

NORTH CAROLINA'S NORTHEAST COMMISSION
(A Component Unit of the State of North Carolina)
Edenton, North Carolina

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year Ended June 30, 2013

North Carolina's Northeast Commission

(A Component Unit of the State of North Carolina)

Board Members and Administrative and Financial Staff

FY 2012 – 2013

Board Members

Roland Vaughan, Chairman
Mark Hamblin, Vice Chairman
Phil Hux, Secretary
Tracey Johnson, Treasurer
Ernest Burden
Judge J.C. Cole
Owen Etheridge
Rich Halbert
Ben Hobbs
Arthur Keeney, III
David King
Donny Lassiter
William Moore
Hood Richardson
O.S. Buck Suiter, Jr.
John Tayloe
Secretary Sharon Decker

Administrative and Financial Staff

Vann Rogerson, Chief Executive Officer
Sarah Jackson, Finance Officer

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)

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Financial Section

Independent Auditors' Report

To the Board of Directors
North Carolina's Northeast Commission
Edenton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of North Carolina's Northeast Commission, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of North Carolina's Northeast Commission as of June 30, 2013, and the respective changes in financial position 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.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the North Carolina's Northeast Commission will continue as a going concern. As discussed in Note VI to the financial statements, the Commission will be dissolved as of June 30, 2014 in accordance with the North Carolina's General Assembly Senate Bill 402. These conditions raise substantial doubt about its ability to continue as a going concern.

Management's plans regarding those matters are described in Note VI. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of North Carolina's Northeast Commission. The budgetary schedule and the accompanying schedule of State awards, as required by the North Carolina Office of State Budget and Management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedule and the accompanying schedule of State awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the budgetary schedule and the accompanying schedule of State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of North Carolina's Northeast Commission'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 North Carolina's Northeast Commission's internal control over financial reporting and compliance.

Carri Riggs & Ingram, L.L.C.

Belhaven, NC
September 27, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

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

Financial Highlights

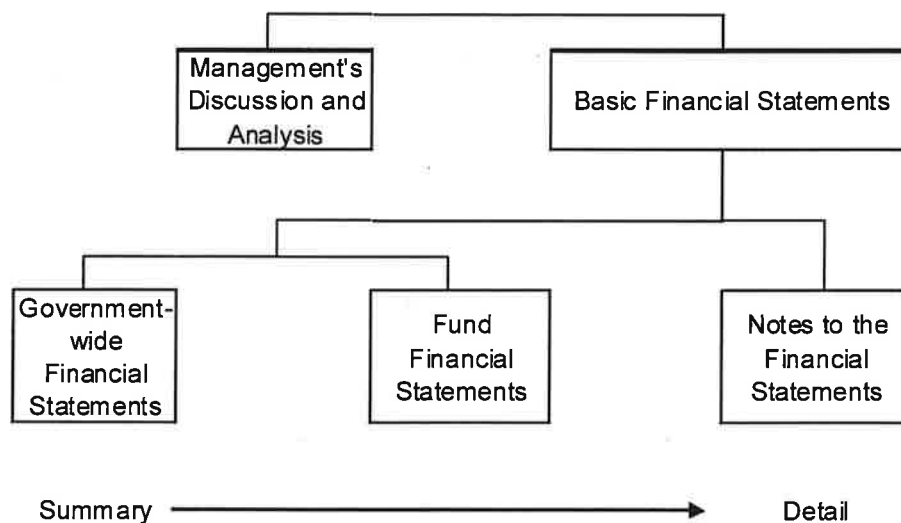
- The assets of the Commission exceeded its liabilities at the close of the fiscal year by \$1,025,011 (*net position*).
- The Commission's total net position decreased by \$40,493. This was a planned reduction in net position based on the original budget established by the Board.
- As of the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$1,040,675, with a net decrease of \$40,995 in fund balance. The entire amount is restricted for economic development.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Commission. These statements

Management's Discussion and Analysis
North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)

provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) Balance sheet, 2) Statement of Revenues, Expenditures, and Changes in Fund Balance and 3) Budgetary Comparison Statement.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

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

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

The government-wide statements are composed of a single category - governmental activities. The government-wide financial statements are the Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Commission's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for the specific activities or objectives. The Commission, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with the Commission's budget. The only fund of the Commission belongs in one category: governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Commission's activities are accounted for in a governmental fund. This fund focuses 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 short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Commission's programs. The relationship between government 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.

The Commission adopts an annual budget for its General Fund, as required by the North Carolina Department of Commerce. The budget incorporates input from the management of the Commission and decisions of the Board about which services to provide or activities to undertake and how to pay for them. It also authorizes the Commission to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Commission complied with the budget and whether or not the Commission succeeded in providing the services or performing the activities 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 approved 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.

Management's Discussion and Analysis
North Carolina's Northeast Commission
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Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 19 of this report.

Interdependence with Other Entities – The Commission depends on financial resources flowing from, or associated with, the State of North Carolina. Because of this dependency, the Commission is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws and State appropriations. It is also subject to changes in investment earnings.

Government-Wide Financial Analysis

**North Carolina's Northeast Commission's Net Position
Figure 2**

	Governmental Activities		
	2013	2012	Increase (Decrease)
Current and other assets	\$ 1,054,582	\$ 1,091,987	\$ (37,405)
Capital assets	9,021	7,277	1,744
Total assets	1,063,603	1,099,264	(35,661)
Long-term liabilities outstanding	18,514	17,582	932
Other liabilities	20,078	16,178	3,900
Total liabilities	38,592	33,760	4,832
Net position:			
Net investment in capital assets	9,021	7,277	1,744
Restricted for economic development	1,015,990	1,058,227	(42,237)
Total net position	\$ 1,025,011	\$ 1,065,504	\$ (40,493)

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Commission exceeded liabilities by \$1,025,011 as of June 30, 2013. The Commission's net position decreased by \$40,493 for the fiscal year ended June 30, 2013. One portion \$9,021 (.88%) reflects the Commission's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Commission uses these capital assets to provide services and perform activities for economic development in the region it serves; consequently, these assets are not available for future spending. The remaining balance of \$1,015,990 is restricted for economic development.

North Carolina's Northeast Commission's Changes in Net Position
Figure 3

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Special appropriations	\$ 848,986	\$ 794,807
Other	40,726	61,431
Total revenues	<u>889,712</u>	<u>856,238</u>
Expenses:		
Economic development	<u>930,205</u>	<u>903,865</u>
Total expenses	<u>930,205</u>	<u>903,865</u>
Increase (decrease) in net position	(40,493)	(47,627)
Net position, July 1	<u>1,065,504</u>	<u>1,113,131</u>
Net position, June 30	<u>\$ 1,025,011</u>	<u>\$ 1,065,504</u>

Financial Analysis of the Commission's Funds

Governmental Funds. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Commission's financing requirements.

The general fund is the only operating fund of the Commission. At the end of the current fiscal year, the Commission's fund balance restricted for economic development was \$1,040,675.

General Fund Budgetary Highlights. During the fiscal year, the Commission did not amend the budget.

Revenues were slightly below budgeted amounts because the Commission received less interest income than what was expected when the budget was originally adopted. Expenditures were held in check to comply with the Commission's budget.

Capital Asset Administration

The Commission's investment in capital assets for its governmental activities as of June 30, 2013, totals \$9,021 (net of accumulated depreciation). The assets include furniture and equipment.

North Carolina's Northeast Commission's Capital Assets
(net of depreciation)
Figure 4

	<u>2013</u>	<u>2012</u>
Furniture and equipment	<u>\$ 9,021</u>	<u>\$ 7,277</u>

Additional information on the Commission's capital assets can be found in Note II.A.4.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the economic environment that the Commission is operating in. During fiscal year ended June 30, 2013, the Commission's State appropriation from the NC Department of Commerce increased 6.82% or \$54,179. Despite the increase in funding from the State, the Board approved the use of fund balance in order to maintain its services and planned activities:

On July 26, 2013 North Carolina's General Assembly approved Senate Bill 402 repealing Articles 2 and 4 of Chapter 158 of the North Carolina General Statutes. The Commission will be dissolved as of June 30, 2014 and will transition its operations to North Carolina's Northeast Alliance, Inc., a 501(c)(6) nonprofit organization.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental activities: The State appropriation is expected to decrease dramatically in the upcoming fiscal year. Budgeted expenditures in the General Fund are also expected to decrease dramatically. A shortfall is expected and the Commission expects to use fund balance in order to maintain its services and planned activities.

Requests for Information

This report is designed to provide an overview of the Commission's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, North Carolina's Northeast Commission, 119 West Water Street, Edenton, NC 27932.

Basic Financial Statements

North Carolina's Northeast Commission
 (A Component Unit of the State of North Carolina)
Statement of Net Position
 June 30, 2013

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 138,011
Receivables	1,400
Prepaid items	915,171
Total current assets	<u>1,054,582</u>
Non-current assets:	
Capital assets:	
Furniture and equipment	268,313
Accumulated depreciation	<u>(259,292)</u>
Total capital assets	9,021
Total assets	<u>\$ 1,063,603</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 13,907
Current portion of long-term liabilities	<u>6,171</u>
Total current liabilities	20,078
Long-term liabilities:	
Due in more than one year	<u>18,514</u>
Total liabilities	<u>38,592</u>
NET ASSETS	
Net investment in capital assets	9,021
Restricted for economic development	<u>1,015,990</u>
Total net position	<u>\$ 1,025,011</u>

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

North Carolina's Northeast Commission
 (A Component Unit of the State of North Carolina)
Statement of Activities
 For the Fiscal Year Ended June 30, 2013

	<u>Governmental Activities</u>
REVENUES	
Program Revenues:	
Special appropriations	\$ 848,986
Services income	30,000
Rent income	8,400
Interest income	2,326
Total revenues	<u>889,712</u>
EXPENDITURES	
Economic development:	
Salaries and employee benefits	406,148
Office expenditures	118,481
Director expenditures	37,175
Contract expenditures	42,629
Economic development expenditures	150,422
Tourism development expenditures	20,575
General expenditures	154,775
Total expenditures	<u>930,205</u>
Change in net position	(40,493)
Net position, beginning	1,065,504
Net position, ending	<u><u>\$ 1,025,011</u></u>

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

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)

Balance Sheet
Governmental Funds
June 30, 2013

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 138,011
Receivables	1,400
Prepaid items	915,171
Total assets	<u>\$ 1,054,582</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 13,907
Total liabilities	<u>13,907</u>
Fund balances:	
Restricted for economic development	1,040,675
Total fund balances	<u>1,040,675</u>
Total liabilities and fund balances	<u>\$ 1,054,582</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balance, governmental funds	\$ 1,040,675
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	268,313
Accumulated depreciation	<u>(259,292)</u> 9,021
Other long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	<u>(24,685)</u>
Net position of governmental activities	<u>\$ 1,025,011</u>

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

North Carolina's Northeast Commission
 (A Component Unit of the State of North Carolina)
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
 For the Fiscal Year Ended June 30, 2013

	<u>General Fund</u>
REVENUES	
Special appropriations	\$ 848,986
Services income	30,000
Rent income	8,400
Interest income	2,326
Total revenues	<u>889,712</u>
EXPENDITURES	
Current:	
Economic development:	
Salaries and employee benefits	404,906
Office expenditures	118,481
Director expenditures	37,175
Contract expenditures	42,629
Economic development expenditures	150,422
Tourism development expenditures	20,575
General expenditures	151,942
Capital outlay:	4,577
Total expenditures	<u>930,707</u>
Net change in fund balance	(40,995)
Fund balances, beginning	1,081,670
Fund balances, ending	<u><u>\$ 1,040,675</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	\$ (40,995)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay expenditures which were capitalized	4,577
Depreciation expense for governmental assets	<u>(2,833)</u> 1,744
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	<u>(1,242)</u>
Total changes in net position of governmental activities	<u><u>\$ (40,493)</u></u>

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

North Carolina's Northeast Commission
 (A Component Unit of the State of North Carolina)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
 For the Fiscal Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Special appropriations	\$ 848,986	\$ 848,986	\$ 848,986	\$ -
Services income	30,000	30,000	30,000	-
Rent income	8,400	8,400	8,400	-
Interest income	2,500	2,500	2,326	(174)
Total revenues	<u>889,886</u>	<u>889,886</u>	<u>889,712</u>	<u>(174)</u>
EXPENDITURES				
Current:				
Economic development:				
Salaries and employee benefits	436,000	436,000	404,906	31,094
Office expenditures	144,000	144,000	123,058	20,942
Director expenditures	45,000	45,000	37,175	7,825
Contract expenditures	73,000	73,000	42,629	30,371
Economic development expenditures	205,000	205,000	150,422	54,578
Tourism development expenditures	35,000	35,000	20,575	14,425
General expenditures	292,000	292,000	151,942	140,058
Total expenditures	<u>1,230,000</u>	<u>1,230,000</u>	<u>930,707</u>	<u>299,293</u>
Revenue over (under) expenditures	(340,114)	(340,114)	(40,995)	299,119
Fund balance appropriated	<u>340,114</u>	<u>340,114</u>	-	<u>(340,114)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(40,995)	<u>\$ (40,995)</u>
Fund balances, beginning			1,081,670	
Fund balances, ending			<u>\$ 1,040,675</u>	

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

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

I. Summary of Significant Accounting Policies

The accounting policies of North Carolina's Northeast Commission conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The North Carolina's Northeast Commission was created by the North Carolina General Assembly under Section 158-8.2 of the North Carolina General Statutes to facilitate economic development in the counties assigned to the Commission by the Department of Commerce as authorized by law. The Commission serves the following counties: Beaufort, Bertie, Camden, Chowan, Currituck, Dare, Gates, Halifax, Hertford, Hyde, Martin, Northampton, Pasquotank, Perquimans, Tyrrell, and Washington counties.

The Commission is governed by a nineteen-member board. Six members are appointed by the Governor, six members are appointed by the General Assembly upon recommendation of the President Pro Tempore of the Senate, six members are appointed by the General Assembly upon recommendation of the Speaker of the House of Representatives, and one member shall be the Secretary of Commerce or its designee.

For financial reporting purposes in accordance with GASB guidelines, North Carolina's Northeast Commission includes all funds which are controlled by or are financially dependent upon the Commission.

The Commission's purpose is to adopt and implement an economic development program in order to develop and promote economic development in the counties served. The Commission is primarily funded by a State appropriation received each year from the Department of Commerce, based on the amount approved by the General Assembly. The Commission is located administratively in the North Carolina Department of Commerce, but exercises its statutory powers and duties independently of the North Carolina Department of Commerce. The Commission is a legally separate entity for which the State is financially accountable for. The Commission is as a component unit of the State of North Carolina.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information regarding the financial activities of the Commission. These activities generally are financed through intergovernmental revenues and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and revenues for the Commission's governmental activities. Revenues generally include the State appropriation from the North Carolina Department of Commerce, various state grants, services income received for services performed by the Commission's CEO, rent income, and interest income from investments.

Fund Financial Statements: The fund financial statements provide information about the Commission's General fund.

The Commission reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Commission. It accounts for all financial resources of the Commission. The primary revenue source is the State appropriation received from the North Carolina Department of Commerce. The primary expenditures are for economic development in the counties served by the Commission.

C. Measurement Focus and Basis of Accounting

The only fund of the Commission, the General fund, is maintained during the year using the modified accrual basis of accounting.

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, includes the State appropriation received from the North Carolina Department of Commerce and State grants. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

The Commission considers all revenues available if they are collected within ninety days after year-end. Grant revenues which are unearned at year end are recorded as unearned revenues. Under the terms of grant agreements, the Commission funds certain activities by a combination of specific cost-reimbursement grants and general revenues. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Budgetary Data

The Commission adopts an annual budget for the General Fund. All annual appropriations lapse at the fiscal year-end. The budget is prepared using the modified accrual basis of accounting. Amendments are required for any revisions that alter total expenditures. All amendments must be approved by the governing board. The budget must be adopted by July 1 of each fiscal year and must be submitted to the North Carolina Department of Commerce.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

2. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposits, and certain highly liquid investments with original maturities of one year or less.

3. Prepaid items

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. Prepaid items are expensed as the items are used.

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

4. Capital Assets

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Furniture and equipment	5 – 10

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

6. Compensated Absences

The vacation policy of the Commission provides for the accumulation of up to 240 hours of earned vacation leave with such leave being fully vested when earned. For the Commission's government-wide fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Commission's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest. Since the Commission does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

7. Net Position/Fund Balances

Net Position

Net Position in the government-wide financial statements are classified as net investment in capital assets and restricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of a single classification which discloses the constraints placed on how fund balance can be spent.

The governmental fund classifies fund balances as follows:

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

Restricted for economic development – fund balance that is restricted by revenue source for the facilitation of economic development in the counties served by the Commission.

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Commission are either insured or collateralized by using the pooling method. 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 Commission, these deposits are considered to be held by the Commission's agent in the Commission's 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 Commission or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Commission under the Pooling Method, the potential exists for under-collateralization. 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 Commission has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Commission complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the Commission's deposits had a carrying amount of \$138,011 and a bank balance of \$176,677. All of the bank balances were covered by federal depository insurance. The Commission has no formal policy regarding interest rate risk.

2.) Receivables

During the June 30, 2013 fiscal year, the Commission rented a portion of its building to the North Carolina Department of Commerce. At June 30, 2013, the Commission has an accrued receivable in the amount of \$1,400 for the unpaid rent.

3.) Prepaid Items

During the June 30, 2013 fiscal year, the Commission paid for certain expenditures in advance totaling \$915,171. \$900,000 of this amount was paid to a nonprofit for services relating to the Commission's mission including services for marketing, tourism promotion, and economic development in the region that the Commission serves. These services are to be provided in the upcoming year.

4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated				
Furniture and equipment	\$ 263,736	\$ 4,577	\$ -	\$ 268,313
Total capital assets being depreciated	263,736	4,577	-	268,313
Less accumulated depreciation for:				
Furniture and equipment	256,459	2,833	-	259,292
Total accumulated depreciation	256,459	\$ 2,833	\$ -	\$ 259,292
Total capital assets being depreciated, net	<u>\$ 7,277</u>			<u>\$ 9,021</u>

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

B. Liabilities

1. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial coverage including commercial umbrella liability insurance, business owners liability insurance, employers liability insurance, crime and dishonesty bond insurance, windstorm and hail insurance, flood insurance, directors and officers liability insurance, and workers' compensation insurance. There have been no significant reductions in insurance coverage since the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

2. Operating Lease Commitments

The Commission has operating leases for the Commission's copier, mail scale, and office space, which expire through 2017.

The minimum commitments with initial or remaining terms in excess of one year under operating leases are as follows:

2014	\$	30,227
2015		5,027
2016		4,637
2017		4,247
Total	\$	<u>44,138</u>

Amounts expended for operating lease commitments for the fiscal year ended June 30, 2013 totaled \$30,197.

3. Long-term Obligations

a. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 23,443	\$ 1,242	\$ -	\$ 24,685	\$ 6,171
Governmental activity long-term liabilities	\$ 23,443	\$ 1,242	\$ -	\$ 24,685	\$ 6,171

4. Retirement Plan

The Commission has adopted a Simplified Employee Pension – Individual Retirement Account under Internal Revenue Code section 408 (k). The North Carolina's Northeast Retirement Plan (The Plan) is a defined contribution plan and is administered by Fidelity Brokerage Services, LLC. The plan was effective July 1, 1999. All full-time employees who are at least 21 years old are eligible to participate in the plan. The Commission contributes a percentage, which is determined by the Board, of the annual compensation of each eligible employee not to exceed the limits set by the Internal Revenue Code. The authority to establish and amend plan provisions and contribution requirements is held by the Commission's Board.

At June 30, 2013, all eligible employees of the Commission were included in the plan. The Commission made all required contributions. For the year ended June 30, 2013, the pension cost to the Commission was \$44,472, with plan members contributing zero.

North Carolina's Northeast Commission
(A Component Unit of the State of North Carolina)
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

C. Fund Balance

The following schedule provides management and others with information on the portion of General fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 1,040,498
Less:	
Economic development	1,040,498
Remaining fund balance	<u>\$ -</u>

III. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Commission has received proceeds from 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 moneys to the grantor agencies. Management believes that any required refunds would be immaterial and is not aware of any required refunds as of the date of our auditors' report. No provision has been made in the accompanying financial statements for the refund of grant moneys.

IV. Subsequent Events

Management has evaluated subsequent events through September 27, 2013 the date on which the financial statements were available to be issued.

On July 26, 2013 North Carolina's General Assembly approved Senate Bill 402 repealing Articles 2 and 4 of Chapter 158 of the North Carolina General Statutes. The Commission will be dissolved as of June 30, 2014. See Note VI for further details.

V. Change in Accounting Principles/Restatement

The Commission 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 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.

VI. Going Concern

On July 26, 2013 North Carolina's General Assembly approved Senate Bill 402 repealing Articles 2 and 4 of Chapter 158 of the North Carolina General Statutes. The Commission will be dissolved as of June 30, 2014. Its assets will be liquidated and transferred to North Carolina's Northeast Alliance, Inc., a 501(c)(6) nonprofit organization. Management has evaluated the issue and has determined that it is significant and there is a possibility of the discontinuance of the Commission's operations. These conditions raise substantial doubt about the Commission's ability to continue as a going concern.

Compliance Section



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**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 Auditors' Report

To the Board of Directors
North Carolina's Northeast Commission
Edenton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities and the major fund of North Carolina's Northeast Commission, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the North Carolina's Northeast Commission's basic financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Carolina's Northeast Commission'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 the North Carolina's Northeast Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Carolina's Northeast Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted certain matters that we reported to management of North Carolina's Northeast Commission, in a separate letter dated September 27, 2013.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Belhaven, NC
September 27, 2013

North Carolina's Northeast Commission
 (A Component Unit of the State of North Carolina)
 Schedule Of State Awards
 For the Year Ended June 30, 2013

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract/ Grant #</u>	<u>Revenues</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Commerce			
Fiscal Management Division			
State appropriation	40056	\$ 848,986	\$ 930,205 *
Total State Awards		<u><u>\$ 848,986</u></u>	<u><u>\$ 930,205</u></u>

Note: The information on this schedule has been prepared on the accrual basis of accounting. Therefore, receipts are recognized when earned rather than when received, and expenditures are recognized when obligations are incurred rather than paid.

* - Programs having compliance requirements that could have a direct and material effect on the organization's financial statements.



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September 27, 2013

To the Board of Directors
North Carolina's Northeast Commission
A Component Unit of the State of North Carolina
Edenton, North Carolina

We have audited the financial statements of the governmental activities and the major fund of North Carolina's Northeast Commission for the year ended June 30, 2013. Professional Standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 13, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Carolina's Northeast Commission are described in Note 1 to the financial statements. As described in Note IV to the financial statements, the Commission changed accounting policies relating to financial statement presentation by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65 Items Previously Reported as Assets and Liabilities, in 2013. Accordingly, the effects of the accounting change are reported notes to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciable lives of capital assets is based on historic information. We evaluated the key factors and assumptions used to develop the estimate of depreciable lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. All audit adjustments were based on client provided information.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board members and management of the North Carolina's Northeast Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Belhaven, North Carolina