,716
Cultural and recreational	790,378	888,005	827,967	60,038
Education	3,482,929	3,881,929	3,778,152	103,777
Debt service	-	100,000	97,376	2,624
Total expenditures	<u>14,325,646</u>	<u>14,819,620</u>	<u>13,771,182</u>	<u>1,048,438</u>
Revenues over (under) expenditures	<u>1,522,467</u>	<u>1,343,451</u>	<u>2,436,445</u>	<u>1,092,994</u>
Other Financing Sources (Uses):				
Transfers from other funds	89,500	265,259	265,247	(12)
Transfers to other funds	(1,553,665)	(1,851,764)	(1,849,069)	2,695
Payment to refunded bond escrow agent	-	(13,145,039)	(13,143,200)	1,839
Refunding bonds issued	-	13,153,000	13,153,000	-
Contingency	(97,069)	(914)	-	914
Appropriated fund balance	<u>38,767</u>	<u>236,007</u>	<u>-</u>	<u>(236,007)</u>
Total other financing sources (uses)	<u>(1,522,467)</u>	<u>(1,343,451)</u>	<u>(1,574,022)</u>	<u>(230,571)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	862,423	<u>\$ 862,423</u>
Fund Balance:				
Beginning of year - July 1			<u>4,814,119</u>	
End of year - June 30			<u>\$ 5,676,542</u>	

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Water Fund</u>	<u>Solid Waste Fund</u>	<u>Emergency Medical Services Fund</u>	<u>Water Development Capital Reserve Fund</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 807,201	\$ 654,254	\$ -	\$ 605,399	\$ 2,066,854
Receivables, net	177,502	109,788	296,288	-	583,578
Restricted cash	41,311	-	-	-	41,311
Inventories	10,227	-	-	-	10,227
Total current assets	<u>1,036,241</u>	<u>764,042</u>	<u>296,288</u>	<u>605,399</u>	<u>2,701,970</u>
Non-current assets:					
Non-depreciable capital assets	140,847	-	-	-	140,847
Capital assets, net	<u>5,241,453</u>	<u>-</u>	<u>220,646</u>	<u>-</u>	<u>5,462,099</u>
Total non-current assets	<u>5,382,300</u>	<u>-</u>	<u>220,646</u>	<u>-</u>	<u>5,602,946</u>
Total assets	<u>6,418,541</u>	<u>764,042</u>	<u>516,934</u>	<u>605,399</u>	<u>8,304,916</u>
Liabilities:					
Current liabilities:					
Accounts payable	14,167	61,142	21,257	-	96,566
Due to other funds	-	-	214,277	-	214,277
Current portion of long-term debt	5,110	-	11,855	-	16,965
Liabilities to be paid from restricted assets:					
Customer deposits	<u>41,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,311</u>
Total current liabilities	<u>60,588</u>	<u>61,142</u>	<u>247,389</u>	<u>-</u>	<u>369,119</u>
Non-current liabilities:					
Non-current portion of long-term debt	<u>131,697</u>	<u>-</u>	<u>253,885</u>	<u>-</u>	<u>385,582</u>
Total non-current liabilities	<u>131,697</u>	<u>-</u>	<u>253,885</u>	<u>-</u>	<u>385,582</u>
Total liabilities	<u>192,285</u>	<u>61,142</u>	<u>501,274</u>	<u>-</u>	<u>754,701</u>
Net Position:					
Net investment in capital assets	5,382,300	-	220,646	-	5,602,946
Unrestricted (deficit)	<u>843,956</u>	<u>702,900</u>	<u>(204,986)</u>	<u>605,399</u>	<u>1,947,269</u>
Total net position	<u>\$ 6,226,256</u>	<u>\$ 702,900</u>	<u>\$ 15,660</u>	<u>\$ 605,399</u>	<u>\$ 7,550,215</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

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

	<u>Water Fund</u>	<u>Solid Waste Fund</u>	<u>Emergency Medical Services Fund</u>	<u>Water Development Capital Reserve Fund</u>	<u>Total</u>
Operating Revenues:					
Charges for services	\$ 1,087,847	\$ 1,155,506	\$ 959,931	\$ -	\$ 3,203,284
Other taxes and licenses	-	7,425	-	29,950	37,375
Other operating revenues	<u>101,810</u>	<u>68,193</u>	<u>106,118</u>	<u>-</u>	<u>276,121</u>
Total operating revenues	<u>1,189,657</u>	<u>1,231,124</u>	<u>1,066,049</u>	<u>29,950</u>	<u>3,516,780</u>
Operating Expenses:					
Salaries and employee benefits	361,788	-	1,134,191	-	1,495,979
Other operating expenses	724,166	888,635	239,698	-	1,852,499
Depreciation	<u>318,880</u>	<u>-</u>	<u>93,814</u>	<u>-</u>	<u>412,694</u>
Total operating expenses	<u>1,404,834</u>	<u>888,635</u>	<u>1,467,703</u>	<u>-</u>	<u>3,761,172</u>
Operating income (loss)	<u>(215,177)</u>	<u>342,489</u>	<u>(401,654)</u>	<u>29,950</u>	<u>(244,392)</u>
Non-Operating Revenues (Expenses):					
Interest earned on investments	<u>980</u>	<u>607</u>	<u>74</u>	<u>1,078</u>	<u>2,739</u>
Total non-operating revenues (expenses)	<u>980</u>	<u>607</u>	<u>74</u>	<u>1,078</u>	<u>2,739</u>
Net income (loss) before transfers	<u>(214,197)</u>	<u>343,096</u>	<u>(401,580)</u>	<u>31,028</u>	<u>(241,653)</u>
Transfers in	-	-	267,363	-	267,363
Transfers (out)	<u>(80,000)</u>	<u>(157,344)</u>	<u>-</u>	<u>-</u>	<u>(237,344)</u>
Total other transfers in (out)	<u>(80,000)</u>	<u>(157,344)</u>	<u>267,363</u>	<u>-</u>	<u>30,019</u>
Change in net position	(294,197)	185,752	(134,217)	31,028	(211,634)
Net Position:					
Beginning of year - July 1	<u>6,520,453</u>	<u>517,148</u>	<u>149,877</u>	<u>574,371</u>	<u>7,761,849</u>
End of year - June 30	<u>\$ 6,226,256</u>	<u>\$ 702,900</u>	<u>\$ 15,660</u>	<u>\$ 605,399</u>	<u>\$ 7,550,215</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Water Fund	Solid Waste Fund	Emergency Medical Services Fund	Water Development Capital Reserve	Total
Cash Flows from Operating Activities:					
Cash received from customers	\$ 1,207,606	\$ 1,231,449	\$ 958,277	\$ 29,950	\$ 3,427,282
Cash paid for goods and services	(766,164)	(894,699)	(247,477)	-	(1,908,340)
Cash paid to employees for services	(338,921)	-	(1,104,978)	-	(1,443,899)
Net cash provided (used) by operating activities	<u>102,521</u>	<u>336,750</u>	<u>(394,178)</u>	<u>29,950</u>	<u>75,043</u>
Cash Flows from Non-Capital Financing Activities:					
Loans from other funds	-	-	129,992	-	129,992
Transfers in (out)	(80,000)	(157,344)	267,363	-	30,019
Net cash provided (used) by non-capital financing activities	<u>(80,000)</u>	<u>(157,344)</u>	<u>397,355</u>	<u>-</u>	<u>160,011</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(65,920)	-	-	-	(65,920)
Principal paid on long-term debt	-	-	(3,251)	-	(3,251)
Net cash provided (used) by capital and related financing activities	<u>(65,920)</u>	<u>-</u>	<u>(3,251)</u>	<u>-</u>	<u>(69,171)</u>
Cash Flows from Investing Activities:					
Interest on investments	980	607	74	1,078	2,739
Net increase (decrease) in cash and cash equivalents	(42,419)	180,013	-	31,028	168,622
Cash and Cash Equivalents:					
Beginning of year - July 1	890,931	474,241	-	574,371	1,939,543
End of Year - June 30	<u>\$ 848,512</u>	<u>\$ 654,254</u>	<u>\$ -</u>	<u>\$ 605,399</u>	<u>\$ 2,108,165</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ (215,177)	\$ 342,489	\$ (401,654)	\$ 29,950	\$ (244,392)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	318,880	-	93,814	-	412,694
Changes in Assets and Liabilities:					
(Increase) decrease in accounts receivable	13,618	325	(107,772)	-	(93,829)
(Increase) decrease in inventory	3,682	-	-	-	3,682
Increase (decrease) in accounts payable and accrued liabilities	(45,680)	(6,064)	(7,779)	-	(59,523)
Increase (decrease) in customer deposits	4,331	-	-	-	4,331
Increase (decrease) in accrued vacation pay and OPEB	22,867	-	29,213	-	52,080
Net cash provided (used) by operating activities	<u>\$ 102,521</u>	<u>\$ 336,750</u>	<u>\$ (394,178)</u>	<u>\$ 29,950</u>	<u>\$ 75,043</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2013

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ 14,814
Total assets	<u>\$ 14,814</u>
Liabilities:	
Accounts payable	\$ 4,212
Due to others	<u>10,602</u>
Total liabilities	<u>\$ 14,814</u>

The accompanying notes are an integral part of the financial statements.

CHOWAN COUNTY, NORTH CAROLINA

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

Chowan County, North Carolina, (the “County”) governed by a seven-member Board of Commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. The County seat is located in Edenton, North Carolina. The County operates under a council-manager form of government.

As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its component unit, legally separate entities for which the County is financially accountable. The following discretely presented component unit is reported in a separate column in the County’s combined financial statements in order to emphasize that they are legally separate from the County.

Chowan County Alcoholic Beverage Control Board

The Chowan County Alcoholic Beverage Control Board (“ABC Board”) is governed by a three-member Board appointed by the County Commissioners as ABC Board members’ terms expire. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County. The ABC Board, which has a June 30 year-end, is presented as if it was a Proprietary Fund. Complete financial statements for the ABC Board may be obtained at Chowan County ABC Board, P.O. Box 88, Edenton, North Carolina 27932.

Chowan County Tourism Development Authority

The twelve members of this Board are appointed by Chowan County. The County is authorized by State statute to collect an occupancy tax of 5% on gross revenues from hotel/motel room occupancy within the corporate limits. Collections are remitted to the Chowan County Tourism Development Authority, less a 3% administration charge, on a quarterly basis. Chowan County Tourism Development Authority, which has a June 30 year-end, is presented as if it were a governmental fund type. The County is financially accountable for Chowan County Tourism Development Authority, which is reported as a discrete component unit separate from the financial information of the primary government. The Authority did not issue separate financial statements.

B. Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements (Exhibit A - Statement of Net Position and Exhibit B - Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements in all material areas. Governmental activities, which normally

CHOWAN COUNTY, NORTH CAROLINA

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

are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The County reports the following major governmental funds for the year ended June 30, 2013:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Tax Revaluation Fund, Street Assessment Fund, and School Capital Reserve Fund are legally budgeted funds under North Carolina General Statutes; however, for statement presentation in accordance with GASB Statement No. 54 they are consolidated in the General Fund.

Debt Service Fund. This fund is used to account for all debt service payments made by the County.

The County reports the following major enterprise funds:

Water Fund. This fund is used to account for the operations of the water system within the County.

CHOWAN COUNTY, NORTH CAROLINA

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

Emergency Medical Services Fund. This fund is used to account for the operations of the emergency medical services within the County.

Water Development Capital Reserve Fund. This fund is used to account for revenue received from a water development fee imposed on customers of new development and will be used to expand the capacity of the water system in the future.

Solid Waste Fund. This fund is used to account for the operations of the landfill system within the County.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All funds of the County are accounted for during the year using the modified accrual basis of accounting in accordance with the North Carolina General Statutes. The financial statements are reported at year-end as discussed below.

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide financial statements, the Proprietary Fund, the Fiduciary Fund, and the ABC Board financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for the agency funds which have no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Net position is segregated into (1) investment in capital assets, (2) restricted net position, and (3) unrestricted net position. Operating statements for these funds present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of June 30, 2013. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

CHOWAN COUNTY, NORTH CAROLINA

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

For modified accrual basis of accounting purposes, ad valorem property taxes are not accrued as a 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 subsequent year. Also, as of January 1, 1993, State law altered procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Chowan County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For registered motor vehicles, 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, taxes for vehicles registered 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 on the fund financial statements and are offset by deferred inflows of resources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 County, are recognized as revenue on both the government-wide financial statements and the fund financial statements. Intergovernmental revenues and sales and services are not susceptible to accrual because, generally, they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. The effect of interfund activity has been eliminated from the government-wide financial statements.

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. Internally dedicated resources are reported as general revenues; therefore, all taxes are reported as general revenues.

Proprietary funds distinguish between operating revenues/expenses and non-operating 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 Water Fund, Solid Waste Fund, and Emergency Management Fund are charges to customers for services. The principal operating revenue for the Water Development Capital Reserve Fund are fees imposed by the County to provide resources for the specific capital purpose of the fund. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHOWAN COUNTY, NORTH CAROLINA

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

D. Basis of Presentation – Fund Accounting

The accounts of the County are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, deferred inflows of resources, liabilities, deferred outflows of resources, fund equity, revenues, expenses, or expenditures, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal, and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The County has the following fund categories:

Governmental Funds. Governmental funds are those used to account for the County's expendable financial resources and related liabilities (except those accounted for in proprietary or agency funds). The following are the County's governmental fund types:

General Fund. The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is a major fund for fund financial statement reporting purposes.

Debt Service Fund. The Debt Service Fund is used to account for the payments of all debt service requirements of the County.

Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to specified purposes. The Fire District Fund, Emergency Telephone System Fund, and Disaster Recovery Fund are the special revenue funds of the County. The Revaluation Fund, Street Assessment Fund, General Capital Reserve Fund, and the School Capital Reserve Fund are consolidated in the General Fund in accordance with GASB Statement 54.

Capital Projects Funds. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The County's capital project funds are: Lottery Capital Project Fund and DSS Renovation Project Fund.

Proprietary Funds. Proprietary funds are used to account for activities that are similar to those often found in the private sector. The following are the proprietary funds of the County:

Enterprise Funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy,

CHOWAN COUNTY, NORTH CAROLINA

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

management control, accountability, or other purposes. The Water Fund, Emergency Medical Services Fund, Solid Waste Fund, and Water Development Capital Reserve Fund are the enterprise funds of the County. Each of the enterprise funds are major funds for fund financial statement reporting purposes.

Fiduciary Funds. Fiduciary funds are used for assets held in a trustee capacity. The following are the fiduciary funds of the County.

Agency Funds. Agency funds are custodial in nature and do not involve measurement of results of operations. Agency funds are used to account for assets the County holds on behalf of others. The agency funds maintained by the County account for money deposited with the County through Social Services, Drainage Districts, Town of Edenton Tax Collections, and motor vehicle 3% interest payable to the State Fund.

E. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Street Assessment Fund, General Capital Reserve Fund, Debt Service Fund, Fire District Fund, Emergency Telephone System Fund, Revaluation Fund, School Capital Reserve Fund, Disaster Recovery Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the capital projects 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 \$1,000. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

F. Assets, Liabilities, Deferred Inflows and Outflows, and Fund Equity

Deposits and Investments

All deposits of the County and Chowan County Tourism Development Authority are made in Board-designated official depositories and are secured as required by G.S. 159-31, except as noted in Note 2. The County and Chowan County Tourism Development Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County and Chowan County Tourism Development Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

CHOWAN COUNTY, NORTH CAROLINA

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

State law [G.S. 159-30(c)] authorizes the County and Chowan County Tourism Development Authority 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), an SEC-registered (2a-7) money market mutual fund.

The County's investments are carried at fair value as determined by quoted market prices. The NCCMT's Cash Portfolio is stated 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 and non-participating interest earnings and investment contracts are reported at amortized cost.

Cash and Cash Equivalents

The County pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. For purposes of the Statement of Cash Flows, the County considers all deposits and investments with an original maturity date of three months or less, which are not limited as to use, to be cash equivalents.

Restricted Assets

Money in the Tax Revaluation Fund is classified as restricted assets, because its use is restricted per North Carolina General Statute 153A-150. Customer deposits held by the County before any services are supplied are restricted to the service for which the deposit was collected.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County 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 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012. As allowed by State law, the County has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the County's General Fund, ad valorem tax revenues are reported net of such discounts.

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.

CHOWAN COUNTY, NORTH CAROLINA

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

Inventories and Prepaid Items

Inventories of the County consist primarily of system materials and supplies and are valued at cost (first-in, first-out method). The costs of governmental fund type inventories are recorded as expenditures when purchased rather than when consumed.

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.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (including infrastructure assets purchased prior to implementing GASB 34), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost greater than \$5,000 and an estimated useful life greater than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The County capitalizes buildings and land, purchased or constructed, for the Chowan County Board of Education in all instances where the County retains title to the property. The County transfers title of school property to the Board of Education after all installment debt collateralized by the property has been retired. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or significantly extend the asset's life are not capitalized. The County capitalizes interest costs which are incurred during the construction period of capital assets.

Buildings and equipment are depreciated using the straight-line method over estimated useful lives as shown below:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Buildings and wells	40 years
Lighting	15 years
Furniture and firearms	7 years
Vehicles	5 years
Office equipment	5 years

Compensated Absences

County employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum of thirty days. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. The County uses the first-in, first-out method to value accrued vacation pay and the current amount due.

CHOWAN COUNTY, NORTH CAROLINA

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

The County's sick leave policy provides for unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave at the time of retirement may be used in the determination of length of service for retirement benefit purposes. In accordance with the provisions of the Statement of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow 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. In addition to liabilities, the statement of financial position can also 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 County has only two items that meet the criterion for this category - prepaid taxes and unavailable taxes.

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.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

Interfund Transactions

Interfund services provided are accounted for as revenue or expenses in the government-wide financial statements since they would be treated as such if they involved organizations external to the County. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are: allowance for doubtful accounts and depreciation lives.

CHOWAN COUNTY, NORTH CAROLINA

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

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted; and unrestricted. Restricted net position represents constraints on resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) 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.

The governmental fund types classify fund balances as follows:

Non-Spendable 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 in tact.

Prepays - portion of fund balance not available for appropriation because it represents the year-end fund balance of prepaid items, which are not expendable, available resources.

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

Stabilization by State Statute - portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Register of Deeds - portion of fund balance restricted by State statute for automation enhancement (software) improvements.

Restricted for Public Safety - portion of fund balance restricted by revenue source for public safety related activities, such as E-911 and fire.

Restricted for Culture and Recreation - portion of fund balance restricted by revenue source for culture and recreation incentives and projects.

CHOWAN COUNTY, NORTH CAROLINA

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

Restricted fund balance at June 30, 2013 is as follows:

Purpose	General Fund	Other Governmental Funds
Restricted, all other:		
Register of Deeds	\$ 19,627	\$ -
Cultural and recreation	24,901	-
Public safety	39,963	841,026
Total	\$ 84,491	\$ 841,026

Committed Fund Balance. This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Chowan County's governing body (highest level of decision making authority, the Board of Commissioners). Any changes or removal of specific purpose restrictions requires majority action by the governing body.

Committed for Tax Revaluation - portion of fund balance that can only be used for tax revaluation.

Committed for Debt Service - portion of fund balance committed by the Board to be used to service outstanding debt.

Purpose	General Fund
Committed, all other:	
Tax revaluation	\$ 92,593
Debt service	297,704
Total	\$ 390,297

CHOWAN COUNTY, NORTH CAROLINA

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

Assigned Fund Balance. Assigned fund balance is the portion of fund balance that Chowan County intends to use for specific purposes. The County's governing body has the authority to assign fund balance. The Manager and Finance Officer, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Unassigned Fund Balance. Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes within the General Fund.

Chowan County has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, State funds, local funds, and County funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County or when required by grant or other contractual agreements.

The County has not officially adopted a fund balance policy.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation.

Total fund balance - General Fund	\$	6,073,624
Less:		
Prepays		21,000
Stabilization by State statute		944,909
Total available fund balance	\$	<u>5,107,715</u>

CHOWAN COUNTY, NORTH CAROLINA

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund to the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds

A legally budgeted Tax Revaluation Fund, School Capital Reserve Fund, General Capital Reserve Fund, and the Street Assessment Fund are consolidated into the General Fund for reporting purposes on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds (Exhibit D). Fund balance for the General Fund is reconciled as follows:

Fund Balance - Ending (Exhibit F)	\$ 5,676,542
Tax Revaluation Fund:	
Investment earnings	146
General government	(78,313)
Transfer in - General Fund	25,000
Fund balance - beginning	145,760
School Capital Reserve Fund:	
Local option sales tax	631,189
Other taxes and licenses	264,341
Restricted intergovernmental	103,573
Investment earnings	293
Education	(91,922)
Transfer (out)	(818,723)
Fund balance - beginning	208,953
General Capital Reserve Fund:	
Transfer in	209,129
Transfer (out)	(202,344)
Street Assessment Fund:	
Transfer (out)	(4,014)
Fund balance - beginning	<u>4,014</u>
Fund Balance - Ending (Exhibit D)	<u><u>\$ 6,073,624</u></u>

CHOWAN COUNTY, NORTH CAROLINA

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

2. Cash, Cash Equivalents, and Investments

All of the County's and Chowan County Tourism Development Authority deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with the securities held by the County's agents in the unit's 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 County and Tourism Development Authority, these deposits are considered to be held by the County and Tourism Development Authority's agent in its name. 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 County or Tourism Development Authority or with the escrow agent.

Because of the inability to measure the exact amount of collateral pledged for the County 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 State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The County relies on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness on any other financial institution used by the County.

The County and Tourism Development Authority comply with the provisions, G.S. 159-31, when designating official depositories and verifying that deposits are properly secured. The County and the Tourism Development Authority do not have a formal policy regarding custodial credit risk for deposits.

At June 30, 2013, the County's deposits had a carrying amount of \$6,117,316 and a bank balance of \$6,693,333. Of the bank balance, \$2,163,472 was covered by federal depository insurance and \$4,529,861 was covered by collateral held by the State Treasurer under the pooling method. At June 30, 2013, Chowan County had \$354 cash on hand.

At June 30, 2013, the Chowan County Tourism Development Authority's deposits had a carrying amount of \$82,029 and a bank balance of \$82,029. Of the bank balance, \$82,029 was covered by federal depository insurance.

CHOWAN COUNTY, NORTH CAROLINA

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

Investments

At June 30, 2013, the County had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>
NC Capital Management Trust - Cash Portfolio	\$ 1,231,123	\$ 1,231,123
NC Capital Management Trust - Term Portfolio	881,218	881,218
Total investments	<u>\$ 2,112,341</u>	<u>\$ 2,112,341</u>

Interest Rate Risk. The County and the Tourism Development Authority do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The County and the Tourism Development Authority do not have a policy regarding credit risk. The County's investments in the NC Capital Management Trust - Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2013. The County's investment in the NC Capital Management Trust - Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government agencies and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

3. Property Tax – Use-Value Assessment on Certain Lands

In accordance with the General Statutes, certain agricultural, horticultural, forest land, and historical properties may be preferentially assessed for property taxes at present-use value rather than fair market value. The difference between taxes on such property at present-use value and taxes that would have been levied at fair market value may become collectible over the next three years. These taxes become due and payable when the property becomes ineligible for the preference. At the end of the fourth year, these taxes expire by operation of law. The following are property taxes that could become due if present-use value eligibility is lost. These amounts have not been recorded in the financial statements.

<u>Year Levied</u>	<u>Tax</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 486,381	\$ 115,515	601,896
2011	486,086	71,698	557,784
2012	477,153	27,436	504,589
2013	475,764	-	475,764
Total	<u>\$ 1,925,384</u>	<u>\$ 214,649</u>	<u>\$ 2,140,033</u>

CHOWAN COUNTY, NORTH CAROLINA

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

4. Accounts Receivables - Disaggregate Information

<u>Type of Receivable</u>	<u>Amount (Net of Allowance)</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable:			
Water Fund fees, net	\$ -	\$ 177,502	\$ 177,502
Solid Waste Fund	-	109,788	109,788
Emergency Medical Services Fund fees, net	-	296,288	296,288
Other receivables	39,344	-	39,344
Total	<u>\$ 39,344</u>	<u>\$ 583,578</u>	<u>\$ 622,922</u>
Due from Other Governments:			
Sales tax	<u>\$ 752,772</u>	<u>\$ -</u>	<u>\$ 752,772</u>

Allowances for Doubtful Accounts

For the County, the amounts presented in Exhibit A, the Statement of Net Position, are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>Allowance</u>
General Fund:	
Property taxes	\$ 320,000
Fire district taxes	15,000
Total	<u>\$ 335,000</u>
Enterprise Funds:	
Water Fund	\$ 93,720
Solid Waste Fund	61,243
Emergency Management Fund	485,977
Total	<u>\$ 640,940</u>

CHOWAN COUNTY, NORTH CAROLINA

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

5. Capital Assets

Governmental Activities Capital Assets

A summary of changes in the County's capital assets used in governmental activities follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2013</u>
Non-Depreciable Assets:					
Land	\$ 3,329,162	\$ -	\$ -	\$ -	\$ 3,329,162
Construction in progress	200,606	33,811	-	(234,417)	-
Total non-depreciable assets	<u>\$ 3,529,768</u>	<u>\$ 33,811</u>	<u>\$ -</u>	<u>\$ (234,417)</u>	<u>\$ 3,329,162</u>
Depreciable Assets:					
Buildings	45,050,040	-	-	234,417	45,284,457
Equipment	6,691,898	115,835	(142,841)	-	6,664,892
Total depreciable assets	<u>51,741,938</u>	<u>115,835</u>	<u>(142,841)</u>	<u>234,417</u>	<u>51,949,349</u>
Less Accumulated Depreciation:					
Buildings	11,604,713	1,110,649	-	-	12,715,362
Equipment	5,576,970	452,060	(142,596)	-	5,886,434
Total accumulated depreciation	<u>17,181,683</u>	<u>\$ 1,562,709</u>	<u>\$ (142,596)</u>	<u>\$ -</u>	<u>18,601,796</u>
Total depreciable capital assets, net	<u>34,560,255</u>				<u>33,347,553</u>
Governmental activities capital assets, net	<u>\$ 38,090,023</u>				<u>\$ 36,676,715</u>

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

Governmental Activities:	<u>Amount</u>
General government	\$ 1,215,317
Public safety	237,056
Environmental protection	61,600
Economic and physical development	492
Human services	7,272
Cultural and recreational	40,972
Total	<u>\$ 1,562,709</u>

CHOWAN COUNTY, NORTH CAROLINA

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

Proprietary Capital Assets

The capital assets of the proprietary funds at June 30, 2013 are as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Water Fund:				
Non-Depreciable Assets:				
Land	\$ 140,847	\$ -	\$ -	\$ 140,847
Depreciable Assets:				
Plant and systems	10,303,025	-	-	10,303,025
Building and improvements	1,513,062	41,698	-	1,554,760
Equipment	431,991	24,222	(21,414)	434,799
Total	12,248,078	65,920	(21,414)	12,292,584
Less Accumulated Depreciation:				
Plant and distribution systems	5,483,408	266,836	-	5,750,244
Buildings and improvements	906,722	35,764	-	942,486
Equipment	363,535	16,280	(21,414)	358,401
Total accumulated depreciation	6,753,665	\$ 318,880	\$ (21,414)	7,051,131
Depreciable capital assets, net	5,494,413			5,241,453
Water Fund capital assets, net	5,635,260			5,382,300
Emergency Medical Service Fund:				
Depreciable Assets:				
Building	217,000	\$ -	\$ -	217,000
Equipment	1,061,238	-	(5,434)	1,055,804
Total	1,278,238	-	(5,434)	1,272,804
Less Accumulated Depreciation:				
Building	156,222	4,675	-	160,897
Equipment	807,556	89,139	(5,434)	891,261
Total accumulated depreciation	963,778	\$ 93,814	\$ (5,434)	1,052,158
Depreciable capital assets, net	314,460			220,646
Emergency Management Fund capital assets, net	314,460			220,646
Business-type activities capital assets, net	\$ 5,949,720			\$ 5,602,946

CHOWAN COUNTY, NORTH CAROLINA

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

Investment in Capital Assets

The total investment in capital assets, at June 30, 2013 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 36,676,715	\$ 5,602,946
Long-term debt	(19,923,451)	-
Investment in capital assets	\$ 16,753,264	\$ 5,602,946

6. Accounts Payable - Disaggregate Information

	Vendors	Salaries and Benefits	Total
Governmental Activities:			
General	\$ 10,721	\$ 80,154	\$ 90,875
Other governmental	13,885	2,035	15,920
Total governmental activities	\$ 24,606	\$ 82,189	\$ 106,795
Business-Type Activities:			
Water Fund	\$ 8,831	\$ 5,336	\$ 14,167
Solid Waste Fund	61,142	-	61,142
Emergency Medical Services Fund	6,425	14,832	21,257
Total business-type activities	\$ 76,398	\$ 20,168	\$ 96,566

CHOWAN COUNTY, NORTH CAROLINA

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

7. Deferred Outflows and Inflows of Resources

The balance in deferred inflows of resources in the governmental fund statements at year-end is composed of the following elements:

	Unavailable Revenues	Unearned Revenues	Total
Prepaid property taxes (GF)	\$ -	\$ 64,100	\$ 64,100
Taxes receivable (GF)	387,800	-	387,800
Taxes receivable (SRF)	21,189	-	21,189
Total	\$ 408,989	\$ 64,100	\$ 473,089

8. Pension Plan Obligation

A. Local Governmental Employees' Retirement System

Plan Description

Chowan County contributes to the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, 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 LGERS 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 6.0% of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.84% and 6.88%, respectively, of annual covered payroll. The contribution requirements of members and of Chowan County are established and may be amended by the North Carolina General Assembly. The County's contributions, including the members' contributions to LGERS for the years ended June 30, 2013, 2012, and 2011, were \$492,817, \$572,092, and \$559,558 respectively. The contributions made by the County equaled the required contributions for each year.

CHOWAN COUNTY, NORTH CAROLINA

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

B. Law Enforcement Officers' Special Separation Allowance

Plan Description

Chowan County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% 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.

Summary of Significant Accounting Policies

The County has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension 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. Due to the immateriality of the liability to the County, an actuarial valuation was not obtained at June 30, 2013.

Contributions

The County 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 County'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.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description

The County 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 County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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.

CHOWAN COUNTY, NORTH CAROLINA

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

Funding Policy

Article 12E of G.S. Chapter 143 requires the County to contribute each month an amount equal to 5.0% 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 \$131,658, which consisted of \$87,204 from the County and \$44,454 from the law enforcement officers.

C. Registers of Deeds' Supplemental Pension Fund

Plan Description

Chowan County also contributes to the Register of Deeds' Supplemental Pension Fund (Fund), a non-contributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any County Register of Deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The 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

On a monthly basis, the County remits to the Department of State Treasurer an amount equal to one and one-half percent (1.5%) of the monthly receipts collected pursuant to Article 3 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. The County's contributions, including the members' contributions for the fiscal year ended June 30, 2013, were \$5,786. The contributions made by the County equaled the required contributions for 2013.

CHOWAN COUNTY, NORTH CAROLINA

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

D. Other Employment Benefits

The County has elected to provide death benefits to employees through the Death Trust Plan for Members of the Local Governmental Employees' Retirement System (Death Trust 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 highest months' salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$50,000 and will be a minimum of \$25,000. All death benefit payments are made from the Death Trust Plan. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Trust Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The County considers these contributions to be immaterial.

E. Other Post-Employment Benefits - Healthcare Benefits

Plan Description

Under the terms of a County resolution, the County administers a single-employer defined benefit Healthcare Benefit Plan. In addition to providing pension benefits, the County has elected to provide healthcare benefits to retirees of the County who have at least thirty years service with the North Carolina Local Governmental Employees' Retirement System (System) or the North Carolina Law Enforcement Officers' Local Governmental Employees' Retirement System (LE System); and/or employees who are credited with at least ten years of service with the System or the LE System and have reached their sixteenth birthday in service, have twenty years of total service with Chowan County, and their five most recent years of continuous service were with the County, at the time of retirement. Retired employees meeting the criteria discussed herein will be provided hospitalization in the same manner as the active County employees. The County pays the full cost of coverage for these benefits. Retirees with years of service between ten and twenty years may continue coverage on the County's group policy by paying the full premium until age 65.

Retirees can purchase coverage for their dependents at the County's group rates until the retiree reaches age sixty-five. Currently, 14 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2013, the County paid healthcare related claims of \$116,295 for retirees. A separate report was not issued for the Plan.

CHOWAN COUNTY, NORTH CAROLINA

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

Membership of the Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	14	14
Terminated plan members entitled to, but not yet receiving benefits	-	-
Active plan members	<u>110</u>	<u>-</u>
Total	<u><u>124</u></u>	<u><u>14</u></u>

Funding Policy

The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a County resolution that can be amended by the County Board. The County's members pay the current active employee rate for dependent coverage, if the retiree elects to purchase the coverage. The County has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 13.4% of annual covered payroll. For the current year, the County contributed \$116,295, or 2.2%, of annual covered payroll.

There were no contributions made by employees. The County's obligation to contribute to the plan is established and may be amended by the County Board.

Summary of Significant Accounting Policies

Post-employment expenditures are made from the General Fund and Water and Sewer Fund, which is maintained on the modified accrual and full accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. 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.

CHOWAN COUNTY, NORTH CAROLINA

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

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the County's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$	578,695
Interest on net OPEB obligation		78,162
Adjustments to annual required contribution		<u>(74,669)</u>
Annual OPEB cost (expense)		582,188
Contributions made		<u>(116,295)</u>
Increase (decrease) in net OPEB obligation		465,893
Net OPEB Obligation:		
Beginning of year - July 1		<u>1,954,050</u>
End of year - June 30		<u>\$ 2,419,943</u>

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

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 582,188	19.98%	\$ 2,419,943
2012	582,188	17.32%	1,954,050
2011	580,666	36.07%	1,473,398
2010	551,095	0.00%	1,102,190

Fund Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$7,071,068. The covered payroll (annual payroll of active employees covered by the plan) was \$4,320,329, and the ratio of the UAAL to the covered payroll was 163.7%.

Actuarial valuations of an ongoing plan involve 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 actuarially accrued liabilities for benefits.

CHOWAN COUNTY, NORTH CAROLINA

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

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 benefit 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 the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50% to 5.00% annually. Both rates included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 30 years.

9. Long-Term Obligations

The County records long-term debt of the governmental funds at face value in the government-wide statement of net position. All general obligation bonds serviced by the County's General Fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest payments are appropriated when due.

A. Changes in Long-Term Debt

The following is a summary of changes in the County's governmental activities long-term obligations for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental Activities:					
Qualified Zone Academy Bonds	\$ 1,378,562	\$ -	\$ (103,573)	\$ 1,274,989	\$ 103,573
Notes payable	20,051,391	13,153,000	(14,555,929)	18,648,462	1,837,399
Unfunded OPEB	1,667,883	516,084	(98,711)	2,085,256	-
Compensated absences	306,780	129,160	(300,020)	135,920	33,980
Total governmental activities	<u>\$ 23,404,616</u>	<u>\$ 13,798,244</u>	<u>\$ (15,058,233)</u>	<u>\$ 22,144,627</u>	<u>\$ 1,974,952</u>

CHOWAN COUNTY, NORTH CAROLINA

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

The General Fund is typically used to liquidate the compensated absences and pension liabilities.

At June 30, 2013, Chowan County had no bonds authorized, but unissued, and a legal debt-margin of \$101,600,000.

B. Notes Payable - Qualified Zone Academy Bonds

On July 20, 2005, the County financed the renovation of John A. Holmes High School by issuing \$2,000,000 of Qualified Zone Academy Bonds, with a coupon rate of 0%. The bonds are secured by the real estate and require the County to make annual contributions of \$103,573 to a bond sinking fund, which is held in trust by a bank. The bonds mature in 2025, at which time the sinking fund balance is designed to be sufficient to retire the bonds based on the accumulation of the annual contributions and the earnings of the sinking fund. As of June 30, 2013, the outstanding balance was \$1,274,989. In the event the sinking fund is insufficient to retire the bonds in 2025, the County is obligated to fund the deficiency in 2025.

Annual debt service requirements (in the form of sinking fund contributions) to maturity for the County's Qualified Zone Academy Bonds are as follows:

Year Ending			
June 30	Principal	Interest	
2014	\$ 103,573	\$ -	-
2015	103,573	-	-
2016	103,573	-	-
2017	103,573	-	-
2018	103,573	-	-
2019-2023	517,865	-	-
2024-2025	239,259	-	-
Total	<u>\$ 1,274,989</u>	<u>\$ -</u>	-

CHOWAN COUNTY, NORTH CAROLINA

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

C. Notes Payable - Governmental Activities

A summary of the County's governmental activities notes payable is as follows:

1.84% note, payable in annual installments of \$571,743, plus interest, secured by D.F. Walker Elementary School	\$ 4,002,212
1.96% note, payable in annual installments of \$186,656, plus interest; secured by Adult Day Health Center and Chowan Community Center	1,493,250
2.20% note, payable in annual installments of \$1,009,177, including interest; secured by Public Safety Building; ending in 2024	9,695,000
1.96% note, payable in annual installments of \$120,000, including interest; secured by public safety building; ending in 2022	985,000
2.20% note, payable in annual installments of \$80,000, including interest; secured by Shepard-Pruden Library; ending in 2024	1,355,000
1.96% note, payable in annual installments of \$90,000, plus interest; secured by Shepard-Pruden Library; ending in 2022	823,000
1.84% note, payable in annual installments of \$49,000, including interest; secured by vehicles ending in 2020	<u>295,000</u>
Total installment purchase contracts	<u>\$ 18,648,462</u>

CHOWAN COUNTY, NORTH CAROLINA

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

Annual debt service requirements to maturity for the County's governmental activities notes payable are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2014	\$ 1,837,399	\$ 401,512	\$ 2,238,911
2015	1,857,399	349,585	2,206,984
2016	1,888,399	311,871	2,200,270
2017	1,920,399	273,475	2,193,874
2018	1,959,399	234,381	2,193,780
2019-2023	7,993,467	600,834	8,594,301
2024	1,192,000	26,224	1,218,224
Total	<u>\$ 18,648,462</u>	<u>\$ 2,197,882</u>	<u>\$ 20,846,344</u>

CHOWAN COUNTY, NORTH CAROLINA

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

D. Proprietary Fund Debt

The following is a summary of the changes in the County's business-type activities long-term obligations for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Business-Type Activities:					
Water Fund:					
Unfunded pension					
obligation - OPEB	\$ 94,440	\$ 39,511	\$ (17,584)	\$ 116,367	\$ -
Compensated absences	<u>19,500</u>	<u>7,360</u>	<u>(6,420)</u>	<u>20,440</u>	<u>5,110</u>
Total Water Fund	<u>113,940</u>	<u>46,871</u>	<u>(24,004)</u>	<u>136,807</u>	<u>5,110</u>
Emergency Management Fund:					
Notes payable	3,251	-	(3,251)	-	-
Unfunded pension					
obligation - OPEB	191,727	26,593	-	218,320	-
Compensated absences	<u>44,800</u>	<u>20,320</u>	<u>(17,700)</u>	<u>47,420</u>	<u>11,855</u>
Total Emergency Management Fund	<u>239,778</u>	<u>46,913</u>	<u>(20,951)</u>	<u>265,740</u>	<u>11,855</u>
Total business-type activities	<u>\$ 353,718</u>	<u>\$ 93,784</u>	<u>\$ (44,955)</u>	<u>\$ 402,547</u>	<u>\$ 16,965</u>

10. Landfill Closure and Post-Closure Care Costs

Federal and State laws and regulations require the County to place a final cover on its landfills when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. As discussed in the "Jointly Governed Organizations" note herein, the County participates in two jointly governed organizations in connection with handling solid waste disposal: Perquimans-Chowan-Gates Waste Management and Albemarle Regional Solid Waste Authority. The landfill under the Albemarle Regional Solid Waste Authority in which the County participates is under contract with a private contractor to maintain the landfill to meet environmental regulations. The private contractor has established adequate reserves to provide for closure and post-closure costs. The County did not recognize any additional costs and/or liability for the year ended June 30, 2013, related to closure and post-closure care cost.

CHOWAN COUNTY, NORTH CAROLINA

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

11. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in a self-funded risk financing pool administered by the North Carolina Association of County Commissioners. Through this pool, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$37.6 million for any one occurrence; general, auto, professional, and employment practices liability coverage of \$2 million per occurrence; auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence; and workers' compensation coverage up to the statutory limits. The pool is audited annually by certified public accountants, and the audited financial statements are available to the County upon request.

The County carries flood insurance on only one of its buildings, the Shepard-Pruden Memorial Library. It is the only County building that is in a flood zone.

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more of the County's funds at any given time are performance bonded through a commercial surety bond. The Finance Officer and Tax Collector are each individually bonded for \$250,000 each. The County Manager is individually covered for \$50,000, the Sheriff for \$25,000, and the Register of Deeds for \$15,000. The remaining employees that have access to funds are bonded under a blanket policy for \$250,000.

In accordance with G.S. 159-29, the Director of Finance, who is responsible for accounting for Chowan County Tourism Development Authority, is individually bonded through a commercial surety bond in the amount of \$50,000.

The County carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

12. Joint Ventures

Pettigrew Regional Library

The County participates in a joint venture to operate Pettigrew Regional Library with four other local governments. Each participating government appoints three Board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture, because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library; therefore, no equity interest has been reflected in the financial statements at June 30, 2013. The participating governments provide the library facilities. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$162,287 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at Pettigrew Regional Library, PO Box 906, Plymouth, North Carolina 27962.

CHOWAN COUNTY, NORTH CAROLINA

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

13. Jointly Governed Organizations

Albemarle Regional Health Services

The County, in conjunction with six other counties participates in Albemarle Regional Health Services. The County appoints two members to the ten-member Board. The County contributed \$93,061 to the organization during the fiscal year ended June 30, 2013. Complete financial statements for District Health can be obtained from the District Health offices at Albemarle Regional Health Services, P.O. Box 189, Elizabeth City, North Carolina 27909.

Albemarle Regional Solid Waste Authority

The County is one of eight counties participating in the Albemarle Regional Solid Waste Authority. This Authority contracts with a private contractor to maintain a landfill to meet environmental regulations for household solid waste and other regulated wastes. The Authority has a 20-year contract with the private contractor. The County spent \$1,045,979 for solid waste disposal during the current year.

Perquimans-Chowan-Gates Landfill Commission

The County is one of three counties involved in the Perquimans-Chowan-Gates Landfill Commission. The Commission maintains a landfill for waste products other than household waste. It also contracts with a private contractor to maintain dumpster sites and haul the trash in the three participating counties.

Chowan County Satellite Campus of the College of the Albemarle

The County, in conjunction with College of the Albemarle, Elizabeth City, North Carolina, participates in a joint venture to operate the Chowan County Satellite Campus of the College of the Albemarle. The County has the responsibility to provide funding for the satellite facilities in Chowan County. During the fiscal year ended June 30, 2013, total facilities cost totaled \$314,410.

Albemarle Commission

The County, in conjunction with ten other counties and fourteen other municipalities, established the Albemarle Commission. The participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints three members to the Commission's governing board. The County paid membership fees of \$9,595 to the Commission during the fiscal year ended June 30, 2013.

Northeast Economic Development Committee

The County, in conjunction with fifteen other counties, established the Northeast Economic Development Committee, a tourism advisory committee to the Northeastern North Carolina Regional Economic Development Partnership, Inc. Each participating government appoints two members to the Committee.

CHOWAN COUNTY, NORTH CAROLINA

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

14. Benefit Payments Issued by the State

The amounts listed below were paid directly to individual recipients by the State from federal and State monies. County personnel are involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements, because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Medicaid	\$ 14,026,952	\$ 7,934,931
Temporary Assistance to Needy Families	149,383	-
Low Income Energy Assistance Block Grant	96,160	-
State Foster Care	-	1,546
Women, Infants, and Children	336,110	-
IV-E Adoption Subsidy	24,883	6,567
IV-E Foster Care	9,168	89,010
CWS, Adoption Subsidy	-	10,935
SC/SA Domiciliary Care	-	205,624
Total	<u>\$ 14,642,656</u>	<u>\$ 8,248,613</u>

15. Summary Disclosure of Significant Commitments and Contingencies

Federal and State-Assisted Programs

The County has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

16. Claims and Judgments

At June 30, 2013, the County was a defendant to various lawsuits. Management believes that the ultimate outcome of these legal matters will not have a material adverse effect on the financial position of the County.

CHOWAN COUNTY, NORTH CAROLINA

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

17. Interfund Balances and Activity

A. Transfers to/from Other Funds:

Transfers in (out) for the year ended June 30, 2013 are summarized below:

<u>Fund</u>	<u>To</u>	<u>From</u>	<u>Purpose</u>
DSS Renovation Fund	\$ 33,811	\$ -	
General Fund	-	33,811	To close project
General Fund	10,218	-	
Disaster Recovery Fund	-	10,218	To close project
Fire District Fund	-	53,246	
Debt Service Fund	53,246	-	Service outstanding debt
Fire District Fund	-	13,671	
General Fund	13,671	-	Annual contribution
Emergency Telephone System Fund	21,032	-	
General Fund	-	21,032	Annual contribution
Debt Service Fund	1,450,078	-	
General Fund	-	1,450,078	Service outstanding debt
Debt Service Fund	45,000	-	
General Capital Reserve Fund	-	45,000	Service outstanding debt
Debt Service Fund	818,723	-	
School Capital Reserve Fund	-	818,723	Service outstanding debt

CHOWAN COUNTY, NORTH CAROLINA

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

<u>Fund</u>	<u>To</u>	<u>From</u>	<u>Purpose</u>
General Fund	4,014	-	
Street Assessment Fund	-	4,014	Close fund
General Capital Reserve Fund	51,785	-	
General Fund	-	51,785	Annual contribution
Emergency Medical Services Fund	267,363	-	
General Fund	-	267,363	Annual contribution
Revaluation Special Revenue Fund	25,000	-	
General Fund	-	25,000	Annual contribution
General Capital Reserve Fund	157,344	-	
Solid Waste Fund	-	157,344	Annual contribution
General Fund	157,344	-	
General Capital Reserve Fund	-	157,344	Annual contribution
General Fund	80,000	-	
Water Fund	-	80,000	Annual contribution
	<u>\$ 3,188,629</u>	<u>\$3,188,629</u>	

B. Interfund Balances

The composition of internal balances as of June 30, 2013 is as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>
	<u>General Fund</u>
Lottery Capital Project Fund	\$ 18,221
Disaster Recovery Fund	878
DSS Renovation Fund	117
Emergency Medical Services Fund	214,277
	<u>\$ 233,493</u>

The amounts due to the General Fund represent short-term cash advances.

CHOWAN COUNTY, NORTH CAROLINA

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

18. Component Unit Transactions

In fiscal year 2013, the County received \$29,476 in profit distributions from its component unit, Chowan County ABC Board.

19. Change in Accounting Principles/Restatement

The County implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs, which were previously deferred and amortized, must be included in current expenditures.

This page left blank intentionally.

CHOWAN COUNTY, NORTH CAROLINA

**OTHER POST-EMPLOYMENT BENEFITS - HEALTHCARE FOR RETIREES
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDING JUNE 30, 2013**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)		Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A)/C
		Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)			
12/31/1991	\$ -	\$ 32,741	\$ 32,741	0.00%	\$ 497,308	6.58%
12/31/1992	-	38,324	38,324	0.00%	494,258	7.75%
12/31/1993	-	36,784	36,784	0.00%	485,510	7.58%
12/31/1995	-	42,778	42,778	0.00%	525,920	8.13%
12/31/1996	-	52,668	52,668	0.00%	614,852	8.57%
12/31/2008	-	5,838,284	5,838,284	0.00%	5,237,209	111.5%
12/31/2010	-	7,071,068	7,071,068	0.00%	4,320,329	163.67%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Percentage Contributed
6/30/2009	\$ 551,095	0.00%
6/30/2010	551,095	0.00%
6/30/2011	580,666	36.10%
6/30/2012	578,695	17.40%
6/30/2013	578,695	20.10%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increases	10.50 - 5.00%
Year of ultimate trend rate	2018
Includes inflation at	3.00%
Cost of living adjustments	NA

CHOWAN COUNTY, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - ACTUAL - GENERAL FUND CONSOLIDATED
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Revaluation Fund</u>	<u>Street Assessment Fund</u>	<u>General Capital Reserve Fund</u>
Revenues:				
Ad valorem taxes	\$ 10,596,571	\$ -	\$ -	\$ -
Local option sales taxes	1,913,513	-	-	-
Other taxes and licenses	88,749	-	-	-
Unrestricted intergovernmental revenues	74,820	-	-	-
Restricted intergovernmental revenues	2,262,589	-	-	-
Permits and fees	356,334	-	-	-
Sales and services	873,940	-	-	-
Investment earnings	7,460	146	-	-
Miscellaneous	33,651	-	-	-
Total revenues	<u>16,207,627</u>	<u>146</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
General government	2,687,516	78,313	-	-
Public safety	2,863,936	-	-	-
Environmental protection	144,229	-	-	-
Economic and physical development	172,535	-	-	-
Human services	3,199,471	-	-	-
Cultural and recreational	827,967	-	-	-
Education	3,778,152	-	-	-
Debt service	97,376	-	-	-
Total expenditures	<u>13,771,182</u>	<u>78,313</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>2,436,445</u>	<u>(78,167)</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	265,247	25,000	-	209,129
Transfers out	(1,849,069)	-	(4,014)	(202,344)
Refunding bonds issued	13,153,000	-	-	-
Payment to refunded bond escrow agent	(13,143,200)	-	-	-
Total other financing sources (uses)	<u>(1,574,022)</u>	<u>25,000</u>	<u>(4,014)</u>	<u>6,785</u>
Net change in fund balances	862,423	(53,167)	(4,014)	6,785
Fund Balances:				
Beginning of year - July 1	<u>4,814,119</u>	<u>145,760</u>	<u>4,014</u>	<u>-</u>
End of year - June 30	<u>\$ 5,676,542</u>	<u>\$ 92,593</u>	<u>\$ -</u>	<u>\$ 6,785</u>

Schedule B-1

School Capital Reserve Fund	Eliminations	Total General Fund
\$ -	\$ -	\$ 10,596,571
631,189	-	2,544,702
264,341	-	353,090
-	-	74,820
103,573	-	2,366,162
-	-	356,334
-	-	873,940
293	-	7,899
-	-	33,651
<u>999,396</u>	<u>-</u>	<u>17,207,169</u>
-	-	2,765,829
-	-	2,863,936
-	-	144,229
-	-	172,535
-	-	3,199,471
-	-	827,967
91,922	-	3,870,074
-	-	97,376
<u>91,922</u>	<u>-</u>	<u>13,941,417</u>
<u>907,474</u>	<u>-</u>	<u>3,265,752</u>
-	(238,143)	261,233
(818,723)	238,143	(2,636,007)
-	-	13,153,000
-	-	(13,143,200)
<u>(818,723)</u>	<u>-</u>	<u>(2,364,974)</u>
88,751	-	900,778
<u>208,953</u>	<u>-</u>	<u>5,172,846</u>
<u>\$ 297,704</u>	<u>\$ -</u>	<u>\$ 6,073,624</u>

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Taxes	\$ 10,252,334	\$ 10,473,393	\$ 221,059	\$ 10,161,047
Penalties and interest	119,129	123,178	4,049	112,040
Total	<u>10,371,463</u>	<u>10,596,571</u>	<u>225,108</u>	<u>10,273,087</u>
Local Option Sales Taxes:				
Article 39 and 44	923,776	900,908	(22,868)	917,984
Article 40 one-half of one percent	621,687	605,708	(15,979)	592,739
Article 42 one-half of one percent	99,865	104,110	4,245	101,969
Medicaid hold-harmless payment	125,000	302,787	177,787	115,831
Total	<u>1,770,328</u>	<u>1,913,513</u>	<u>143,185</u>	<u>1,728,523</u>
Other Taxes and Licenses:				
Deed stamp excise tax	60,000	71,411	11,411	65,506
Cable TV	18,000	17,338	(662)	18,032
Total	<u>78,000</u>	<u>88,749</u>	<u>10,749</u>	<u>83,538</u>
Unrestricted Intergovernmental Revenues:				
Payments in lieu of taxes	2,450	2,459	9	-
Beer and wine tax	42,000	39,523	(2,477)	42,322
ABC profit distribution	30,000	29,476	(524)	24,860
Tax refunds	3,974	3,362	(612)	109
Total	<u>78,424</u>	<u>74,820</u>	<u>(3,604)</u>	<u>67,291</u>
Restricted Intergovernmental Revenues:				
State grants	2,540,971	2,219,299	(321,672)	2,232,109
Local grants	43,368	43,290	(78)	27,270
Total	<u>2,584,339</u>	<u>2,262,589</u>	<u>(321,750)</u>	<u>2,259,379</u>
Permits and Fees:				
Building permits and inspection fees	92,000	70,971	(21,029)	103,504
Register of Deeds	94,700	97,208	2,508	90,251
Sheriff and court fees	179,975	188,155	8,180	163,848
Total	<u>366,675</u>	<u>356,334</u>	<u>(10,341)</u>	<u>357,603</u>

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013		Variance Over/Under	2012
	Budget	Actual		Actual
Sales and Services:				
Rents, concessions and fees	340,656	331,055	(9,601)	362,928
Jail fees	13,000	45,963	32,963	154,486
Recreation fees	65,100	64,140	(960)	64,610
Fees from local governments	416,943	426,832	9,889	431,957
Sale of capital assets	9,422	5,950	(3,472)	1,785
Total	845,121	873,940	28,819	1,015,766
Investment Earnings	4,000	7,460	3,460	2,075
Miscellaneous	64,721	33,651	(31,070)	118,021
Total revenues	16,163,071	16,207,627	44,556	15,905,283
Expenditures:				
General Government:				
Governing Body:				
Salaries and employee benefits	47,689	47,689	-	46,505
Operating expenditures	53,585	53,572	-	58,197
Total	101,274	101,261	13	104,702
Administration:				
Salaries and employee benefits	417,571	415,707	-	355,359
Operating expenditures	13,568	13,567	-	13,753
Total	431,139	429,274	1,865	369,112
Tax Collection:				
Salaries and employee benefits	233,347	220,226	-	165,931
Operating expenditures	139,750	102,652	-	68,781
Capital outlay	61,042	45,210	-	-
Total	434,139	368,088	66,051	234,712
Legal:				
Operating expenditures	25,000	18,188	-	47,506
Total	25,000	18,188	6,812	47,506

CHOWAN COUNTY, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Court Facilities:				
Salaries and employee benefits	538	-	-	484
Operating expenditures	19,194	16,885	-	17,909
Total	19,732	16,885	2,847	18,393
Elections:				
Salaries and employee benefits	79,747	75,608	-	67,690
Operating expenditures	33,539	33,453	-	26,581
Total	113,286	109,061	4,225	94,271
Register of Deeds:				
Salaries and employee benefits	137,348	136,586	-	133,824
Operating expenditures	61,369	60,452	-	60,963
Capital outlay	25,000	25,000	-	-
Total	223,717	222,038	1,679	194,787
Land Records:				
Salaries and employee benefits	50,359	50,169	-	49,301
Operating expenditures	17,303	16,674	-	9,814
Total	67,662	66,843	819	59,115
Data Processing:				
Salaries and employee benefits	78,375	76,601	-	71,141
Operating expenditures	97,463	93,132	-	153,255
Total	175,838	169,733	6,105	224,396
Central Maintenance:				
Salaries and employee benefits	228,760	222,700	-	202,687
Operating expenditures	60,921	48,846	-	62,303
Total	289,681	271,546	18,135	264,990
Public Buildings:				
Operating expenditures	363,522	319,152	-	487,642
Total	363,522	319,152	44,370	487,642
Inspection:				
Salaries and employee benefits	179,277	178,499	-	175,912
Operating expenditures	18,759	14,760	-	11,191
Total	198,036	193,259	4,777	187,103

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Other General Government:				
Central services	351,135	346,266	-	349,531
Special appropriations	55,922	55,922	-	16,139
Total	407,057	402,188	4,869	365,670
Total general government	2,850,083	2,687,516	162,567	2,652,399
Public Safety:				
Central Communications:				
Salaries and employee benefits	430,811	420,941	-	383,553
Operating expenditures	96,157	70,350	-	40,554
Capital outlay	21,662	21,661	-	9,490
Total	548,630	512,952	35,678	433,597
Sheriff:				
Salaries and employee benefits	1,038,701	988,023	-	966,058
Operating expenditures	251,343	227,825	-	198,760
Capital outlay	59,785	56,310	-	-
Total	1,349,829	1,272,158	77,671	1,164,818
School Resource Officer:				
Salaries and employee benefits	168,011	158,593	-	148,147
Total	168,011	158,593	9,418	148,147
Jail:				
Salaries and employee benefits	462,668	410,322	-	388,663
Operating expenditures	291,000	259,370	-	253,677
Capital outlay	5,000	4,650	-	-
Total	758,668	674,342	84,326	642,340
Emergency Management:				
Salaries and employee benefits	31,650	31,178	-	24,830
Operating expenditures	11,467	9,527	-	9,159
Total	43,117	40,705	2,412	33,989
Public Safety Office:				
Operating expenditures	2,000	1,708	-	1,400
Total	2,000	1,708	292	1,400

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Medical Examiner:				
Operating expenditures	7,500	5,300	-	9,700
Total	7,500	5,300	2,200	9,700
Animal Control:				
Salaries and employee benefits	108,920	107,389	-	94,851
Operating expenditures	69,727	65,721	-	81,084
Total	178,647	173,110	5,537	175,935
Juvenile Justice:				
Salaries and employee benefits	13,087	13,034	-	11,994
Operating expenditures	12,232	12,034	-	13,266
Total	25,319	25,068	251	25,260
Total public safety	3,081,721	2,863,936	217,785	2,635,186
Environmental Protection:				
Solid Waste:				
Operating expenditures	2,799	2,798	1	2,937
Soil Conservation:				
Salaries and employee benefits	83,742	83,383	-	81,592
Operating expenditures	81,797	58,048	-	57,103
Total	165,539	141,431	24,108	138,695
Total environmental protection	168,338	144,229	24,109	141,632
Economic and Physical Development:				
Economic Development:				
Operating expenditures	34,263	33,793	-	37,488
Total	34,263	33,793	470	37,488
Agricultural Extension:				
Salaries and employee benefits	142,982	95,474	-	102,169
Operating expenditures	62,112	43,268	-	34,431
Total	205,094	138,742	66,352	136,600
Total economic and physical development	239,357	172,535	66,822	174,088

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Human Services:				
Public health - operating expenditures	93,114	93,061	53	79,722
Mental health - operating expenditures	86,386	86,265	121	89,933
Social Services:				
Public Assistance:				
Salaries and employee benefits	1,464,590	1,423,228	41,362	1,365,992
Operating expenditures	1,949,814	1,582,453	367,361	1,661,398
Total	3,414,404	3,005,681	408,723	3,027,390
Veterans Services:				
Salaries and employee benefits	14,733	13,320	-	13,826
Operating expenditures	1,550	1,144	-	1,327
Total	16,283	14,464	1,819	15,153
Total human services	3,610,187	3,199,471	410,716	3,212,198
Cultural and Recreational:				
Libraries:				
Operating expenditures	163,261	162,287	-	155,178
Total	163,261	162,287	974	155,178
Recreation:				
Salaries and employee benefits	355,769	355,204	-	305,651
Operating expenditures	95,099	94,050	-	110,951
Capital outlay	9,829	9,829	-	10,813
Total	460,697	459,083	1,614	427,415
Senior Center:				
Salaries and employee benefits	103,407	98,223	-	99,797
Operating expenditures	139,640	87,600	-	123,937
Capital outlay	21,000	20,774	-	-
Total	264,047	206,597	57,450	223,734
Total cultural and recreational	888,005	827,967	60,038	806,327

CHOWAN COUNTY, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013		Variance Over/Under	2012
	Budget	Actual		Actual
Education:				
Public Schools:				
Fine and forfeitures	60,000	40,813	-	50,304
Current expense	3,421,929	3,421,929	-	3,149,115
Total public schools	3,481,929	3,462,742	19,187	3,199,419
Community Colleges:				
Current expense	400,000	315,410	84,590	187,144
Total education	3,881,929	3,778,152	103,777	3,386,563
Debt Service:				
Principal retirement	-	-	-	491,826
Interest and fees	100,000	97,376	-	681,011
Total debt service	100,000	97,376	2,624	1,172,837
Total expenditures	14,819,620	13,771,182	1,048,438	14,181,230
Revenues over (under) expenditures	1,343,451	2,436,445	1,092,994	1,724,053
Other Financing Sources (Uses):				
Transfer from other funds	265,259	265,247	(12)	218,400
Transfers to other funds	(1,851,764)	(1,849,069)	2,695	(334,883)
Payment to refunded bond escrow agent	(13,145,039)	(13,143,200)	1,839	-
Refunding bonds issued	13,153,000	13,153,000	-	-
Contingency	(914)	-	914	-
Appropriated fund balance	236,007	-	(236,007)	-
Total other financing sources (uses)	(1,343,451)	(1,574,022)	(230,571)	(116,483)
Net change in fund balance	\$ -	862,423	\$ 862,423	1,607,570
Fund Balance:				
Beginning of year, - July 1		4,814,119		3,206,549
End of year - June 30		\$ 5,676,542		\$ 4,814,119

CHOWAN COUNTY, NORTH CAROLINA

REVALUATION FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Investment earnings	\$ -	\$ 146	\$ 146	\$ 3
Total revenues	-	146	146	3
Expenditures:				
General government:				
Contracted services	151,550	78,313	73,237	-
Total expenditures	151,550	78,313	73,237	-
Revenues over (under) expenditures	(151,550)	(78,167)	(73,383)	3
Other Financing Sources (Uses):				
Appropriated fund balance	126,550	-	126,550	-
Transfers in (out)	25,000	25,000	-	25,000
Total other financing sources (uses)	151,550	25,000	126,550	25,000
Net change in fund balance	\$ -	(53,167)	\$ (53,167)	25,003
Fund Balance:				
Beginning of year - July 1		145,760		120,757
End of year - June 30		\$ 92,593		\$ 145,760

CHOWAN COUNTY, NORTH CAROLINA

**SCHOOL CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Restricted intergovernmental	\$ 103,573	\$ 103,573	\$ -	\$ 103,573
Other taxes and licenses	200,000	264,341	64,341	225,689
Local option sales tax	634,895	631,189	(3,706)	638,788
Investment earnings	400	293	(107)	178
Total revenues	<u>938,868</u>	<u>999,396</u>	<u>60,528</u>	<u>968,228</u>
Expenditures:				
Education:				
Capital outlay	<u>140,367</u>	<u>91,922</u>	<u>48,445</u>	<u>101,045</u>
Debt service:				
Principal	-	-	-	659,860
Interest	-	-	-	223,857
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>883,717</u>
Total expenditures	<u>140,367</u>	<u>91,922</u>	<u>48,445</u>	<u>984,762</u>
Revenues over (under) expenditures	<u>798,501</u>	<u>907,474</u>	<u>12,083</u>	<u>(16,534)</u>
Other Financing Sources (Uses):				
Transfer in (out)	(818,726)	(818,723)	3	-
Appropriated fund balance	<u>20,225</u>	<u>-</u>	<u>(20,225)</u>	<u>-</u>
Total other financing sources (uses)	<u>(798,501)</u>	<u>(818,723)</u>	<u>(20,222)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>88,751</u>	<u>\$ 88,751</u>	<u>(16,534)</u>
Fund Balance:				
Beginning of year - July 1		<u>208,953</u>		<u>225,487</u>
End of year - June 30		<u>\$ 297,704</u>		<u>\$ 208,953</u>

CHOWAN COUNTY, NORTH CAROLINA

STREET ASSESSMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Other taxes and licenses	\$ -	\$ -	\$ -	\$ 100
Investment earnings	-	-	-	3
Total revenues	-	-	-	103
Revenues over (under) expenditures	-	-	-	103
Other Financing Sources (Uses):				
Appropriated fund balance	4,014	-	(4,014)	-
Transfers in (out)	(4,014)	(4,014)	-	-
Total other financing sources (uses)	-	(4,014)	(4,014)	-
Net change in fund balance	\$ -	(4,014)	\$ (4,014)	103
Fund Balance:				
Beginning of year - July 1		4,014		3,911
End of year - June 30		\$ -		\$ 4,014

CHOWAN COUNTY, NORTH CAROLINA

**GENERAL CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2013
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	<u>2013</u>			<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Other Financing Sources (Uses):				
Contingency	\$ (6,785)	\$ -	\$ (6,785)	\$ -
Transfers in	209,129	209,129	-	-
Transfers (out)	(202,344)	(202,344)	-	-
Total other financing sources (uses)	<u>-</u>	<u>6,785</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>6,785</u>	<u>\$ 6,785</u>	<u>-</u>
Fund Balance:				
Beginning of year - July 1		<u>-</u>		<u>-</u>
End of year - June 30		<u>\$ 6,785</u>		<u>\$ -</u>

CHOWAN COUNTY, NORTH CAROLINA

**MAJOR FUND - DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
Principal retirement	\$ 1,516,302	\$ 1,516,302	\$ -
Interest and fees	850,745	850,745	-
Total expenditures	<u>2,367,047</u>	<u>2,367,047</u>	<u>-</u>
Revenues over (under) expenditures	<u>(2,367,047)</u>	<u>(2,367,047)</u>	<u>-</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>2,367,047</u>	<u>2,367,047</u>	<u>-</u>
Total other financing sources (uses)	<u>2,367,047</u>	<u>2,367,047</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance:			
Beginning of year - July 1		<u>-</u>	
End of year - June 30		<u>\$ -</u>	

CHOWAN COUNTY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total
Assets:			
Cash and cash equivalents	\$ 844,342	\$ -	\$ 844,342
Accounts receivable, net	39,344	-	39,344
Taxes receivable, net	21,189	-	21,189
Due from other governments	10,414	30,942	41,356
Total assets	<u>\$ 915,289</u>	<u>\$ 30,942</u>	<u>\$ 946,231</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,316	\$ 12,604	\$ 15,920
Due to other funds	878	18,338	19,216
Total liabilities	<u>4,194</u>	<u>30,942</u>	<u>35,136</u>
Deferred Inflows of Resources:			
Unavailable taxes	<u>21,189</u>	<u>-</u>	<u>21,189</u>
Fund Balances:			
Restricted:			
Stabilization for State statute	49,758	30,942	80,700
Restricted, all other	841,026	-	841,026
Unassigned	(878)	(30,942)	(31,820)
Total fund balances	<u>889,906</u>	<u>-</u>	<u>889,906</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 915,289</u>	<u>\$ 30,942</u>	<u>\$ 946,231</u>

CHOWAN COUNTY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total
Revenues:			
Ad valorem taxes	\$ 511,256	\$ -	\$ 511,256
Local option sales taxes	37,538	-	37,538
Other taxes and licenses	222,947	-	222,947
Restricted intergovernmental revenues	-	270,840	270,840
Miscellaneous revenues	7,421	-	7,421
Investment earnings	936	-	936
Total revenues	<u>780,098</u>	<u>270,840</u>	<u>1,050,938</u>
Expenditures:			
Current:			
Public safety	515,541	-	515,541
Environmental protection	48,306	-	48,306
Human services	-	33,811	33,811
Education	-	270,840	270,840
Total expenditures	<u>563,847</u>	<u>304,651</u>	<u>868,498</u>
Revenues over (under) expenditures	<u>216,251</u>	<u>(33,811)</u>	<u>182,440</u>
Other Financing Sources (Uses):			
Transfers in	21,032	33,811	54,843
Transfers (out)	(77,135)	-	(77,135)
Total other financing sources (uses)	<u>(56,103)</u>	<u>33,811</u>	<u>(22,292)</u>
Net change in fund balances	160,148	-	160,148
Fund Balances:			
Beginning of year - July 1	<u>729,758</u>	<u>-</u>	<u>729,758</u>
End of year - June 30	<u>\$ 889,906</u>	<u>\$ -</u>	<u>\$ 889,906</u>

CHOWAN COUNTY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2013

	<u>Fire District Fund</u>	<u>Disaster Recovery Fund</u>	<u>Emergency Telephone System Fund</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 455,336	\$ -	\$ 389,006	\$ 844,342
Accounts receivable, net	-	-	39,344	39,344
Due from other governments	9,536	878	-	10,414
Taxes receivable, net	21,189	-	-	21,189
Total assets	<u>\$ 486,061</u>	<u>\$ 878</u>	<u>\$ 428,350</u>	<u>\$ 915,289</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,316	\$ -	\$ -	\$ 3,316
Due to other funds	-	878	-	878
Total liabilities	<u>3,316</u>	<u>878</u>	<u>-</u>	<u>4,194</u>
Deferred Inflows of Resources:				
Unavailable taxes	<u>21,189</u>	<u>-</u>	<u>-</u>	<u>21,189</u>
Fund Balances:				
Restricted:				
Stabilization for State statute	9,536	878	39,344	49,758
Restricted for public safety	452,020	-	389,006	841,026
Unassigned	-	(878)	-	(878)
Total fund balances	<u>461,556</u>	<u>-</u>	<u>428,350</u>	<u>889,906</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 486,061</u>	<u>\$ 878</u>	<u>\$ 428,350</u>	<u>\$ 915,289</u>

CHOWAN COUNTY, NORTH CAROLINA

**NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013**

	Fire Districts Fund	Disaster Recovery Fund	Emergency Telephone System Fund	Total
Revenues:				
Ad valorem taxes	\$ 511,256	\$ -	\$ -	\$ 511,256
Local option sales taxes	37,538	-	-	37,538
Other taxes and licenses	-	-	222,947	222,947
Miscellaneous revenues	367	7,054	-	7,421
Investment earnings	550	-	386	936
Total revenues	<u>549,711</u>	<u>7,054</u>	<u>223,333</u>	<u>780,098</u>
Expenditures:				
Current:				
Public safety	419,426	-	96,115	515,541
Environmental protection	-	48,306	-	48,306
Total expenditures	<u>419,426</u>	<u>48,306</u>	<u>96,115</u>	<u>563,847</u>
Revenues over (under) expenditures	<u>130,285</u>	<u>(41,252)</u>	<u>127,218</u>	<u>216,251</u>
Other Financing Sources (Uses):				
Transfers in	-	-	21,032	21,032
Transfers out	(66,917)	(10,218)	-	(77,135)
Total other financing sources (uses)	<u>(66,917)</u>	<u>(10,218)</u>	<u>21,032</u>	<u>(56,103)</u>
Net change in fund balance	63,368	(51,470)	148,250	160,148
Fund Balances:				
Beginning of year - July 1	<u>398,188</u>	<u>51,470</u>	<u>280,100</u>	<u>729,758</u>
End of year - June 30	<u>\$ 461,556</u>	<u>\$ -</u>	<u>\$ 428,350</u>	<u>\$ 889,906</u>

CHOWAN COUNTY, NORTH CAROLINA

**EMERGENCY TELEPHONE SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	2013			2012
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Other taxes and licenses:				
911 system subscriber fees	\$ 201,836	\$ 222,947	\$ 21,111	\$ 224,415
Investment earnings	-	386	386	89
Total revenues	<u>201,836</u>	<u>223,333</u>	<u>21,497</u>	<u>224,504</u>
Expenditures:				
Public safety:				
Telephone	-	36,542	-	-
Software maintenance	-	(4,642)	-	-
Hardware maintenance	-	64,215	-	-
Total expenditures	<u>332,633</u>	<u>96,115</u>	<u>236,518</u>	<u>235,288</u>
Revenues over (under) expenditures	<u>(130,797)</u>	<u>127,218</u>	<u>258,015</u>	<u>(10,784)</u>
Other Financing Sources (Uses):				
Transfers in (out)	21,033	21,032	(1)	-
Appropriated fund balance	<u>109,764</u>	<u>-</u>	<u>(109,764)</u>	<u>-</u>
Total other financing sources (uses)	<u>130,797</u>	<u>21,032</u>	<u>(109,765)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>148,250</u>	<u>\$ 148,250</u>	<u>(10,784)</u>
Fund Balances:				
Beginning of year - July 1		<u>280,100</u>		<u>290,884</u>
End of year - June 30		<u>\$ 428,350</u>		<u>\$ 280,100</u>

CHOWAN COUNTY, NORTH CAROLINA

FIRE DISTRICTS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad valorem taxes	\$ 491,448	\$ 511,256	\$ 19,808	\$ 498,366
Local option sales tax	37,404	37,538	134	42,858
Miscellaneous revenue	-	367	367	334
Investment earnings	-	550	550	113
Total revenues	<u>528,852</u>	<u>549,711</u>	<u>20,859</u>	<u>541,671</u>
Expenditures:				
Public safety:				
Town of Edenton	281,297	278,642	2,655	259,458
Salaries and benefits	68,310	47,381	20,929	44,312
Telephone and postage	3,000	2,496	504	2,753
Utilities	12,000	10,271	1,729	9,825
Maintenance and repair	31,000	26,498	4,502	21,370
Capital outlay	18,000	16,051	1,949	16,500
Other operating expenses	<u>48,310</u>	<u>38,087</u>	<u>10,223</u>	<u>64,947</u>
Total public safety	<u>461,917</u>	<u>419,426</u>	<u>42,491</u>	<u>419,165</u>
Debt service:				
Principal	-	-	-	13,478
Interest	-	-	-	14,422
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,900</u>
Total expenditures	<u>461,917</u>	<u>419,426</u>	<u>42,491</u>	<u>447,065</u>
Revenues over (under) expenditures	<u>66,935</u>	<u>130,285</u>	<u>63,350</u>	<u>94,606</u>
Other Financing Sources (Uses):				
Transfers in (out)	<u>(66,935)</u>	<u>(66,917)</u>	<u>18</u>	<u>(9,500)</u>
Total other financing sources (uses)	<u>(66,935)</u>	<u>(66,917)</u>	<u>18</u>	<u>(9,500)</u>
Net change in fund balance	<u>\$ -</u>	<u>63,368</u>	<u>\$ 63,368</u>	<u>85,106</u>
Fund Balance:				
Beginning of year - July 1		<u>398,188</u>		<u>313,082</u>
End of year - June 30		<u>\$ 461,556</u>		<u>\$ 398,188</u>

CHOWAN COUNTY, NORTH CAROLINA

DISASTER RECOVERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Restricted intergovernmental revenues	\$ -	\$ -	\$ -	\$ 100,413
Miscellaneous	7,054	7,054	-	92,985
Total revenues	<u>7,054</u>	<u>7,054</u>	<u>-</u>	<u>193,398</u>
Expenditures:				
Environmental protection:				
Disaster recovery	48,306	48,306	-	141,928
Total expenditures	<u>48,306</u>	<u>48,306</u>	<u>-</u>	<u>141,928</u>
Revenues over (under) expenditures	<u>(41,252)</u>	<u>(41,252)</u>	<u>-</u>	<u>51,470</u>
Other Financing Sources (Uses):				
Transfer (out)	(10,218)	(10,218)	-	-
Appropriated fund balance	51,470	-	(51,470)	-
Total other financing sources (uses)	<u>41,252</u>	<u>(10,218)</u>	<u>(51,470)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>(51,470)</u>	<u>\$ (51,470)</u>	<u>\$ 51,470</u>
Fund Balance:				
Beginning of year - July 1		<u>51,470</u>		<u>-</u>
End of year - June 30		<u>\$ -</u>		<u>\$ 51,470</u>

CHOWAN COUNTY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2013

	<u>DSS Renovation Capital Project</u>	<u>Lottery Capital Project</u>	<u>Total</u>
Assets:			
Due from other governments	\$ 117	\$ 30,825	\$ 30,942
Total assets	<u>\$ 117</u>	<u>\$ 30,825</u>	<u>\$ 30,942</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 12,604	\$ 12,604
Due to other funds	117	18,221	18,338
Total liabilities	<u>117</u>	<u>30,825</u>	<u>30,942</u>
Fund Balances:			
Restricted:			
Stabilization for State statute	117	30,825	30,942
Unassigned	<u>(117)</u>	<u>(30,825)</u>	<u>(30,942)</u>
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 117</u>	<u>\$ 30,825</u>	<u>\$ 30,942</u>

CHOWAN COUNTY, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>DSS Renovation Capital Project</u>	<u>Lottery Capital Project</u>	<u>Total</u>
Revenues:			
Lottery proceeds	\$ -	\$ 270,840	\$ 270,840
Total revenues	<u>-</u>	<u>270,840</u>	<u>270,840</u>
Expenditures:			
Current:			
Human services	33,811	-	33,811
Education	<u>-</u>	<u>270,840</u>	<u>270,840</u>
Total expenditures	<u>33,811</u>	<u>270,840</u>	<u>304,651</u>
Revenues over (under) expenditures	<u>(33,811)</u>	<u>-</u>	<u>(33,811)</u>
Other Financing Sources (Uses):			
Transfers in	<u>33,811</u>	<u>-</u>	<u>33,811</u>
Total other financing sources (uses)	<u>33,811</u>	<u>-</u>	<u>33,811</u>
Net change in fund balances	-	-	-
Fund Balances:			
Beginning of year - July 1	<u>-</u>	<u>-</u>	<u>-</u>
End of year - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CHOWAN COUNTY, NORTH CAROLINA

DSS RENOVATION PROJECT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Human services:				
Capital outlay:				
DSS relocation	\$ 274,644	\$ 200,606	\$ 33,811	\$ 234,417
Revenues over (under) expenditures	<u>(274,644)</u>	<u>(200,606)</u>	<u>(33,811)</u>	<u>(234,417)</u>
Other Financing Sources (Uses):				
Transfers in	274,644	200,606	33,811	234,417
Total other financing sources (uses)	<u>274,644</u>	<u>200,606</u>	<u>33,811</u>	<u>234,417</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CHOWAN COUNTY, NORTH CAROLINA

LOTTERY PROJECT
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual</u>	
			<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Lottery proceeds	\$ 428,736	\$ 76,484	\$ 270,840	\$ 347,324
Total revenues	<u>428,736</u>	<u>76,484</u>	<u>270,840</u>	<u>347,324</u>
Expenditures:				
Education:				
Capital outlay:				
School projects	<u>428,736</u>	<u>76,484</u>	<u>270,840</u>	<u>347,324</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CHOWAN COUNTY, NORTH CAROLINA

WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Operating revenues:				
Water sales	\$ 1,221,212	\$ 1,087,847	\$ 133,365	\$ 1,326,113
Reconnection fees	50,000	51,356	(1,356)	49,396
Miscellaneous revenue	14,000	35,498	(21,498)	26,018
Sales tax and other refunds	-	331	(331)	383
Taps and connection fees	15,000	14,625	375	14,550
Total operating revenues	<u>1,300,212</u>	<u>1,189,657</u>	<u>(110,555)</u>	<u>1,416,460</u>
Non-operating revenues:				
Investment earnings	500	980	(480)	129
Total non-operating revenues	<u>500</u>	<u>980</u>	<u>(480)</u>	<u>129</u>
Total revenues	<u>1,300,712</u>	<u>1,190,637</u>	<u>(111,035)</u>	<u>1,416,589</u>
Expenditures:				
Operating expenditures:				
Salaries and employee benefits	372,914	338,921		326,426
Utilities	110,000	105,493		110,842
Repairs and maintenance	90,500	75,947		108,592
Supplies and materials	123,904	111,458		257,704
Administrative services	450,729	283,236		399,319
Meters and minor improvements	2,939	-		23,019
Total operating expenditures	<u>1,150,986</u>	<u>915,055</u>	<u>235,931</u>	<u>1,225,902</u>
Capital outlay	<u>216,698</u>	<u>213,952</u>	<u>2,746</u>	<u>161,085</u>
Total expenditures	<u>1,367,684</u>	<u>1,129,007</u>	<u>238,677</u>	<u>1,386,987</u>
Revenues over (under) expenditures	<u>(66,972)</u>	<u>61,630</u>	<u>127,642</u>	<u>29,602</u>

CHOWAN COUNTY, NORTH CAROLINA

WATER FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Other Financing Sources (Uses):				
Transfers out	(80,000)	(80,000)	-	(45,000)
Appropriated fund balance	146,972	-	(146,972)	-
Total other financing sources (uses)	<u>66,972</u>	<u>(80,000)</u>	<u>(146,972)</u>	<u>(45,000)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>-</u>	<u>(18,370)</u>	\$ <u>(18,370)</u>	\$ <u>(15,398)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:				
Reconciling items:				
Capital outlay		65,920		
Depreciation		(318,880)		
Change in accrued vacation		(940)		
Change in other post-employment benefits liability		<u>(21,927)</u>		
Total reconciling items		<u>(275,827)</u>		
Change in net position		\$ <u>(294,197)</u>		

CHOWAN COUNTY, NORTH CAROLINA

SOLID WASTE FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013		Variance Over/Under	2012
	Budget	Actual		Actual
Revenues:				
Operating revenues:				
Tipping fees	\$ 1,200,150	\$ 1,155,506	\$ 44,644	\$ 1,179,699
Restricted intergovernmental	68,193	68,193	-	45,920
Other taxes and licenses	7,900	7,425	475	8,042
Miscellaneous	-	-	-	-
Total operating revenues	<u>1,276,243</u>	<u>1,231,124</u>	<u>(45,119)</u>	<u>1,233,661</u>
Non-operating revenues:				
Investment earnings	-	607	(607)	252
Total non-operating revenues	<u>-</u>	<u>607</u>	<u>(607)</u>	<u>252</u>
Total revenues	<u>1,276,243</u>	<u>1,231,731</u>	<u>(45,726)</u>	<u>1,233,913</u>
Expenditures:				
Operating expenditure:	<u>1,118,899</u>	<u>888,635</u>	<u>-</u>	<u>930,591</u>
Total expenditures	<u>1,118,899</u>	<u>888,635</u>	<u>230,264</u>	<u>930,591</u>
Revenues over (under) expenditures	<u>157,344</u>	<u>343,096</u>	<u>184,538</u>	<u>303,322</u>
Other Financing Sources (Uses):				
Transfers out	<u>(157,344)</u>	<u>(157,344)</u>	<u>-</u>	<u>(163,900)</u>
Total other financing sources (uses)	<u>(157,344)</u>	<u>(157,344)</u>	<u>-</u>	<u>(163,900)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 185,752</u>	<u>\$ 185,752</u>	<u>\$ 139,422</u>

CHOWAN COUNTY, NORTH CAROLINA

EMERGENCY MEDICAL SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>		<u>Variance Over/Under</u>	<u>2012</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Operating revenues:				
Ambulance fees	\$ 1,031,214	\$ 959,931	\$ (71,283)	\$ 1,007,268
Miscellaneous revenue	100,000	106,118	6,118	66,171
Sales tax and other refunds	-	-	-	91
Total operating revenues	<u>1,131,214</u>	<u>1,066,049</u>	<u>(65,165)</u>	<u>1,073,530</u>
Non-operating revenues:				
Investment earnings	-	74	74	17
Total non-operating revenues	<u>-</u>	<u>74</u>	<u>74</u>	<u>17</u>
Total revenues	<u>1,131,214</u>	<u>1,066,123</u>	<u>(65,091)</u>	<u>1,073,547</u>
Expenditures:				
Administration and operating:				
Salaries and employee benefits	1,115,549	1,104,978		1,081,955
Utilities	16,250	15,435		14,968
Maintenance and repairs	39,100	38,283		28,418
Automotive supplies	46,000	38,122		38,977
Supplies and materials	46,817	46,219		45,387
Contracted services	72,500	70,563		69,217
Administrative services	34,403	31,076		32,827
Total	<u>1,370,619</u>	<u>1,344,676</u>	<u>25,943</u>	<u>1,311,749</u>
Debt service:				
Debt principal	27,111	3,251		58,015
Interest and fees	847	-		847
Total	<u>27,958</u>	<u>3,251</u>	<u>24,707</u>	<u>58,862</u>
Total expenditures	<u>1,398,577</u>	<u>1,347,927</u>	<u>50,650</u>	<u>1,370,611</u>
Revenues over (under) expenditures	<u>(267,363)</u>	<u>(281,804)</u>	<u>(14,441)</u>	<u>(297,064)</u>

CHOWAN COUNTY, NORTH CAROLINA

EMERGENCY MEDICAL SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Other Financing Sources (Uses):				
Transfers in	267,363	267,363	-	11,980
Total other financing sources (uses)	<u>267,363</u>	<u>267,363</u>	<u>-</u>	<u>11,980</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(14,441)	<u>\$ (14,441)</u>	<u>\$ (285,084)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:				
Reconciling items:				
Debt principal		3,251		
Depreciation		(93,814)		
Change in accrued vacation		(2,620)		
Change in other post-employment benefits liability		<u>(26,593)</u>		
Change in net position		<u>\$ (134,217)</u>		

CHOWAN COUNTY, NORTH CAROLINA

**WATER DEVELOPMENT CAPITAL RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Water development fees	\$ 30,000	\$ 29,950	\$ (50)
Investment earnings	-	1,078	1,078
Total revenues	<u>30,000</u>	<u>31,028</u>	<u>1,028</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>(30,000)</u>	-	<u>30,000</u>
Total other financing sources (uses)	<u>(30,000)</u>	-	<u>30,000</u>
Revenues and other financing sources (uses)	<u>\$ -</u>	<u>\$ 31,028</u>	<u>\$ 31,028</u>

CHOWAN COUNTY, NORTH CAROLINA

**AGENCY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Social Services Protective Payee Fund	Drainage Districts	Edenton Tax Collections	3% Interest Payable to State	Total
Assets:					
Cash and cash equivalents	\$ 10,602	\$ 4,212	\$ -	\$ -	\$ 14,814
Total assets	<u>\$ 10,602</u>	<u>\$ 4,212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,814</u>
Liabilities:					
Accounts payable	\$ -	\$ 4,212	\$ -	\$ -	\$ 4,212
Due to others	10,602	-	-	-	10,602
Total liabilities	<u>\$ 10,602</u>	<u>\$ 4,212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,814</u>

CHOWAN COUNTY, NORTH CAROLINA

AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>Social Services - Protective Payees:</u>				
Assets:				
Cash and cash equivalents	\$ 623	\$ 42,633	\$ (32,654)	\$ 10,602
Liabilities:				
Payables	\$ 623	\$ 42,633	\$ 32,654	\$ 10,602
<u>Drainage Districts:</u>				
Assets:				
Cash and cash equivalents	\$ 4,369	\$ 15,617	\$ (15,774)	\$ 4,212
Liabilities:				
Payables	\$ 4,369	\$ 15,617	\$ (15,774)	\$ 4,212
<u>Edenton Tax Collections:</u>				
Assets:				
Cash and cash equivalents	\$ 26,465	\$ 1,626,614	\$ (1,653,079)	\$ -
Liabilities:				
Payables	\$ 26,465	\$ 1,626,614	\$ (1,653,079)	\$ -
<u>3% Interest Payable to State:</u>				
Assets:				
Cash and cash equivalents	\$ 615	\$ 8,085	\$ (8,700)	\$ -
Liabilities:				
Payables	\$ 615	\$ 8,085	\$ (8,700)	\$ -
<u>Totals - All Agency Funds:</u>				
Assets:				
Cash, cash equivalents, and accounts payable	\$ 32,072	\$ 1,692,949	\$ (1,710,207)	\$ 14,814
Liabilities:				
Payables	\$ 32,072	\$ 1,692,949	\$ (1,710,207)	\$ 14,814

CHOWAN COUNTY, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE - GENERAL FUND
JUNE 30, 2013

Fiscal Year	Uncollected Balance July 1, 2012	Additions	Collections and Credits	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 10,405,820	\$ 10,119,208	\$ 286,612
2011-2012	329,709	-	210,317	119,392
2010-2011	122,954	-	60,918	62,036
2009-2010	97,102	-	48,256	48,846
2008-2009	38,428	-	5,777	32,651
2007-2008	21,037	-	2,756	18,281
2006-2007	18,390	-	1,650	16,740
2005-2006	18,606	-	1,096	17,510
2004-2005	12,229	-	1,126	11,103
2003-2004	10,817	-	796	10,021
2002-2003	9,596	-	9,596	-
Total	<u>\$ 678,868</u>	<u>\$ 10,405,820</u>	<u>\$ 10,461,496</u>	623,192
Plus uncollected 2012-2013 ad valorem taxes receivable - motor vehicles				84,608
Less allowance for uncollectible ad valorem taxes receivable				<u>(320,000)</u>
Ad valorem taxes receivable - net				<u>\$ 387,800</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 10,596,571
Reconciling items:				
Interest and penalties				(123,178)
Refunds and other adjustments				(21,493)
Amounts written off per statute of limitations				<u>9,596</u>
Total collections and credits				<u>\$ 10,461,496</u>

CHOWAN COUNTY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY - COUNTY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	County-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 1,412,809,927	\$ 0.685	\$ 9,677,748	\$ 9,677,748	\$ -
Motor vehicles taxed at current year's rate	111,412,847	0.685	763,178	-	763,178
Total	<u>1,524,222,774</u>		<u>10,440,926</u>	<u>9,677,748</u>	<u>763,178</u>
Discoveries:					
Less releases and adjustments	<u>(5,124,964)</u>		<u>(35,106)</u>	<u>(14,117)</u>	<u>(20,989)</u>
Total property valuation	<u>\$ 1,519,097,810</u>				
Net Levy			10,405,820	9,663,631	742,189
Uncollected taxes at June 30, 2013			<u>(286,612)</u>	<u>(200,758)</u>	<u>(85,854)</u>
Current Year's Taxes Collected			<u>\$ 10,119,208</u>	<u>\$ 9,462,873</u>	<u>\$ 656,335</u>
Current Levy Collection Percentage			<u>97.25%</u>	<u>97.92%</u>	<u>88.43%</u>
Secondary Market Disclosures:					
Assessed valuation:					
Assessment ratio					100.00%
Real property					\$ 1,382,338,762
Personal property					111,412,847
Public service companies					<u>25,346,202</u>
Total assessed valuation					1,519,097,810
Tax rate per \$100					<u>0.685</u>
Levy (includes discoveries, releases, and abatements)					<u>\$ 10,405,820</u>
In addition to the County-wide rate, the County had the following levy on behalf of fire protection districts for the fiscal year ended June 30, 2013.					<u>\$ 484,644</u>

CHOWAN COUNTY, NORTH CAROLINA

**CHOWAN COUNTY TOURISM DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Sales and service	\$ -	\$ 3,100	\$ 3,100	\$ -
Other taxes and licenses	115,940	121,446	5,506	120,575
Restricted intergovernmental revenues	-	-	-	500
Miscellaneous revenues	2,952	3,382	430	6,573
Investment earnings	-	80	80	21
Total revenues	<u>118,892</u>	<u>128,008</u>	<u>9,116</u>	<u>127,669</u>
Expenditures:				
Economic development:				
Contracted services	6,930	6,327	603	64,047
Reimbursements	20,500	16,150	4,350	11,973
Miscellaneous expenses	<u>91,462</u>	<u>96,993</u>	<u>(5,531)</u>	<u>27,795</u>
Total expenditures	<u>118,892</u>	<u>119,470</u>	<u>(578)</u>	<u>103,815</u>
Net change in fund balance	<u>\$ -</u>	8,538	<u>\$ 8,538</u>	23,854
Fund Balance:				
Beginning of year - July 1		<u>72,851</u>		<u>48,997</u>
End of year - June 30		<u>\$ 81,389</u>		<u>\$ 72,851</u>

CHOWAN COUNTY, NORTH CAROLINA**EMERGENCY TELEPHONE SYSTEM FUND UNSPENT BALANCE****PSAP RECONCILIATION****JUNE 30, 2013**

Amounts reported on the Emergency Telephone System Fund budget to actual (Schedule D-3) are different from the PSAP Revenue-Expenditure Report because:

Ending fund balance, reported on budget to actual (Schedule D-3)	\$ 428,350
Eligible 911 expenditures reported in General Fund (interfund transfer to be recorded in subsequent year):	
Other expenditures	<u>(9,447)</u>
Ending balance, PSAP Revenue-Expenditure Report	<u>\$ 418,903</u>

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Board of Commissioners
Chowan County
Edenton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Chowan County, North Carolina, the "County" as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 14, 2013. The financial statements of the Chowan County ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chowan County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chowan County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies, 2013-001, 2013-002, and 2013-003, described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chowan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Chowan County's Responses to Findings

Chowan County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and; accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 14, 2013

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance with OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
Chowan County
Edenton, North Carolina

Report On Compliance for Each Major Federal Program

We have audited the compliance of Chowan County with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Chowan County's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chowan County's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Chowan County's compliance with those requirements and performing, such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chowan County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Chowan County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report On Internal Control Over Compliance

Management of Chowan County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Chowan County's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chowan County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 14, 2013

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance with OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
Chowan County
Edenton, North Carolina

Report On Compliance for Each Major State Program

We have audited the compliance of Chowan County with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Chowan County's major State programs for the year ended June 30, 2013. Chowan County's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chowan County's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations* as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Chowan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of Chowan County's compliance.

Opinion on Each Major State Program

In our opinion, Chowan County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2013.

Report On Internal Control Over Compliance

Management of Chowan County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Chowan County's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chowan County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on our requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 14, 2013

CHOWAN COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non Profit Organizations, section .510(a)? Yes X No

Identification of major federal programs:

Federal Program/Cluster Name	CFDA#
Medicaid Cluster	93.720, 93.775, 93.777, 93.778
Child Care Development Fund Cluster	93.575, 93.596
TANF Cluster	93.558, 93.714, 93.716
State Children's Insurance Program - N.C. Health Choice	93.767

Dollar threshold used to distinguish between Type A and Type B Programs \$499,227

Auditee qualified as low-risk auditee? Yes X No

CHOWAN COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Findings Related to the Audit of the Basic Financial Statements

2013-001

Criteria: Management should design a system of internal controls that limits the same personnel from having access to assets and having access to the general ledger.

Condition: Due to the limited number of personnel in the County's office, there are inherent limitations to segregation of duties among County personnel.

Context: While performing documentation and testing of major systems of internal controls, we noted the condition described above.

Effect: Adequate segregation of duties is not in place.

Cause: There are a limited number of personnel for certain functions.

Recommendation: Access to the books and records of the County should be separated from access to the assets of the County as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties.

Contact Person: Zee Lamb, County Manager

Management's Response: Management acknowledges the existence of the weakness, concurs with the finding.

CHOWAN COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Findings Related to the Audit of the Basic Financial Statements (continued)

2013-002

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicated that the County's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Context: The external auditor identified significant audit adjustments as defined above.

Effect: Internal financial statements, provided to management during the year, may report results that are significantly different than the audited results provided after year-end.

Cause: Insufficient monthly reconciliations and inherent limitations due to the size of finance staff.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the County's available resources.

Contact Person: Zee Lamb, County Manager

Management's Response: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

CHOWAN COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Findings Related to the Audit of the Basic Financial Statements (continued)

2013-003

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GASB) requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Effect: Errors in full accrual, full disclosure, financial reporting could occur.

Cause: Limited County resources as it relates to the preparation of full accrual, full disclosure, year-end financial statements.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the County should exercise due care in reviewing the financial statements drafted by the external auditor as the County is responsible for the accuracy of the audited financial statements.

Contact Person: Zee Lamb, County Manager

Management Response: Management in the future will exercise due care in reviewing the financial statements drafted by the external auditor, as the County is responsible for the accuracy of the audited financial statements.

3. Federal Award Findings, Responses, and Questioned Costs

None reported.

4. State Award Findings, Responses, and Questioned Costs

None reported.

CHOWAN COUNTY, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Finding: 2012-01

Status: Repeated as 2013-001

Finding: 2012-02

Status: Repeated as 2013-002

Finding: 2012-03

Status: Corrected

CHOWAN COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grantor / Pass-through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
Federal Awards:			
U.S. Department of Agriculture:			
Food and Nutrition Service			
Passed-through N.C. Department of Health & Human Services			
Division of Social Services:			
Administration			
Supplemental Nutrition Assist. Program Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 187,631	\$ -
Passed-through N.C. Department of Health & Human Services			
Division of Public Health:			
Direct Benefit Payments:			
Special Supplemental Nutrition Program for Women, Infant, & Children	10.557	336,110	-
Total U.S. Department of Agriculture		<u>523,741</u>	<u>-</u>
Administration for Children and Families:			
Passed-through the N.C. Department of Health and Human Services			
Division of Social Services:			
Foster Care and Adoption Cluster (Note 2):			
Title IV-E Foster Care - Administration	93.658	24,199	5,202
Foster Care - Direct Benefit Payments	93.658	9,168	89,010
Adoption Assistance - Direct Benefit Payments	93.659	24,883	6,567
Total Foster Care and Adoption Cluster:		<u>58,250</u>	<u>100,779</u>
<u>Temporary Assistance for Needy Families Cluster</u>			
Temporary Assistance for Needy Families (TANF) / Work First - Administration	93.558	214,175	-
TANF / Work First - Direct Benefit Payments	93.558	149,383	-
Total TANF Cluster		<u>363,558</u>	<u>-</u>
NC Child Support Enforcement Section:			
IV-D Administration / CSE Incentive Recovery	93.563	148,865	-
Low-Income Home Energy Assistance Block Grant:			
Administration	93.568	261,506	-
Crisis Intervention Program	93.568	96,160	-
Child Welfare Services - State Grants			
- Permanency Planning - Families for Kids	93.645	7,624	573
SSBG - Other Service and Training	93.667	80,119	5,520
LINKS - Administration	93.674	408	102
Family Preservation	93.556	837	-

CHOWAN COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grantor / Pass-through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
Division of Child Development:			
Subsidized Child Care (Note 2)			
Child Care Development Fund Cluster:			
Division of Social Services:			
Child Care Development Fund - Administration	93.596	80,000	-
Division of Child Development:			
Child Care and Development Block Grant	93.575	268,209	-
Child Care and Development Fund - Mandatory	93.596	117,027	-
Child Care and Development Fund - Match	93.596	33,158	-
Total Childcare Development Fund Cluster		498,394	-
TANF	93.558	150,236	-
ARRA-Emergency Contingency Fund For TANF	93.714	26	-
Foster Care Title IV-E	93.658	6,539	-
TANF - MOE		-	22,072
State Appropriations		-	304
Total Subsidized Child Care		655,195	22,376
Centers for Medicare and Medicaid Services:			
Passed-through the N.C. Department of Health and Human Services			
Division of Medical Assistance:			
Direct Benefit Payments:			
Medical Assistance Program	93.778	14,026,952	7,934,931
Division of Social Services:			
Administration:			
Medical Assistance Program	93.778	369,789	9,598
Total Medicaid Cluster:		14,396,741	7,944,529
State Children's Insurance Program - N.C. Health Choice	93.767	12,399	509
Total Centers for Medicare and Medicaid Services		14,409,140	7,945,038
Department of Homeland Security			
Passed-through the N.C. Department of Crime Control and Public Safety:			
Emergency Management	14.239	35,503	-
Total Federal Awards		<u>\$ 16,640,905</u>	<u>\$ 8,073,815</u>

CHOWAN COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grantor / Pass-through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
State Awards:			
N.C. Department of Health and Human Services:			
Division of Aging and Adult Services:			
Division of Social Services:			
State/County Special Assistance for Adults - DBP			205,624
Division of Social Services:			
Administration:			
AFDC Incentive/Program Integrity			987
Direct Benefits:			
CWS Adoption Subsidy			10,935
State Foster Home			1,546
Total Division of Social Services			219,092
N.C. Department of Environmental & Natural Resources:			
Division of Soil & Water Conservation			
Soil & Water - Agricultural Cost Share			23,801
Soil & Water Conservation-Admin			3,600
Total N.C. Department of Environmental & Natural Resources			27,401
N.C. Department of Insurance:			
SHIIP Mini Grant			4,208
N.C. Department of Public Instruction			
Public School Building Capital Fund			374,413
Total State Awards			625,114
Total Federal and State Awards		\$ 16,640,905	\$ 8,698,929

Notes to the Schedule of Expenditures of Federal and State Awards:**1. Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and State grant activity of Chowan County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the County's basic financial statements. However, due to the County's involvement in determining eligibility, they are considered federal awards to the County and are included on this schedule.

2 The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes:

Subsidized Child Care and Foster Care and Adoption