

AVERY COUNTY, NORTH CAROLINA

Newland, North Carolina

Financial Statements

June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

*To the Board of County Commissioners
Avery County
Newland, North Carolina*

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Avery County, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Avery County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Avery County Airport Authority. Other auditors whose reports thereon have been furnished to us audited those financial statements; and our opinion, insofar as it relates to the amounts included for Avery County Airport Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Avery County, North Carolina as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the schedules of funding progress, employer contributions and the notes to the required schedules for the Law Enforcement Officers' Special Separation Allowance are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2010 on our consideration of Avery County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Avery County, North Carolina. The combining and individual non-major

fund schedules, budgetary schedules, and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Young, Miller & Gillespie, P.A.
October 8, 2010*

Management's Discussion and Analysis

As management of Avery County, we offer readers of Avery County's financial statements this narrative overview and analysis of the financial activities of Avery County for the fiscal year ended June 30, 2010. We encourage readers to read 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 Avery County exceeded its liabilities at the close of the fiscal year by \$32,901,129.*
- *The government's total net assets increased by \$2,722,536 primarily due to increased net assets in the General Fund.*
- *As of the close of the current fiscal year, Avery County's governmental funds reported combined ending fund balances of \$28,789,583 an increase of \$4,282,877 in comparison with the prior year. Approximately 81.0 percent of this total amount, or \$23,318,724, is available for spending at the government's discretion.*
- *At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,939,111, or 20 percent of total general fund expenditures and transfers to other funds for the fiscal year.*
- *Avery County's total debt increased by \$3,897,539 during the current fiscal year primarily due to procurement of a loan for the Banner Elk School project.*

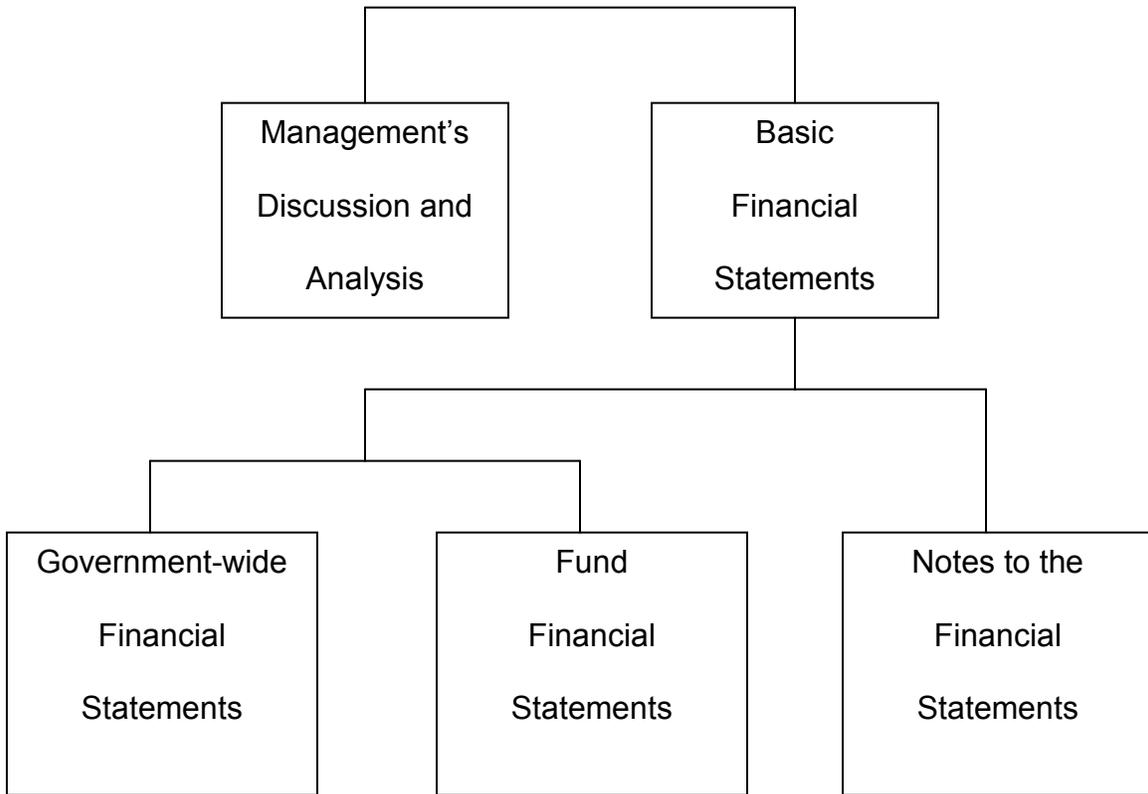
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Avery County's basic financial statements. The 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 (see 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 Avery County.

Management's Discussion and Analysis

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 County's financial status.

The next statements (Exhibits 3 through 6) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the fiduciary fund statements.

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

Management's Discussion and Analysis

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County'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 County's financial status as a whole.

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

The government-wide statements are divided into two categories: 1) governmental activities; 2) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Avery County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Avery County are 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. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can be readily 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. This method also has 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 government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.*

Management's Discussion and Analysis

Avery 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 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.

Fiduciary Funds – *Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Avery County has three fiduciary funds, of which all are 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. The notes to the financial statements begin on page 22 of this report.*

Other Information – *In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Avery County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 43 of this report.*

Management's Discussion and Analysis

Government-Wide Financial Analysis

Avery County's Net Assets

Figure 2

	<i>Governmental Activities</i>		
	<i>2010</i>	<i>2009</i>	<i>Difference</i>
<i>Current and other assets</i>	\$ 31,715,205	\$ 26,281,584	\$ 5,433,621
<i>Capital assets</i>	14,439,203	12,169,721	2,269,482
<i>Total assets</i>	\$ 46,154,408	\$ 38,451,305	\$ 7,703,103
 <i>Long-term liabilities outstanding</i>	 \$ 9,392,893	 \$ 7,196,604	 \$ 2,196,289
<i>Other liabilities</i>	3,860,386	1,076,108	2,784,278
<i>Total liabilities</i>	13,253,279	8,272,712	4,980,567
 <i>Net assets:</i>			
<i>Invested in capital assets, net of related debt</i>	9,439,203	12,151,455	(2,712,252)
<i>Restricted</i>	17,879	23,435	(5,556)
<i>Unrestricted</i>	23,444,047	18,003,703	5,440,344
<i>Total net assets</i>	\$ 32,901,129	\$ 30,178,593	\$ 2,722,536

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Avery County exceeded liabilities by \$32,901,129 as of June 30, 2010. The County's net assets increased by \$2,722,536 for the fiscal year ended June 30, 2010. One of the larger portions of net assets reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Avery County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Avery County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of Avery County's net assets (< 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$23,444,047 is unrestricted.

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

- *Continued diligence in the collection of property taxes by maintaining a collection percentage of 95.57%, higher than the statewide average for counties of comparable size of 94.94%.*
- *Increased ad valorem tax revenues due to economic growth*
- *Controlled expenditures*

Management's Discussion and Analysis

Avery County's Changes in Net Assets

Figure 3

		<i>Governmental Activities</i>	
		<u>2010</u>	<u>2009</u>
<i>Revenues:</i>			
<i>Program revenues:</i>			
<i>Charges for services</i>	\$	1,374,601	\$ 1,238,131
<i>Operating grants and contributions</i>		2,738,306	2,559,021
<i>Capital grants and contributions</i>		120,025	446,617
<i>General revenues:</i>			
<i>Property taxes</i>		16,640,642	15,930,178
<i>Other taxes</i>		4,612,637	5,688,510
<i>Investment earnings</i>		74,980	378,348
<i>Other</i>		79,258	48,463
<i>Total revenues</i>		<u>25,640,449</u>	<u>26,289,268</u>
 <i>Expenses:</i>			
<i>General government</i>		2,911,534	2,862,198
<i>Public safety</i>		7,200,861	6,853,281
<i>Transportation</i>		692,198	676,909
<i>Environmental protection</i>		1,836,264	1,861,559
<i>Economic and physical development</i>		323,924	273,366
<i>Human services</i>		4,064,754	4,358,496
<i>Cultural and recreation</i>		548,148	697,138
<i>Education</i>		4,820,020	4,788,723
<i>Interest on long-term debt</i>		520,210	234,023
<i>Total expenses</i>		<u>22,917,913</u>	<u>22,605,693</u>
<i>Increase in net assets</i>		2,722,536	3,683,575
<i>Net assets, beginning</i>		30,178,593	26,495,018
<i>Net assets, ending</i>	\$	<u>32,901,129</u>	\$ <u>30,178,593</u>

Management's Discussion and Analysis

Financial Analysis of the County's Funds

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

Governmental Activities. Governmental activities increased the County's net assets by \$2,722,536.

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

The general fund is the chief operating fund of Avery County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,939,111 while total general fund balance reached \$8,370,455. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total General Fund expenditures and transfers to other funds, while total fund balance represents 33.9 percent of that same amount.

At June 30, 2010, the governmental funds of Avery County reported a combined fund balance of \$28,789,583, a 17.5 percent increase over last year. The primary reason for this increase is increased tax revenues and controlled spending.

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

Total amendments to the General Fund increased the original budget by \$634,799. The majority of these amendments were due to federal and State pass through grants awarded to the County.

Capital Asset and Debt Administration

Capital assets. Avery County's capital assets for its governmental activities as of June 30, 2010, totals \$14,439,203 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Management's Discussion and Analysis

Major capital asset transactions during the year include:

- Construction in progress for Landfill site
- Construction in progress on County jail
- Construction in progress on the Banner Elk School Project

Avery County's Capital Assets (net of depreciation)

Figure 4

	<i>Governmental Activities</i>		<i>Governmental Activities</i>		<i>Difference</i>
	<u>2010</u>		<u>2009</u>		
<i>Land</i>	\$ 3,576,351	\$	2,822,876	\$	753,475
<i>Construction in progress</i>	2,311,373		458,385		1,852,988
<i>Buildings</i>	6,550,231		6,801,315		(251,084)
<i>Improvements other than buildings</i>	537,388		553,385		(15,997)
<i>Machinery and equipment</i>	882,288		1,064,710		(182,422)
<i>Vehicles and motorized equipment</i>	581,572		469,050		112,522
<i>Total</i>	<u>\$ 14,439,203</u>	<u>\$</u>	<u>12,169,721</u>	<u>\$</u>	<u>2,269,482</u>

Additional information on the County's capital assets can be found in note 3A pages 32 through 33 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2010, Avery County had total debt outstanding of \$11,188,281. Of this, \$10,469,671 is debt secured by deeds of trust, \$95,210 is a pension obligation, \$360,342 is accrued vacation liability, and \$263,058 is for other post employment health benefits offered to employees.

Additional information regarding Avery County's long-term debt can be found in note 2 beginning on page 38.

Management's Discussion and Analysis

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: *Total budgeted revenues are projected to increase only \$552,937 or 2.4 percent from the 2009-10 budgeted revenues. The increase is attributed to expected increases in intergovernmental revenues and property taxes offset by decreases in sales taxes, real estate transfer taxes and investment earnings.*

Budgeted General Fund expenditures are expected to increase \$951,457 or 4.2 percent from the 2009-10 budget. The increase is primarily due to increases in public safety, transportation and education.

Requests for Information

This report is designed to provide an overview of the County'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 Director of Finance, Avery County, P.O. Box 640, Newland, NC 28657.

Avery County, North Carolina
Statement of Net Assets
June 30, 2010

	Primary Government	Component Unit
	Governmental	Avery County
	Activities	Airport
ASSETS		
Cash and cash equivalents	\$ 28,714,140	\$ 170,787
Receivables (net)	1,605,520	54
Due from other governments	1,341,400	-
Prepaid items	54,145	-
Capital assets:		
Land, improvements, and construction in progress	5,887,724	12,710
Other capital assets, net of depreciation	8,551,479	1,589,819
Total capital assets	<u>14,439,203</u>	<u>1,602,529</u>
Total assets	<u>46,154,408</u>	<u>1,773,370</u>
LIABILITIES		
Accounts payable and accrued expenses	1,510,083	34,702
Accrued interest payable	554,916	-
Long-term liabilities:		
Due within one year	1,795,387	-
Due in more than one year	9,392,893	-
Total liabilities	<u>13,253,279</u>	<u>34,702</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,439,203	1,602,530
Restricted for:		
Register of Deeds	17,879	-
Unrestricted (deficit)	23,444,047	136,138
Total net assets	<u>\$ 32,901,129</u>	<u>\$ 1,738,668</u>

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

**Avery County, North Carolina
Statement of Activities
For the Year Ended June 30, 2010**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					Component Unit
	Program Revenues	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
Primary government:						
Governmental Activities:						
General government	\$ 2,911,534	\$ 213,763	\$ 30,514	\$ -	\$ (2,667,257)	
Public safety	7,200,861	819,026	125,555	-	(6,256,280)	
Transportation	692,198	24,374	304,314	79,525	(283,985)	
Environmental protection	1,836,264	217,605	20,374	-	(1,598,285)	
Economic and physical development	323,924	49,294	-	-	(274,630)	
Human services	4,064,754	-	2,248,935	40,500	(1,775,319)	
Cultural and recreation	548,148	50,539	8,614	-	(488,995)	
Education	4,820,020	-	-	-	(4,820,020)	
Interest on long-term debt	520,210	-	-	-	(520,210)	
Total governmental activities	\$ 22,917,913	\$ 1,374,601	\$ 2,738,306	\$ 120,025	\$ (18,684,981)	
Component units:						
Airport	199,956	9,122	89,192	221,443		119,801
	\$ 199,956	\$ 9,122	\$ 89,192	\$ 221,443		
General revenues:						
Taxes:						
Property taxes, levied for general purpose					16,640,642	-
Local option sales tax					3,875,448	-
Other taxes and licenses					737,189	-
Investment earnings, unrestricted					74,980	177
Miscellaneous, unrestricted					79,258	10
Total general revenues, special items, and transfers					21,407,517	187
Change in net assets					2,722,536	119,988
Net assets-beginning					30,178,593	1,618,680
Net assets-ending					\$ 32,901,129	\$ 1,738,668

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

Avery County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2010

	General	Jail Addition Capital Project Fund	Banner Elk School Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 7,856,503	\$ 8,820,155	\$ 7,581,550	\$ 4,455,932	\$ 28,714,140
Receivables, net	1,323,228	-	-	128,844	1,452,072
Due from other governments	1,314,762	-	-	26,638	1,341,400
Prepaid assets	54,145	-	-	-	54,145
Total assets	\$ 10,548,638	\$ 8,820,155	\$ 7,581,550	\$ 4,611,414	\$ 31,561,757

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 1,044,936	\$ 21,875	\$ 263,999	\$ 179,273	\$ 1,510,083
Deferred revenue	1,133,247	-	-	128,844	1,262,091
Total liabilities	2,178,183	21,875	263,999	308,117	2,772,174

Fund balances:

Reserved for:

Subsequent years' expenditures	-	-	-	-	-
State statute	1,504,744	-	-	26,638	1,531,382
Register of Deeds	17,879	-	-	-	17,879
Capital reserve funds	1,908,721	-	-	-	1,908,721
Unreserved	4,939,111	-	-	-	4,939,111

Unreserved, reported in nonmajor:

Special revenue funds	-	-	-	3,921,598	3,921,598
Capital projects funds	-	8,798,280	7,317,551	355,061	16,470,892
Total fund balances	8,370,455	8,798,280	7,317,551	4,303,297	28,789,583

Total liabilities and fund balances \$ 10,548,638 \$ 8,820,155 \$ 7,581,550 \$ 4,611,414

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Deferred revenue not available for current operations 1,262,091

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 14,439,203

Interest receivable is not available to pay for current period expenditures and therefore not reported in the funds 153,448

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 4). (11,743,196)

Net assets of governmental activities \$ 32,901,129

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

Avery County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	Jail Renovation Capital Project Fund	Banner Elk School Capital Project Fund	Other Non- major Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 14,648,405	\$ -	\$ -	\$ 1,561,771	\$ 16,210,176
Local option sales taxes	3,875,448	-	-	-	3,875,448
Other taxes and licenses	294,770	-	-	-	294,770
Unrestricted intergovernmental	176,890	-	-	-	176,890
Restricted intergovernmental	2,517,283	-	-	341,122	2,858,405
Permits and fees	280,053	-	-	-	280,053
Sales and services	1,359,862	-	-	-	1,359,862
Investment earnings	48,230	-	1,315	7,465	57,010
Miscellaneous	79,510	-	-	-	79,510
Total revenues	23,280,451	-	1,315	1,910,358	25,192,124
EXPENDITURES					
Current:					
General government	2,566,015	-	-	82,543	2,648,558
Public safety	5,024,264	-	-	1,767,196	6,791,460
Transportation	631,160	-	-	-	631,160
Environmental protection	1,730,490	-	-	-	1,730,490
Economic and physical development	283,028	-	-	40,500	323,528
Human services	3,986,008	-	-	-	3,986,008
Cultural and recreational	509,454	-	-	-	509,454
Intergovernmental:					
Education	4,820,020	-	-	-	4,820,020
Capital outlay	584,964	367,395	1,416,234	763,780	3,132,373
Debt service:					
Principal	1,102,461	-	-	-	1,102,461
Interest	233,735	-	-	-	233,735
Total expenditures	21,471,599	367,395	1,416,234	2,654,019	25,909,247
Excess (deficiency) of revenues over expenditures	1,808,852	(367,395)	(1,414,919)	(743,661)	(717,123)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	(3,223,957)	2,591,542	3,102,000	1,305,438	3,775,023
Transfers to other funds	-	-	-	(3,775,023)	(3,775,023)
Proceeds from long term financing	-	-	5,000,000	-	5,000,000
Total other financing sources and uses	(3,223,957)	2,591,542	8,102,000	(2,469,585)	5,000,000
Net change in fund balance	(1,415,105)	2,224,147	6,687,081	(3,213,246)	4,282,877
Fund balances-beginning	9,785,560	6,574,133	630,470	7,516,543	24,506,706
Fund balances-ending	\$ 8,370,455	\$ 8,798,280	\$ 7,317,551	\$ 4,303,297	\$ 28,789,583

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

Avery County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

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

Net changes in fund balances - total governmental funds \$ 4,282,877

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,269,481

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 448,326

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (4,184,014)

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. (94,134)

Total changes in net assets of governmental activities \$ 2,722,536

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

Avery County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<i>Revenues:</i>				
<i>Ad valorem taxes</i>	\$ 14,297,500	\$ 14,297,500	\$ 14,648,405	\$ 350,905
<i>Local option sales tax</i>	4,500,000	4,500,000	3,875,448	(624,552)
<i>Other taxes and licenses</i>	389,000	389,000	294,770	(94,230)
<i>Unrestricted intergovernmental</i>	131,500	133,500	176,890	43,390
<i>Restricted intergovernmental</i>	2,112,176	2,324,664	2,517,283	192,619
<i>Permits and fees</i>	298,000	307,000	280,053	(26,947)
<i>Sales and services</i>	1,216,127	1,470,767	1,359,862	(110,905)
<i>Investment earnings</i>	153,500	153,500	48,230	(105,270)
<i>Miscellaneous</i>	38,000	58,500	79,510	21,010
<i>Total revenues</i>	<u>23,135,803</u>	<u>23,634,431</u>	<u>23,280,451</u>	<u>(353,980)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
<i>General government</i>	2,999,118	3,001,931	2,707,957	293,974
<i>Public safety</i>	5,533,610	5,656,104	5,230,852	425,252
<i>Transportation</i>	742,615	985,255	607,396	377,859
<i>Environmental protection</i>	1,972,410	2,080,624	1,851,822	228,802
<i>Economic and physical development</i>	324,954	329,234	283,028	46,206
<i>Human services</i>	4,338,010	4,468,596	4,001,971	466,625
<i>Cultural and recreational</i>	527,166	550,891	543,170	7,721
<i>Intergovernmental:</i>				
<i>Education</i>	4,820,020	4,820,067	4,820,020	47
<i>Debt service:</i>				
<i>Principal retirement</i>	1,404,798	1,404,978	1,102,461	302,517
<i>Interest and other charges</i>	233,915	233,735	233,735	-
<i>Total expenditures</i>	<u>22,896,616</u>	<u>23,531,415</u>	<u>21,382,412</u>	<u>2,149,003</u>
<i>Revenues over (under) expenditures</i>	<u>239,187</u>	<u>103,016</u>	<u>1,898,039</u>	<u>(1,795,023)</u>
<i>Other financing sources (uses):</i>				
<i>Transfers (to) from other funds</i>	(150,000)	(3,223,957)	(3,223,957)	-
<i>Transfers to component unit</i>	(89,187)	(89,187)	(89,187)	-
<i>Fund balance appropriated</i>	-	3,210,128	-	3,210,128
<i>Total other financing sources (uses)</i>	<u>(239,187)</u>	<u>(103,016)</u>	<u>(3,313,144)</u>	<u>3,210,128</u>
<i>Revenues and other financing sources over expenditures and other financing uses</i>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,415,105)</u>	<u>\$ 1,415,105</u>
<i>Fund balances:</i>				
<i>Beginning of year, July 1</i>			<u>9,785,560</u>	
<i>End of year, June 30</i>			<u>\$ 8,370,455</u>	

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

Avery County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(With Comparative Totals for June 30, 2009)

	<i>Agency Funds</i>	
	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets		
<i>Current assets:</i>		
<i>Cash and cash equivalents</i>	\$ 1,025	\$ 7,650
<i>Total assets</i>	<u>\$ 1,025</u>	<u>\$ 7,650</u>
Liabilities and Net Assets		
<i>Liabilities:</i>		
<i>Miscellaneous liabilities</i>	\$ <u>1,025</u>	\$ <u>7,650</u>
<i>Total liabilities</i>	<u>1,025</u>	<u>7,650</u>
<i>Net assets</i>	<u>-</u>	<u>-</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,025</u>	<u>\$ 7,650</u>

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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Avery County 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 County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally separate entities for which the County is financially accountable. The discretely presented component unit presented below is reported in a separate column in the County's financial statements in order to emphasize that it is a legally separate entity from the County.

Avery County Airport Authority – *The North Carolina General Legislature enacted a law, which authorized the County of Avery to establish an airport authority for the maintenance of airport facilities within the County. On December 1, 1994, the Avery County Board of Commissioners adopted a resolution to establish the Avery County Airport Authority as a public authority under the Local Government Budget and Fiscal Control Act. The Authority is composed of five voting members, appointed by the Avery County Board of Commissioners and serving without compensation. Periodic reports are to be made to the Avery County Board of Commissioners. The Authority may employ any agent, engineers or attorneys, or other persons whose services may be deemed by the Airport Authority to be necessary and useful in carrying out the provisions of House Bill 1878.*

Complete financial statements for this component unit may be obtained at the administrative offices of the entity:

*Avery County Airport Authority
P.O. Box 927
Newland, North Carolina 28657*

Avery County Fire Commission – *The North Carolina General Legislature enacted a law, which authorized the County of Avery to establish a Fire Commission for the administration of various fire departments within the County. In 2003, the Avery County Board of Commissioners adopted a resolution to establish the Avery County Fire Commission as a public authority under the Local Government Budget and Fiscal Control Act. The Commission is composed of five voting members, two of which are appointed by the Avery County Board of Commissioners, two of which are appointed by the Fire Association representing the various fire departments and one of which is chosen from the four existing board members. All members are serving without compensation. Periodic reports are to be made to the Avery County Board of Commissioners*

The blended presentation method for the Fire Commission presents this component unit as a part of the special revenue fund types of the County, and offers no separate presentation.

(B) Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: *The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.*

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds and component units. Separate statements for each fund category – governmental, business-type and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The County reports the following major governmental fund:

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 County reports the following fund types:

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for monies deposited with the Department of Social Services for the benefit of certain individuals; the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the County is required to remit to Avery County Board of Education and the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles; and the Motor Vehicle Tax Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities and special districts within the County. and the Deed of Trust Fee Fund, which accounts for the five dollars of each fee collected by the register of deeds for registering or filing a deed of trust or mortgage and remitted to the State Treasurer on a monthly basis.

(C) Measurement Focus, Basis of Accounting

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

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds, which have no measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

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

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Avery 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 those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

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 assets 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.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The County has implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and related standards. These new standards provide for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

(D) Budgetary Data

The County's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the general and special revenue (excluding the capital reserve fund) funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the capital projects fund and the capital reserve fund, which is a special revenue fund type. All budgets are prepared using the modified accrual basis of accounting.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Expenditures may not legally exceed appropriations at the functional level for the general fund, at the departmental level for the special revenue funds, and at the object level for the capital projects funds. The County Manager is authorized to transfer any non-salary related appropriations within a fund. During the year, several amendments to the original budget were necessary, the effects of which were not material.

A budget calendar is included in the North Carolina General Statutes, which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 – Each department head will transmit to the budget officer the budget requests and revenue estimates for the budget year.

June 1 – The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.

July 1 – the governing board shall adopt the budget ordinance.

(E) Assets, Liabilities and Fund Equity

Deposits and Investments

All deposits of the County, the Avery County Airport Authority, and the Avery County Fire Commission are made in board-designated official depositories and are secured as required by G.S. 159-31. The County and its two component units may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

The County, the Airport Authority, and the Fire Commission's investments with maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investments contracts are reported at cost.

Cash and Cash Equivalents

The County pools money 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.

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 July 1, the beginning of the fiscal year. The taxes are due on September 1; however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Allowance 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.

Fixed Assets

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. Minimum capitalization costs are as follows: land, buildings, improvements, substations, lines, and other plant and distribution system, infrastructure, furniture and equipment, and vehicles, \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The County holds title to certain Avery County Board of Education properties that have not been included in capital assets. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board of Education give the Board of Education full use of the facilities, full responsibility for maintenance of the facilities, and provide that the County will convey title to the property back to the Board of Education, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met. The properties are reflected as capital assets in the financial statements of the Avery County Board of Education.

Capital assets of the County are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Improvements	10-30
Furniture and equipment	5-10
Vehicles	3
Computer equipment	3

Capital assets of the Avery County Airport Authority are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Facility upgrades	10
Improvements	12
Additions	20

The Avery County Fire Commission holds title to no capital assets.

Long-Term Debt

In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Net Assets/Fund Balances

Net Assets

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

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

Reserved for register of deeds – portion of fund balance constituting the Automation Enhancement and Preservation Fund, funded by 10% of the fees collected and maintained by the register of deeds' office. The funds are available for appropriation but are legally restricted for computer and imaging technology in the register of deeds' office.

Unreserved

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

(F) Revenues, Expenditures and Expenses

Other Resources

The General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as "Operating transfers-out" in the General Fund and "Operating transfers-in" in the receiving fund. The County's General Fund also transfers funds to Avery County Airport Authority to be used for the maintenance of airport facilities in the County.

Compensated Absences

Under the vacation policy of the County, vacation leave will be paid to any employee who resigns or retires from the County in good standing. This vacation pay is not to exceed a maximum of thirty (30) days or 240

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

hours. The County is not obligated to pay any employee for accrued vacation if the employee is terminated from employment for just cause.

The County's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the County has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the County's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the County's financial position and operations or would cause the statements to be unduly complex or difficult to understand.

(G) Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$4,111,546 consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 22,491,886
Less Accumulated Depreciation	<u>(8,052,683)</u>
Net capital assets	14,439,203
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	153,448
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	1,262,091
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Pension benefit obligation	(95,210)
Compensated absences payable	(360,342)
Bonds, leases, and installment financing	(10,469,670)
Other post-employment health benefits	(263,058)
Accrued interest payable	<u>(554,916)</u>
Total adjustment	<u>\$ 4,111,546</u>

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$1,560,341) as follows:

<i>Description</i>	<i>Amount</i>
<i>Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities</i>	<i>\$3,132,373</i>
<i>Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements</i>	<i>(862,892)</i>
<i>Issuance of new debt recorded as source of funds on fund statements</i>	<i>(5,000,000)</i>
<i>Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements</i>	<i>1,102,461</i>
<i>Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements</i>	<i>(94,134)</i>
<i>Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)</i>	<i>(286,475)</i>
<i>Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements</i>	
<i>Reversal of deferred tax revenue recorded at 7/1/09</i>	<i>(833,047)</i>
<i>Recording of tax receipts deferred in the fund statements as of 6/30/10</i>	<i>1,262,091</i>
<i>Increase in accrued interest on taxes receivable for year ended 6/30/10</i>	<i>19,282</i>
<i>Total adjustment</i>	<u><u><i>\$ 1,560,341</i></u></u>

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

(2) DETAIL NOTES ON ALL FUNDS

(A) Assets

Deposits

All of the County's, the Airport Authority's, and the Fire Commission's 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 securities held by the County's, the Airport Authority's and the Fire Commission's agents in these units' name. Under the Pooling Method, which is a

collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, the Airport Authority, and the Fire Commission, these deposits are considered to be held by their agents in the entities' name. The amount of 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, the Airport Authority, and the Fire Commission or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County, the Airport Authority and the Fire Commission under the Pooling Method, the potential exists for undercollateralization, 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 County and its two component units have no formal policy regarding custodial credit risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The County analyzes the financial soundness of any other financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2010, the County's deposits had a carrying value of \$6,503,963 and a bank balance of \$6,546,689. Of the bank balance, \$750,000 was covered by federal depository insurance and \$5,796,689 was covered by collateral held under the Pooling Method. The County maintains a petty cash fund of \$500.

At June 30, 2010, the carrying amount of deposits for the Avery County Airport Authority was \$170,787 and the bank balance was \$171,468. All of the bank balance was covered by federal depository insurance.

At June 30, 2010, the carrying amount of deposits for the Avery County Fire Commission was \$279,666 and the bank balance was \$318,436. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method.

Investments

At June 30, 2010, the County's investments consisted of \$21,931,036 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The County has no policy on credit risk.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Receivable – Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2010 were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
<i>Governmental Activities:</i>				
General	\$ 189,981	\$ 1,502,414	\$ 1,314,762	\$ 3,007,157
Other Governmental	-	160,174	26,638	186,812
Total receivables	189,981	1,662,588	1,341,400	3,193,969
<i>Allowance for doubtful accounts</i>	-	(247,049)	-	(247,049)
Total-governmental activities	\$ 189,981	\$ 1,415,539	\$ 1,341,400	\$ 2,946,920

For the County, the amounts presented in Exhibit 1, the Statement of Net Assets, are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>June 30, 2010</u>
<i>General Fund:</i>	
Property taxes	\$ 228,845
<i>Special Revenue Fund:</i>	18,204
Total	\$ <u>247,049</u>

The due from other governments that is owed to the County consisted of the following:

Local option sales tax	\$ 914,917
NC DHHS operating funds	101,384
NC DOT operating and capital funds	163,004
High Country COG senior services	18,604
NC Governors Crime Commission	21,690
NC E-911 fees	25,052
NC DOC CJPP funds	8,318
Video programming tax	16,470
Sales tax refunds	<u>71,961</u>
Total	<u>\$ 1,341,400</u>

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Transfers/ (Decreases)	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,822,876	\$ 8,725	\$ -	\$ 2,831,601
Construction in progress	458,385	2,597,738	-	3,056,123
Total capital assets not being depreciated	<u>3,281,261</u>	<u>2,606,463</u>	<u>-</u>	<u>5,887,724</u>
<i>Capital assets being depreciated:</i>				
Buildings	9,506,631	6,150	-	9,512,781
Other improvements	1,647,815	17,150	-	1,664,965
Equipment	2,766,256	86,009	(5,068)	2,847,197
Vehicles and motor equipment	2,317,109	416,601	(154,522)	2,579,188
Total capital assets being depreciated	<u>16,237,811</u>	<u>525,910</u>	<u>(159,590)</u>	<u>16,604,131</u>
<i>Less accumulated depreciation for:</i>				
Buildings	2,705,316	257,233	-	2,962,549
Other improvements	1,094,430	55,640	-	1,150,070
Equipment	1,701,546	245,948	-	1,947,494
Vehicles and motor equipment	1,848,059	304,070	159,590	1,992,539
Total accumulated depreciation	<u>7,349,351</u>	<u>862,891</u>	<u>159,590</u>	<u>8,052,652</u>
Total capital assets being depreciated, net	<u>8,888,460</u>			<u>8,551,479</u>
Governmental activity capital assets, net	<u>\$ 12,169,721</u>			<u>\$ 14,439,203</u>
General government	\$ 244,367			
Public safety	335,590			
Environmental Protection	108,358			
Human services	79,528			
Transportation	54,221			
Cultural and recreational	40,827			
Total depreciation expense	<u>\$ 862,891</u>			

Construction commitments

The government has two active construction projects as of June 30, 2010. The projects are listed below. At June 30, 2010, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent To Date</u>	<u>Remaining Commitment</u>
Banner Elk School Project	\$ 1,751,494	\$ 6,206,973
Jail Project	21,875	5,240,625

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Discretely presented component units

Activity for the Avery County Airport for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$104,836	292,225	384,352	\$12,709
Total capital assets not being depreciated	<u>104,836</u>	<u>292,225</u>	<u>384,352</u>	<u>12,709</u>
<i>Capital assets being depreciated:</i>				
Equipment	11,978	-	-	11,978
Building improvements	5,310	-	-	5,310
Leasehold improvements	1,638,429	384,352	-	2,022,781
Fuel storage facility	66,604	-	-	66,604
Total capital assets being depreciated	<u>1,722,321</u>	<u>384,352</u>	<u>-</u>	<u>2,106,673</u>
<i>Less accumulated depreciation for:</i>				
Equipment	11,978	-	-	11,978
Building improvements	2,102	221	-	2,323
Leasehold improvements	284,164	154,845	-	439,009
Fuel storage facility	61,208	2,335	-	63,543
Total accumulated depreciation	<u>359,452</u>	<u>157,401</u>	<u>-</u>	<u>516,853</u>
Total capital assets being depreciated, net	<u>1,362,869</u>			<u>1,589,820</u>
Avery County Airport capital assets, net	<u>\$1,467,705</u>			<u>\$1,602,529</u>

Payables

Payables at the government-wide level at June 30, 2010, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
<i>Governmental Activities:</i>				
General	\$ 1,116,660	\$ 393,423	\$ 554,916	\$ 2,064,999
Other Governmental	-	-	-	-
Total-governmental activities	<u>\$ 1,116,660</u>	<u>\$ 393,423</u>	<u>\$ 554,916</u>	<u>\$ 2,064,999</u>

(B) Liabilities

(1) Pension Plan Obligations

(a) Local Governmental Employees' Retirement System

Plan Description. Avery County contributes to the statewide Local Governmental Employee's 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 Local Governmental Employee's Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27609-1410, or calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent 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 4.97% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of Avery County are established and may be amended by the North Carolina General Assembly. The County's contribution to LGERS for the years ended June 30, 2010, 2009, and 2008 was \$269,269, \$268,576, and \$243,063, respectively. The contributions made by the County equaled the required contributions for each year.

(b) Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

Avery 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 .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Separation Allowance covers all full-time County law enforcement officers. At December 31, 2009 the Separation Allowance membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not Yet receiving benefits	0
Active plan members	25
	25
Total	25

2. Summary of Significant Accounting Policies:

Basis of Accounting. 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.

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

3. Contributions

The County is required by Article 12D 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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases.

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 23,720
Annual pension cost	24,393
Contributions made	(-0-)
Increase (decrease) in net pension obligation	<u>24,393</u>
Net pension obligation beginning of year	70,817
Net pension obligation end of year	<u>\$ 95,210</u>

c. 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.

Funding Policy. Article 12E of G.S. Chapter 143 requires the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are immediately vested. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2010 were \$44,749 all of which was contributed by the County.

d. Deferred Compensation Plan

The County offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401K. The plans, which are available to all County employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The 401K plan offers an employer match dollar for dollar up to three percent of compensation for eligible employees.

e. Register of Deeds' Supplemental Pension Fund

Plan Description. Avery County also contributes to the Register of Deeds' Supplemental Pension Fund (Fund), a noncontributory, 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.

Funding Policies. On a monthly basis, the County remits to Department of State Treasurer an amount equal to one and one-half percent (1.5%) of the monthly receipts collected pursuant to Article 1 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. For the fiscal year ended June 30, 2010 the County contributed \$2,267 to the fund, representing 100% of its required contribution.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

(2) Other Post Employment Benefits

HEALTHCARE BENEFITS

Plan Description. Employees retiring with at least twenty (20) years of service with Avery County, inclusive of any accumulated sick leave, and are fifty five (55) years of age or older, will be afforded full, continued

medical benefits for that individual only until they are eligible to receive Medicare. Upon becoming eligible for Medicare, Avery County will provide an amount of money up to but not to exceed \$2,000 per fiscal year toward the purchase of an individual supplemental health insurance policy. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the Employee Welfare Benefit Plan of the County of Avery consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

General Employees:	157
Law Enforcement Officers:	24
Retirees and dependents receiving benefits:	<u>5</u>
Total:	186

Funding Policy. The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a resolution that can be amended by Board of Commissioners. The County has chosen to fund the healthcare benefits on a “pay as you go” basis. The current ARC rate is 3.32% of annual covered payroll. For the current year, the County contributed \$21,560. The County’s obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB 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. 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	\$ 184,255
Interest on net OPEB obligation: 4% per annum compounded annually	
Contributions made:	\$21,560
Net OPEB obligation, end of year	\$ 263,058

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

<u>For the Year</u> <u>Ended June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2010	\$ 163,265	13.2%	\$ 263,058

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

Funded Status and Funding Progress. As of December 31, 2009, 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 \$1,702,012. The covered payroll (annual payroll of active employees covered by the plan) was \$5,564,426, and the ratio of the UAAL to the covered payroll was 30.6 percent. 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent 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 percent annually. Both rates included a 3.75 percent 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, 2009, was 30 years.

(3) *Deferred Revenue*

The balance in deferred revenue at year-end is composed of the following elements:

	General Fund	Special Revenue Fund
Taxes receivable (net)	1,133,247	128,844
	\$ 1,133,247	\$ 128,844

(4) *Solid Waste Landfill Closure*

During the fiscal year ended June 30, 1995, the County closed its solid waste landfill. Contingent liabilities, if any, associated with this closure are not recognized in the financial statements. At present the County contracts with a solid waste disposal company for the hauling and disposal of solid waste to a commercially operated landfill located outside of Avery County.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

(5) Risk Management

The County 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 County participates in three self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit as outlined in the contract, for any one occurrence, with an annual aggregate of \$50 million for flood and earthquake, with other sub-limits for coverage per the County's contract. The County also purchases general, auto, public officials, law enforcement 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 pools are audited annually by certified public accountants, and are available to the County upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 per occurrence and an additional \$500,000 annual aggregate up to \$2 million limit for liability coverage, \$145 million of aggregate annual losses in excess of \$100,000 per occurrence and an additional \$1 million annual aggregate for property, auto, physical damage, and crime coverage, and single occurrence losses of \$350,000 per occurrence and \$300,000 annual aggregate for workers' compensation. For health and dental insurance, the County has a \$1,950,000 specific loss insurance policy when the annual losses are in excess of \$50,000 per each covered individual. The County also has a \$1,000,000 stop loss policy when the aggregate annual losses exceed 125% of expected claims based on the contractual aggregate deductible.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). County officials have determined that structures may incur differing levels of damage based on location, and, therefore, have purchased insurance coverage commensurate with exposure.

In accordance with G.S. 159-29, the County's employees that have access at any given time to \$100 or more of the County's funds are performance bonded through a crime coverage declaration by the NCACC Liability and Property Pool. The Director of Finance, Tax Collector, Register of Deeds, County Manager and Chairman of the Board are each individually bonded for the following amounts: Finance Director \$250,000, Tax Collector, County Manager and Chairman of the Board, \$100,000 and Register of Deeds \$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.

(6) Claims and Judgments

At June 30, 2010, the County was a defendant to various lawsuits. In the opinion of the County management and County attorney, the ultimate outcome of these legal matters will not have a material adverse effect on the County's financial position. Pending cases as of June 30, 2010 that may have an unfavorable outcome are covered by the County's liability insurance.

(7) Long-Term Obligations

Notes Payable

The County entered into a commitment of \$7,500,000 for the installment purchase contract financing for two new school buildings during the fiscal year ended June 30, 1995. The installment contract bears interest at 5.53% and is amortized over a fifteen-year period with semiannual payments of interest and principal in the amount of \$373,100 commencing February 1, 1995. This installment contract is secured by a deed of trust on the property.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

The County entered into a commitment of \$9,500,000 for the installment purchase contract financing for two new school buildings. The installment contract bears interest at a rate of 5.51% and is amortized over a fifteen-year period with annual payments of fixed principal amounts of \$633,334. This installment contract is secured by a deed of trust on the property.

On September 6, 2006, the County entered into a commitment of \$2,000,000 in order to finance a school renovation project. The contract is with Bank of America for the issuance of Qualified Zone Academy Bond (QZAB) funding. Required principal repayment is \$110,110 per year for a fifteen year term. The bond is currently discounted in the amount of \$348,350. The guaranteed interest rate on the bonds is 2.66% per annum and will be held on deposit with the bank as Trustee until such time as the bonds mature.

On May 14, 2010, the County entered into a commitment of \$5,000,000 in order to finance a school renovation project. The contract is a two part commitment. The first loan, in the amount of \$4,645,266, is for the issuance of Qualified School Construction Bond (QSCB) funding. The second commitment, for \$354,734, is financed through Build America Bonds. Required principal repayment is \$83,333 per quarter for a fifteen year term. The interest rate on the bonds is 6.73% per annum.

For Avery County, the future minimum payments as of June 30, 2010 are:

Year Ending June 30	General Long-Term Debt		Interest Due and Payable
2011	\$1,076,777	\$	554,916
2012	1,076,777		497,586
2013	1,076,777		440,256
2014	1,076,777		382,926
2015	1,076,777		325,596
2016-2020	2,850,553		855,272
2021-2025	<u>2,235,232</u>		<u>294,438</u>
Total	\$10,469,470	\$	3,350,990

At June 30, 2010, the County had a legal debt margin of \$ 397,611,790.

a. Long Term Obligation Activity

The following is a summary of changes in the County's long term obligations for the fiscal year ended June 30, 2010:

Governmental activities:	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion
Capitalized leases	\$ 18,265	\$ -	\$ 18,265	\$ -0-	\$ -0-
Installment purchase	6,553,866	5,000,000	1,084,195	10,469,671	1,076,777
Other post employment benefits	162,599	100,459	-	263,058	263,058
Pension plan obligation	70,814	24,396	-	95,210	95,210
Vacation pay obligation	391,060	-	30,718	360,342	360,342
Total governmental activities	\$ 7,196,604	\$5,124,855	\$ 1,133,178	\$ 11,188,281	\$1,795,387

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

b. Interfund Balances and Activity

Transfers to/from other fund

Transfers to/from other funds at June 30, 2010, consist of the following:

From the General fund to the Capital Reserve fund to accumulate resources	\$3,018,519
From the General fund to the E-911 fund to repay general expenses	8,435
From the General fund to the Revaluation fund to accumulate resources for the revaluation of real property	55,318
From the General fund to the Fire District fund for use of the Fire Commission	141,685
	<hr/>
Total	<u><u>\$3,223,957</u></u>

(3) JOINT VENTURES

The County participates in a joint venture to operate Avery-Mitchell-Yancey Regional Library with three other local governments. Each participating government appoints three 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, so no equity interest has been reflected in the financial statements at June 30, 2010. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$78,280 to the library to supplement its activities. Complete financial statements can be obtained from the Library's offices at Highway 19E, Burnsville, North Carolina 28714.

The County in conjunction with the State of North Carolina, Mitchell County, and Yancey County, participates in a joint venture to operate Mayland Community College (College). Each of the four participants appoints three members of the thirteen-member board of trustees of the College. The College's student government president serves as an ex-officio nonvoting member of the College's board of trustees. The College is included as a component unit of the State. The Counties have the basic joint responsibility for providing funding for the facilities of the College and also provide some financial support for the College's operations. The Counties have an ongoing joint financial responsibility for the College because of the statutory responsibilities to provide funding for the College's facilities. Avery County contributed \$267,820 to the College for operating purposes and \$31,200 for capital outlay during the fiscal year ended June 30, 2010. The participating governments do not have an equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2010. Complete financial statements for Mayland Community College may be obtained from the College's administrative offices at 200 Mayland Tech Road, Spruce Pine, North Carolina 28777.

The County participates in a joint venture to operate the Toe River Health District with two other local governments. Each participating government appoints one member to the twelve-member board of directors of the Health District. The County has an ongoing financial responsibility for the joint venture because the Health District's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Health District, so no equity interest has been reflected in the financial statements at June 30, 2010. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$279,140 to the Health District to supplement its activities. Complete financial statements can be obtained from the Toe River Health District's offices at Greenwood Road, Spruce Pine, North Carolina 28777.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010

The County participates in a joint venture to operate the New River Center for Mental Health, Developmental Disability & Substance Abuse Services with three other local governments. Each participating government appoints four members to the twenty-member board of the New River Area Authority (regional area authority). The County has an ongoing financial responsibility for the joint venture because the Center's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Center, so no equity interest has been reflected in the financial statements at June 30, 2010. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$92,400 to the Center to supplement its activities. Complete financial statements can be obtained from the New River Center's offices located in Boone, North Carolina 28607.

(4) JOINTLY GOVERNED ORGANIZATION

The County, in conjunction with seven other counties and nineteen municipalities, established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$9,106 to the Council during the fiscal year ending June 30, 2010.

(5) SUPPLEMENTAL AND ADDITIONAL SUPPLEMENTAL ONE-HALF OF ONE PERCENT LOCAL GOVERNMENT SALES AND USE TAXES

State law (Chapter 105, Articles 40 and 42, of the North Carolina General Statutes) requires the County to use a portion of the proceeds of its supplemental and additional supplemental sales taxes, or local option sales taxes,

for public school capital outlays or to retire public school indebtedness. During the fiscal year ended June 30, 2010, the County reported these local option sales taxes within its General Fund. The County expended the restricted portion of these taxes for public school indebtedness.

(6) BENEFIT PAYMENTS ISSUED BY THE STATE

The State, from federal and State monies, directly paid the amounts listed below to individual recipients. 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, which do not appear in the financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Medicaid	\$ 13,055,154	\$ 4,662,105
Temporary Assistance for Needy Families	102,809	-
Food Stamp Program	2,912,824	-
Title IV-E Foster Care Assistance	3,477	3,686
Title IV-E Adoption Assistance	53,031	10,742
State Foster Care Benefits Program	-	25,007
State Special Assistance for Adults	-	140,682
Low Income Energy Assistance	163,582	-
CWS Adoption Subsidy	-	123,607
SFHF Maximization	-	22,265
Foster Care At Risk Maximization	-	8,589
Foster Care Special Provision	-	17,279

*Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2010*

(7) 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.

Avery County, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded (AAL) (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2001	0	42,093	42,093	0%	441,548	9.53%
12/31/2002	0	41,923	41,923	0%	511,018	8.20%
12/31/2003	0	43,634	43,634	0%	477,186	9.14%
12/31/2004	0	43,871	43,781	0%	427,258	10.27%
12/31/2005	0	58,560	58,560	0%	560,577	10.45%
12/31/2006	0	100,271	100,271	0%	720,597	13.91%
12/31/2007	0	144,437	144,437	0%	825,800	17.49%
12/31/2008	0	169,706	169,706	0%	914,098	18.57%
12/31/2009	0	218,478	218,478	0%	877,706	24.89%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	8,052	0%
2004	9,097	0%
2005	8,410	0%
2006	8,398	0%
2007	10,117	0%
2008	15,855	38.38%
2009	20,669	19.25%
2010	23,720	0%

Notes to the Required Schedules:

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

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.5-12.3%
Includes inflation at	3.75%
Cost of living adjustments	N/A

AVERY COUNTY, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded (AAL) (UAAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a)/c)
12/31/2008	0	1,498,496	1,498,496	0%	5,236,537	28.62%
12/31/2009	0	1,702,012	1,701,012	0%	5,564,426	30.60%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	162,599	12.2%
2010	163,265	13.2%

Notes to the Required Schedules:

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

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.00%
Medical cost trend	10.5% - 5.0%
Year of Ultimate trend rate	2017
Includes inflation at	3.75%

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Revenues:				
<i>Ad valorem taxes:</i>				
Taxes	\$	\$ 14,563,945	\$	\$ 14,216,307
Penalties and interest		116,440		109,200
Refunds and releases		(31,980)		(50,604)
Total		<u>14,297,500</u>		<u>14,274,903</u>
<i>Local option sales taxes:</i>				
Article 39 one percent		1,749,900		1,833,809
Article 40 one-half of one percent		946,294		1,144,694
Article 42 one-half of one percent		814,450		989,734
Article 44 one-half of one percent		100,564		531,463
Video programming distribution		65,650		67,331
Medicaid Hold Harmless payment		198,590		225,938
Total		<u>4,500,000</u>		<u>4,792,989</u>
<i>Other taxes and licenses:</i>				
Real estate transfer tax		261,357		365,471
White goods disposal tax		-		3,222
Scrap tire disposal tax		20,374		19,366
Solid waste disposal		13,039		8,556
Total		<u>389,000</u>		<u>396,615</u>
<i>Unrestricted intergovernmental:</i>				
Payments in lieu of taxes		176,660		193,695
Food stamp tax reimbursement		230		3,100
Sales tax refunds		-		764
Total		<u>133,500</u>		<u>197,559</u>
<i>Restricted intergovernmental:</i>				
State and federal grants		2,483,221		2,609,295
Court facilities fees		26,995		32,312
ABC bottle tax		7,067		7,479
Total		<u>2,324,664</u>		<u>2,649,086</u>
<i>Licenses and permits:</i>				
Inspection fees and building permits		106,696		122,809
Register of deeds		144,025		155,865
Marriage licenses		7,170		7,150
Officer fees		6,405		8,577
Gun permits		1,135		1,425
IPM dues		1,842		1,865
Fingerprint fees		2,340		2,055
Flood plain mapping fees		2,530		8,420
Concealed weapons fees		7,910		11,065
Total		<u>307,000</u>		<u>319,231</u>

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Sales and services:				
Election department		11,786		-
Transportation fees		320,888		346,150
Rents, concessions and fees		-		1,128
Recreation fees		59,153		38,562
Jail fees		31,628		28,178
Tax assessor fees		1,330		2,067
Emergency medical service		662,922		500,202
Solid waste fees		252,218		300,948
Civil process fees		17,860		16,038
Civil license revocations		2,077		1,708
Total	1,470,767	1,359,862	(110,905)	1,234,981
Investment earnings	153,500	48,230	(105,270)	357,870
Miscellaneous:				
Sales of fixed assets		28,662		5,869
Donations		250		100
Restitution fees		777		1,446
Drug fund		252		5,098
Other		49,569		40,284
Total	58,500	79,510	21,010	52,797
Total revenues	23,634,431	23,280,451	(353,980)	24,276,031
Expenditures:				
General government -				
Governing body:				
Salaries and employee benefits		101,073		89,807
Other operating expenditures		47,063		55,626
Capital outlay		2,543		1,905
Total	188,722	150,679	38,043	147,338
Administration:				
Salaries and employee benefits		134,739		127,010
Other operating expenditures		16,066		19,742
Capital outlay		-		10,300
Total	154,842	150,805	4,037	157,052
Elections:				
Salaries and employee benefits		140,482		127,507
Other operating expenditures		75,356		37,845
Capital outlay		698		-
Total	255,383	216,536	38,847	165,352

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<i>Finance:</i>				
Salaries and employee benefits		234,606		251,683
Other operating expenditures		35,480		52,518
Capital outlay		10,148		11,011
Total	345,568	280,234	65,334	315,212
<i>Tax listing and supervisor:</i>				
Salaries and employee benefits		245,448		247,888
Other operating expenditures		101,479		99,205
Capital outlay		75,202		11,273
Total	369,445	422,129	(52,684)	358,366
<i>Tax collections:</i>				
Salaries and employee benefits		168,194		157,053
Other operating expenditures		20,402		24,650
Capital outlay		1,347		-
Total	200,857	189,943	10,914	181,703
<i>Tax mapping:</i>				
Operating expenditures		67,272		73,998
Capital outlay		-		7,507
Total	121,746	67,272	54,474	81,505
<i>Register of Deeds:</i>				
Salaries and employee benefits		180,390		177,586
Other operating expenditures		246,158		280,526
Capital outlay		-		6,373
Total	530,615	426,548	104,067	464,485
<i>Public Buildings:</i>				
Salaries and employee benefits		245,476		186,845
Other operating expenditures		398,632		450,237
Capital outlay		78,164		100,364
Total	738,287	722,272	16,015	737,446
<i>Legal and auditing:</i>				
Contracted services	81,900	72,520	9,380	56,297
<i>Facilities fees:</i>				
Operating expenditures		5,603		5,633
Capital outlay		3,416		-
Total	14,566	9,019	5,547	5,633
Total general government	3,001,931	2,707,957	293,974	2,670,389

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Public safety -				
Sheriff's Department:				
Salaries and employee benefits		1,265,861		1,156,517
Other operating expenditures		274,180		299,782
Capital outlay		114,801		140,856
Total	1,741,674	1,654,842	86,832	1,597,155
Jail:				
Salaries and employee benefits		421,769		373,329
Other operating expenditures		256,009		214,726
Capital outlay		19,536		1,649
Total	748,971	697,314	51,657	589,704
Building inspection:				
Salaries and employee benefits		271,555		253,290
Other operating expenditures		53,718		65,198
Capital outlay		3,145		-
Total	410,594	328,418	82,176	318,488
Emergency management:				
Salaries and employee benefits		60,148		63,807
Other operating expenditures		17,879		61,895
Capital outlay		3,441		2,124
Total	147,342	81,468	65,874	127,826
Emergency medical services:				
Salaries and employee benefits		1,278,019		1,154,855
Other operating expenditures		248,246		250,451
Capital outlay		103,159		98,896
Total	1,700,280	1,629,424	70,856	1,504,202
Central dispatch:				
Salaries and employee benefits		529,832		491,045
Other operating expenditures		73,786		92,891
Capital outlay		983		18,719
Total	671,133	604,601	66,532	602,655
OSHA instruction:				
Other operating expenditures				
Total	325	-	325	-
Medical examiner:				
Professional services	20,000	19,000	1,000	10,500

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Community agency contributions:				
Avery Search & Rescue		156,560		156,560
Humane Society		59,225		59,225
Total	215,785	215,785	-	215,785
Total public safety	5,656,104	5,230,852	425,252	4,966,315
Public transportation:				
Streets and highways:				
Salaries and employee benefits		394,716		385,765
Other operating expenditures		123,170		138,605
Capital outlay		89,510		73,627
Total public transportation	985,255	607,396	377,859	597,997
Environmental protection -				
Sanitation:				
Salaries and employee benefits		691,893		658,184
Other operating expenditures		822,824		850,071
Capital outlay		140,183		156,452
Total	1,870,427	1,654,900	215,527	1,664,707
Soil conservation service:				
Contracted services	210,197	196,922	13,275	193,038
Total environmental protection	2,080,624	1,851,822	228,802	1,857,745
Economic and physical development -				
Agricultural extension agent:				
Salaries and employee benefits		168,271		162,623
Other operating expenditures		96,719		93,282
Capital outlay		6,627		5,877
Total	292,884	271,617	21,267	261,782
Physical development:				
Operating expenditures				
Total	35,350	10,411	24,939	4,044
Regional economic development:				
Region D Development Council	1,000	1,000	-	1,000
Total economic and physical development	329,234	283,028	46,206	266,826

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Human services -				
Public Health:				
Toe River Health District		279,140		266,640
New River Mental Health		92,400		92,400
Alcoholic rehabilitation		7,068		7,257
Total	381,540	378,608	2,932	366,297
Veteran's Service Officer -				
Salaries and employee benefits		16,795		16,391
Other operating expenditures		2,122		2,678
Capital outlay		-		1,127
Total	37,576	18,917	18,659	20,196
Social Services:				
Salaries and employee benefits		1,404,983		1,315,837
Other operating expenditures		165,163		203,605
Capital outlay		25,039		11,064
Total	1,749,632	1,595,185	154,447	1,530,506
County participation:				
Medicaid		16,474		419,642
Special assistance		221,523		230,393
Foster care		133,896		142,168
Crisis intervention		80,320		75,746
Family Support Act		85,121		105,060
Aid for children		58,008		42,683
Independent living		-		2,980
JOBS program		56,126		50,385
Total	665,217	651,468	13,749	1,069,057
Senior Citizens:				
Salaries and employee benefits		528,306		481,735
Other operating expenditures		238,608		242,807
Capital outlay		12,771		5,350
Total	825,148	779,685	45,463	729,892
Day Care and Child Development:				
Contracted services				
	595,251	360,601	234,650	311,150
Community Based Alternatives				
Operating expenditures	111,589	114,802	(3,213)	86,659
CJPP Program	53,649	53,649	-	51,254
Aid to the Blind	1,674	1,736	(62)	1,048

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance	2009
	Budget	Actual	Favorable (Unfavorable)	Actual
<i>Community agency contributions:</i>				
Hospice		-		19,055
ADAP - Yellow Mountain		23,690		23,690
Avery Alzheimer's Support		2,000		1,000
ACADA		21,630		21,630
Total	47,320	47,320	-	65,375
<i>Total human services</i>	4,468,596	4,001,971	466,625	4,231,434
<i>Cultural and recreational -</i>				
<i>Parks & recreation:</i>				
Salaries and employee benefits		230,219		210,186
Other operating expenditures		112,033		118,780
Capital outlay		64,998		807,060
Total	411,471	407,250	4,221	1,136,026
<i>Community agency contributions:</i>				
Shrine Club		1,000		1,000
Arts Council		-		3,500
Blue Ridge Resource		400		17,100
Avery Little League		7,060		2,060
WAMY		6,180		6,180
Tag Office		10,000		10,000
Avery Smart Start		5,000		-
YMCA		25,000		-
Municipality Donation		-		150,000
Avery Museum		3,000		3,090
Total	61,140	57,640	3,500	192,930
<i>Library:</i>				
Contracted services	78,280	78,280	-	78,280
<i>Total cultural and recreational</i>	550,891	543,170	7,721	1,407,236
<i>Education -</i>				
Public schools - current expense		3,921,000		3,896,000
Public schools - capital outlay		600,000		606,203
Community College - current expense		267,820		255,320
Community College - capital outlay		31,200		31,200
<i>Total education</i>	4,820,067	4,820,020	47	4,788,723
<i>Debt service -</i>				
Principal retirement		1,102,461		1,488,324
Interest and fees		233,735		296,530
<i>Total debt service</i>	1,638,713	1,336,196	302,517	1,784,854

See the accompanying Independent Auditor's Report.

Avery County, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--

For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Total expenditures	23,531,415	21,382,412	2,149,003	22,571,519
Revenue over (under) expenditures	103,016	1,898,039	1,795,023	1,704,512
Other financing sources (uses):				
Operating transfers in (out):				
To Revaluation Fund	(55,318)	(55,318)	-	(35,000)
To/From E-911 Fund	(8,435)	(8,435)	-	368,332
To/From Capital Reserve Fund	(3,018,519)	(3,018,519)	-	(3,786,266)
To/From Capital Projects Fund (Landfill Expansion)	-	-	-	(104,439)
To/From Capital Projects Fund (High School Renovation)	-	-	-	373,500
To Fire Tax Fund	(141,685)	(141,685)	-	(24,644)
To component unit - Airport	(89,187)	(89,187)	-	(61,607)
Total operating transfers	(3,313,144)	(3,313,144)	-	(3,270,124)
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	(3,313,144)	(3,313,144)	-	(3,270,124)
Excess of revenues and other sources over (under) expenditures and other uses	(3,210,128)	(1,415,105)	1,795,023	(1,565,612)
Appropriated fund balance	3,210,128	-	(3,210,128)	-
Excess of revenues, other sources and appropriated fund balance over (under) expenditures and other uses	\$ -	(1,415,105)	\$ (1,415,105)	(1,565,612)
Fund balances - beginning of year		9,785,560		11,351,172
Fund balances - end of year		\$ 8,370,455		\$ 9,785,560

See the accompanying Independent Auditor's Report.

**Avery County, North Carolina
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2010**

	E-911 Fund	Fire District Fund	Revaluation Fund	Capital Reserve Fund	Total Non-major Special Revenue Funds	Landfill Expansion Capital Project Funds	Total Non-major Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 632,908	\$ 312,436	\$ 8,782	\$ 3,020,488	\$ 3,974,614	\$ 481,318	\$ 4,455,932
Taxes receivable, net	-	128,844	-	-	128,844	-	128,844
Due from other governments	26,066	-	383	-	26,449	189	26,638
Total assets	\$ 658,974	\$ 441,280	\$ 9,165	\$ 3,020,488	\$ 4,129,907	\$ 481,507	\$ 4,611,414
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 47,287	\$ 5,729	\$ -	\$ -	\$ 53,016	\$ 126,257	\$ 179,273
Deferred revenue	-	128,844	-	-	128,844	-	128,844
Total liabilities	47,287	134,573	-	-	181,860	126,257	308,117
Fund balances:							
Reserved by State statute	26,066	-	383	-	26,449	189	26,638
Unreserved	585,621	306,707	8,782	3,020,488	3,921,598	355,061	4,276,659
Total fund balances	611,687	306,707	9,165	3,020,488	3,948,047	355,250	4,303,297
Total liabilities and fund balances	\$ 658,974	\$ 441,280	\$ 9,165	\$ 3,020,488	\$ 4,129,907	\$ 481,507	\$ 4,611,414

See the accompanying Independent Auditor's Report.

**Avery County, North Carolina
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Non-major Governmental Funds
 For the Year Ended June 30, 2010**

	E-911 Fund		Fire District Fund	Revaluation Fund	Grant Projects Funds	Capital Reserve Funds	Total Non-major Special Revenue Funds	Landfill Expansion Project	Non-major Capital Projects Fund	Total Non-major Governmental Funds
REVENUES										
Ad valorem taxes	\$ -	\$ 1,561,771	\$ -	\$ -	\$ -	\$ -	\$ 1,561,771	\$ -	\$ -	\$ 1,561,771
Restricted intergovernmental	300,622	-	-	40,500	-	-	341,122	-	-	341,122
Investment earnings	2,266	5,199	-	-	-	-	7,465	-	-	7,465
Total revenues	302,888	1,566,970	-	40,500	-	-	1,910,358	-	-	1,910,358
EXPENDITURES										
Current:										
General government	-	-	-	82,543	-	-	82,543	-	-	82,543
Economic and physical development	-	-	-	-	40,500	-	40,500	-	-	40,500
Human services	-	-	-	-	-	-	-	-	-	-
Public safety	131,774	1,629,322	-	-	-	-	1,761,096	-	-	1,761,096
Capital outlay	25,130	-	-	-	-	-	25,130	744,750	-	769,880
Total expenditures	156,904	1,629,322	-	82,543	40,500	-	1,909,269	744,750	-	2,654,019
Excess (deficiency) of revenues over expenditures	145,984	(62,352)	-	(82,543)	-	-	1,089	(744,750)	-	(743,661)
OTHER FINANCING SOURCES (USES)										
Transfers (to) from other funds	8,435	141,685	55,318	-	-	(3,775,023)	(3,569,585)	1,100,000	-	(2,469,585)
Total other financing sources and uses	8,435	141,685	55,318	-	-	(3,775,023)	(3,569,585)	1,100,000	-	(2,469,585)
Net change in fund balances	154,419	79,333	(27,225)	-	-	(3,775,023)	(3,568,496)	355,250	-	(3,213,246)
Fund balances - beginning	457,268	227,374	36,390	-	-	6,795,511	7,516,543	-	-	7,516,543
Fund balances - ending	\$ 611,687	\$ 306,707	\$ 9,165	\$ -	\$ -	\$ 3,020,488	\$ 3,948,047	\$ 355,250	\$ -	\$ 4,303,297

See the accompanying Independent Auditor's Report.

Avery County, North Carolina
Capital Reserve Fund
Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
Revenues:				
Investment earnings	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Other financing sources (uses):				
Operating transfer in (out):				
(To) From General Fund	3,018,519	(83,481)	3,102,000	3,412,766
(To) School Project	(4,173,000)	-	(4,173,000)	-
(To) Jail Project	(2,591,542)	(2,591,542)	-	(1,071,000)
(To) Landfill Project	(1,100,000)	(1,100,000)	-	-
Fund balance appropriated	4,846,023	-	4,846,023	-
Total other financing sources (uses)	-	(3,775,023)	3,775,023	2,341,766
Excess of revenues and other sources over (under) expenditures and other uses	\$ -	(3,775,023)	\$ (3,775,023)	2,341,766
Fund balances - beginning of year		6,795,511		4,453,745
Fund balances - end of year		\$ 3,020,488		\$ 6,795,511

Avery County, North Carolina**E-911 Fund****Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--****For the Fiscal Year Ended June 30, 2010****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)**

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<i>Revenues:</i>				
E-911 surcharges	\$	\$ 300,622	\$	\$ 329,748
Investment earnings - surcharges		2,266		15,689
Total revenues	<u>282,500</u>	<u>302,888</u>	<u>20,388</u>	<u>345,437</u>
<i>Expenditures:</i>				
Public safety:				
Salaries and fringe benefits		47,035		47,080
Other operating expenditures		84,739		78,471
Capital outlay		25,130		22,460
Total expenditures	<u>290,356</u>	<u>156,904</u>	<u>133,452</u>	<u>148,011</u>
Revenues over (under) expenditures	<u>(7,856)</u>	<u>145,984</u>	<u>153,840</u>	<u>197,426</u>
<i>Other financing sources (uses):</i>				
Operating transfer in (out):				
To General Fund	8,435	8,435	-	(368,332)
Fund balance appropriated	(579)	-	(579)	-
Total other financing sources (uses)	<u>7,856</u>	<u>8,435</u>	<u>(579)</u>	<u>(368,332)</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$ <u>-</u>	<u>154,419</u>	\$ <u>154,419</u>	<u>(170,906)</u>
Fund balances - beginning of year		<u>457,268</u>		<u>628,174</u>
Fund balances - end of year		\$ <u>611,687</u>		\$ <u>457,268</u>

Avery County, North Carolina**Fire District Fund****Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2010****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)**

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<i>Revenues:</i>				
Ad valorem taxes	\$	\$ 1,561,771	\$	\$ 1,523,798
Interest and other income		5,199		8,294
Total revenues		<u>1,579,000</u>	<u>12,030</u>	<u>1,532,092</u>
<i>Expenditures:</i>				
<i>Public safety:</i>				
Volunteer fire departments		775,061		921,350
Fire commission		854,261		631,326
Total expenditures		<u>1,720,685</u>	<u>91,363</u>	<u>1,552,676</u>
Revenues over expenditures		<u>(141,685)</u>	<u>(79,333)</u>	<u>(20,584)</u>
<i>Other financing sources (uses):</i>				
Transfers in (out)		141,685	-	24,644
Total other financing sources (uses)		<u>141,685</u>	<u>-</u>	<u>24,644</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$	<u>-</u>	\$ <u>(79,333)</u>	<u>4,060</u>
Fund balances - beginning of year		<u>227,374</u>		<u>223,314</u>
Fund balances - end of year	\$	<u>306,707</u>		<u>227,374</u>

See the accompanying Independent Auditor's Report.

Avery County, North Carolina**Revaluation Fund****Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--****For the Fiscal Year Ended June 30, 2010****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2009)**

	2010		Variance Favorable (Unfavorable)	2009
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>Investment earnings</i>	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
<i>General government:</i>				
<i>Tax listing</i>	90,318	82,543	7,775	46,808
<i>Total expenditures</i>	<u>90,318</u>	<u>82,543</u>	<u>7,775</u>	<u>46,808</u>
<i>Revenues over (under) expenditures</i>	(90,318)	(82,543)	7,775	(46,808)
<i>Other financing sources (uses):</i>				
<i>Fund balance appropriated</i>	35,000	-	35,000	-
<i>Operating transfer in (out) from General Fund</i>	55,318	55,318	-	35,000
<i>Total other financing sources (uses)</i>	<u>90,318</u>	<u>55,318</u>	<u>35,000</u>	<u>35,000</u>
<i>Excess of revenues and other sources over (under) expenditures</i>	\$ <u>-</u>	<u>(27,225)</u>	<u>(27,225)</u>	<u>(11,808)</u>
<i>Fund balances - beginning of year</i>		<u>36,390</u>		<u>48,198</u>
<i>Fund balances - end of year</i>		\$ <u>9,165</u>		\$ <u>36,390</u>

See the accompanying Independent Auditor's Report.

Avery County, North Carolina
Capital Projects Fund - Jail Addition and Renovations
Statement of Revenue, Expenditures and Changes in Fund Balances--
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2010

	<i>Project Authorization</i>	<i>Prior Years</i>	<i>Actual Current Year</i>	<i>Total To Date</i>	<i>Variance Favorable (Unfavorable)</i>
<i>Revenues:</i>					
<i>Restricted intergovernmental revenues</i>	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Total</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures - Public Safety</i>					
<i>General construction</i>	\$ 8,340,000	-	-	-	8,340,000
<i>Architect/engineering fees</i>	440,000	14,325	361,725	376,050	63,950
<i>Permits, surveys, insurance</i>	15,000	-	5,670	5,670	9,330
<i>Site prep</i>	385,000	-	-	-	385,000
<i>Total expenditures</i>	<u>9,180,000</u>	<u>14,325</u>	<u>367,395</u>	<u>381,720</u>	<u>8,798,280</u>
<i>Revenues over (under) expenditures</i>	(9,180,000)	(14,325)	(367,395)	(381,720)	8,798,280
<i>Other financing sources and uses</i>					
<i>Transfers in (out) - capital reserve fund</i>	2,591,542	-	2,591,542	2,591,542	-
<i>Transfers in (out) - courthouse project fund</i>	6,588,458	6,588,458	-	6,588,458	-
<i>Total other financing sources</i>	<u>9,180,000</u>	<u>6,588,458</u>	<u>2,591,542</u>	<u>9,180,000</u>	<u>-</u>
<i>Revenues and other sources over (under) expenditures</i>	\$ <u>-</u>	\$ <u>6,574,133</u>	2,224,147	\$ <u>8,798,280</u>	\$ <u>8,798,280</u>
<i>Fund balances:</i>					
<i>Beginning of year, July 1</i>			<u>6,574,133</u>		
<i>End of year, June 30</i>			<u>\$ 8,798,280</u>		

Avery County, North Carolina
 Capital Projects Fund - Banner Elk School Project
 Statement of Revenue, Expenditures and Changes in Fund Balances--
 Budget and Actual (Non-GAAP)
 From Inception and for the Fiscal Year Ended June 30, 2010

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
<i>Revenues:</i>					
Investment earnings	\$ 30,000	\$ -	\$ 1,315	\$ 1,315	\$ (28,685)
Total	<u>30,000</u>	<u>-</u>	<u>1,315</u>	<u>1,315</u>	<u>(28,685)</u>
<i>Expenditures - Education</i>					
General construction	7,708,000	-	1,043,594	1,043,594	6,664,406
Architect/engineering fees	935,000	430,953	361,234	792,187	142,813
Permits, surveys	25,000	19,960	2,406	22,366	2,634
Site prep	565,000	537,150	-	537,150	27,850
Furniture	780,000	-	-	-	780,000
Attorney fees	20,000	-	9,000	9,000	11,000
Total expenditures	<u>10,033,000</u>	<u>988,063</u>	<u>1,416,234</u>	<u>2,404,297</u>	<u>7,628,703</u>
Revenues over (under) expenditures	(10,003,000)	(988,063)	(1,414,919)	(2,402,982)	7,600,018
<i>Other financing sources and uses</i>					
Proceeds from loan	5,830,000	500,000	5,000,000	5,500,000	(330,000)
Proceeds from sale of assets	-	-	-	-	-
Transfers in (out) - general fund	-	389,200	-	389,200	389,200
Transfers in (out) - capital reserve	4,173,000	1,071,000	3,102,000	4,173,000	-
Transfers(out) to debt service	-	(341,667)	-	(341,667)	(341,667)
Total other financing sources	<u>10,003,000</u>	<u>1,618,533</u>	<u>8,102,000</u>	<u>9,720,533</u>	<u>(282,467)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 630,470</u>	6,687,081	<u>\$ 7,317,551</u>	<u>\$ 7,317,551</u>
<i>Fund balances:</i>					
Beginning of year, July 1			630,470		
End of year, June 30			<u>\$ 7,317,551</u>		

Avery County, North Carolina
Capital Projects Fund - Landfill Expansion Project
Statement of Revenue, Expenditures and Changes in Fund Balances--
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2010

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures - Environmental protection</i>					
General construction	887,000	-	577,595	577,595	309,405
Architect/engineering fees	533,000	325,628	167,155	492,783	40,217
Permits, surveys and other	30,000	-	-	-	30,000
Total expenditures	<u>1,450,000</u>	<u>325,628</u>	<u>744,750</u>	<u>1,070,378</u>	<u>379,622</u>
Revenues over (under) expenditures	(1,450,000)	(325,628)	(744,750)	(1,070,378)	379,622
<i>Other financing sources and uses</i>					
Transfers in (out) - general fund	350,000	325,628	-	325,628	(24,372)
Transfers in (out) - capital reserve	1,100,000	-	1,100,000	-	-
Total other financing sources	<u>1,450,000</u>	<u>325,628</u>	<u>1,100,000</u>	<u>325,628</u>	<u>(24,372)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	355,250	<u>\$ (744,750)</u>	<u>\$ 355,250</u>
<i>Fund balances:</i>					
Beginning of year, July 1					
End of year, June 30			<u>\$ 355,250</u>		

See the accompanying Independent Auditor's Report.

AVERY COUNTY, NORTH CAROLINA

Grant Project Fund - Community Development Block Grants
Statement of Revenue, Expenditures and Changes in Fund Balances--
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2010

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>					
<i>Restricted intergovernmental revenues:</i>					
Scattered Housing Grant 09-C-1983	\$ 400,000	\$ -	\$ 40,500	\$ 40,500	\$ (359,500)
Total	<u>400,000</u>	<u>-</u>	<u>40,500</u>	<u>40,500</u>	<u>(359,500)</u>
<i>Expenditures - Economic and physical development</i>					
Relocation assistance	248,000	-	32,700	32,700	215,300
Rehabilitation	80,000	-	800	800	79,200
Administration	40,000	-	-	-	40,000
Planning	7,000	-	7,000	7,000	-
Clearance	25,000	-	-	-	25,000
Total expenditures	<u>400,000</u>	<u>-</u>	<u>40,500</u>	<u>40,500</u>	<u>359,500</u>
 <i>Revenues and other sources over (under) expenditures</i>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>-</u>	 <u>\$ -</u>	 <u>\$ -</u>
<i>Fund balances:</i>					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

See the accompanying Independent Auditor's Report.

Avery County, North Carolina
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>
Social Services -				
<i>Assets:</i>				
Cash and investments	\$ 7,650	\$ 112,696	\$ (119,321)	\$ 1,025
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 7,650	\$ 112,696	\$ (119,321)	\$ 1,025
Motor Vehicle Tax -				
<i>Assets:</i>				
Taxes receivable	\$ -	\$ 65,505	\$ (65,505)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables	\$ -	\$ 65,505	\$ (65,505)	\$ -
Fines and Forfeitures -				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 86,358	\$ (86,358)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - Board of Education	\$ -	\$ 79,881	\$ (79,881)	\$ -
Intergovernmental payables - State of North Carolina	\$ -	\$ 6,477	\$ (6,477)	\$ -
Total intergovernmental payables	\$ -	\$ 86,358	\$ (86,358)	\$ -
Deed of Trust Fee Fund				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 3,020	\$ (3,020)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - State of NC	\$ -	\$ 3,020	\$ (3,020)	\$ -
Totals - All Agency Funds				
<i>Assets:</i>				
Cash and investments	\$ 7,650	\$ 202,074	\$ (208,699)	\$ 1,025
Taxes receivable	-	65,505	(65,505)	-
Total assets	\$ 7,650	\$ 267,579	\$ (274,204)	\$ 1,025
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 7,650	\$ 112,696	\$ (119,321)	\$ 1,025
Intergovernmental payables - Town Motor Vehicles	-	65,505	(65,505)	-
Intergovernmental payables - Board of Education	-	79,881	(79,881)	-
Intergovernmental payables - State of North Carolina	-	9,497	(9,497)	-
Total liabilities	\$ 7,650	\$ 267,579	\$ (274,204)	\$ 1,025

See the accompanying Independent Auditor's report.

AVERY COUNTY, NORTH CAROLINA**General Fund****Schedule of Ad Valorem Taxes Receivable****June 30, 2010**

	<i>Uncollected Balance June 30, 2009</i>	<i>Additions</i>	<i>Collections and Credits</i>	<i>Uncollected Balance June 30, 2010</i>
2009 - 2010	\$	\$ 14,883,394	\$ 14,223,668	\$ 659,726
2008 - 2009	438,329	-	142,470	295,859
2007 - 2008	250,977	-	132,780	118,197
2006 - 2007	112,838	-	17,213	95,625
2005 - 2006	88,931	-	8,569	80,362
2004 - 2005	34,239	-	4,882	29,357
2003 - 2004	29,615	-	4,163	25,452
2002 - 2003	22,552	-	1,825	20,727
2001 - 2002	21,896	-	1,398	20,498
2000 - 2001	17,791	-	1,502	16,289
1999 - 2000	13,960	-	13,960	-
	\$ <u>1,031,128</u>	\$ <u>14,883,394</u>	\$ <u>14,552,430</u>	\$ 1,362,092
<i>Less: allowance for uncollectible accounts:</i>				
<i>General Fund</i>				<u>228,845</u>
<i>Ad valorem taxes receivable - net</i>				
<i>General Fund</i>				\$ <u><u>1,133,247</u></u>
Reconciliation with revenues:				
<i>Ad valorem taxes - General Fund</i>				\$ <u>14,648,405</u>
<i>Reconciling items:</i>				
<i>Interest collected</i>				(116,440)
<i>Taxes written off</i>				<u>20,465</u>
<i>Total reconciling items</i>				<u>(95,975)</u>
<i>Total collections and credits</i>				\$ <u><u>14,552,430</u></u>

AVERY COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-Wide Levy
For the Fiscal Year Ended June 30, 2010

	<i>County-wide</i>		<i>Total Levy</i>		
	<i>Property Valuation</i>	<i>Rate</i>	<i>Amount of Levy</i>	<i>Property excluding Registered Motor Vehicles</i>	<i>Registered Motor Vehicles</i>
<i>Original levy:</i>					
<i>Property taxed at current year's rate</i>	\$ 4,224,922,558	0.352	\$ 14,871,727	\$ 14,302,596	\$ 569,132
<i>Penalties</i>	-		5,352	5,352	-
<i>Total</i>	<u>4,224,922,558</u>		<u>14,877,079</u>	<u>14,307,948</u>	<u>569,132</u>
 <i>Discoveries:</i>					
<i>Current year taxes</i>	1,627,616	0.352	5,729	5,729	-
<i>Penalties</i>	-		585	585	-
<i>Total</i>	<u>1,627,616</u>		<u>6,314</u>	<u>6,314</u>	<u>-</u>
 <i>Total property valuations</i>	<u>4,226,550,174</u>				
 <i>Net levy</i>			14,883,394	14,314,262	569,132
 <i>Uncollected taxes at June 30, 2010</i>			<u>659,726</u>	<u>618,932</u>	<u>40,794</u>
 <i>Current year's taxes collected</i>			\$ <u>14,223,668</u>	\$ <u>13,695,330</u>	\$ <u>528,338</u>
 <i>Current year's collection percentage</i>			<u>95.57%</u>	<u>95.68%</u>	<u>92.83%</u>

See the accompanying Independent Auditor's Report.

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

*To the Board of County Commissioners
Avery County, North Carolina*

We have audited the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of Avery County, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises Avery County's basic financial statements, and have issued our report thereon dated October 8, 2010. We did not audit the financial statements of the Avery County Airport Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Avery County Airport Authority, is based solely on the reports of the other auditor. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Avery County's internal control over financial reporting as a basis for designing our auditing procedures 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Avery County's internal control over financial reporting.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as we discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 10-1 to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Avery County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, members of Board of Commissioners of Avery County, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Young, Miller & Gillespie, P.A.
October 8, 2010*

**Report On Compliance With Requirements Applicable To Each Major Federal Program
And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the
State Single Audit Implementation Act**

To the Board of Commissioners
Avery County, North Carolina

Compliance

We have audited the compliance of Avery County, North Carolina with the types of compliance requirements described in the U.S. Office of Management and Budget (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 Mitchell County's major federal programs for the year ended June 30, 2010. Avery County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Avery County's management. Our responsibility is to express an opinion on Avery County's compliance based on our audit.

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 noncompliance 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 Avery 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. Our audit does not provide a legal determination on Avery County's compliance with those requirements.

In our opinion, Avery County, North Carolina complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of Avery County, North Carolina is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Avery County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the County's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, others within the organization, Commissioners of Avery County, North Carolina, and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Young, Miller & Gillespie, P.A.
October 8, 2010*

AVERY COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2010****I. Summary of Auditor's Results**

- A. An unqualified opinion was issued on the financial statements of Avery County, North Carolina.
- B. Our audit of the financial statements disclosed two significant deficiencies in the internal controls. The significant deficiencies were not determined to be material weaknesses.
- C. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the financial statements.
- D. Our audit of compliance with types of compliance requirements applicable to the County's major programs disclosed no significant deficiencies in internal controls over major programs.
- E. An unqualified opinion was issued on Avery County's compliance with the types of compliance requirements applicable to its major federal and State programs.
- F. Audit findings relative to the major federal and State award programs for Avery County are reported in this schedule.
- G. Major federal programs for Avery County for the fiscal year ended June 30, 2010 are:

<u>Program Name</u>	<u>CFDA #s</u>
Medical Assistance Program	93.778
State Children's Insurance Program	93.767

- H. There are no major State programs for Avery County for the fiscal year ended June 30, 2010.
- I. The threshold for determining Type A programs for Avery County is \$ 454,844.
- J. Avery County qualified as a low risk auditee under Section .530 of Circular No. A-133.

II. Findings related to the Audit of the Financial Statements of Avery County, North CarolinaFinding 10-1*Internal Controls/Segregation of Duties*

Criteria: Duties should be segregated to provide reasonable assurance that transactions are appropriately handled.

Condition: There are inherent limitations of the effectiveness of certain controls due to the lack of segregation of duties among County personnel.

Effect: Transactions could be mishandled.

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

Recommendation: The duties should be segregated as much as possible and alternative controls should be used to compensate for lack of segregation. The Board of Commissioners should provide some of these controls.

Management Response: The Board of Commissioners agrees with this finding.

AVERY COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2010**

Corrective Action Plan

Contact person: Robert Wiseman, County Manager

Corrective Action: This is an ongoing significant deficiency for governmental units of comparable size to Avery County. As new employees are hired, management will make every attempt to segregate duties to the extent practical considering the availability of personnel within the financial function.

Completion Date: The Board will immediately implement the above procedures.

III. Findings and Questioned Costs Related to the Audit of Federal and State Awards

None

IV. Status of Prior Year Findings

Findings as noted in the prior year audit related to the same significant deficiency as discussed above under item 10-1 in regard to lack of segregation of duties due to small staff size. It is likely that this deficiency will appear in future audits of Avery County, North Carolina. It is not economically feasible for governmental entities of this size to employ a staff of the size necessary to achieve an optimum level of separation of duties. Prior year audit finding 09-2 in regard to budgetary violations has been resolved.

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Grants:				
Cash Programs:				
U.S. Department of Health & Human Services				
<i>Passed-through Region D Council of Governments:</i>				
<i>Special Programs for the Aging-Title III B</i>				
<i>Grants for Supportive Services and Senior Centers</i>				
	93.044	\$ 54,508	\$ 63,988	\$ -
<i>Special Programs for the Aging-Title III C</i>				
<i>Nutrition Services</i>				
	93.045	50,300	14,112	-
<i>Special Programs for the Aging-Title III F</i>				
<i>Disease Prevention and Health Promotion</i>				
	93.043	1,654	106	-
<i>Family Caregiver Support</i>				
	93.052	2,593	165	-
 <i>Passed through N.C. Dept. of Health and Human Resources</i>				
<i>Division of Social Services:</i>				
<i>Administration:</i>				
<i>Family Preservation</i>				
	93.556	606	-	-
 <i>Work First Service</i>				
	93.558	44,273	-	25,839
<i>Work First Administrative</i>				
	93.558	191,959	-	-
<i>TANF-Domestic Violence</i>				
	93.558	6,503	1,034	-
<i>TANF - TEA Foster Care</i>				
	93.558	950	-	-
<i>TANF- TEA-Foster Care Max.</i>				
	93.558	-	-	-
 <i>Low-Income Home Energy Assistance</i>				
<i>Block Grant</i>				
	93.568	12,161	-	-
<i>Crisis Intervention Payments</i>				
	93.568	77,763	-	-
<i>Title IV-E Foster Care</i>				
	93.658	54,323	8,733	45,590
<i>Adoption Foster Care</i>				
	93.658	74,388	-	34,270
<i>Permanency Planning</i>				
	93.645	5,136	1,419	391
<i>Child Support Enforcement</i>				
	93.563	8,167	-	4,207
<i>In-Home Service - SSBG</i>				
	93.667	4,305	-	615
<i>Other Services and Training - SSBG</i>				
	93.667	56,963	4,103	20,355
<i>NC Health Choice</i>				
	93.767	59,472	1,029	18,357
<i>Independent Living - LINKS</i>				
	93.674	2,075	519	-
 <i>Direct Benefit Payments:</i>				
<i>Temporary Assistance for Needy Families</i>				
	93.558	143,309	-	-
<i>Energy Assistance Payment</i>				
	93.568	163,582	-	-
<i>Title IV-E Foster Care Assistance</i>				
	93.658	17,810	3,477	3,686
<i>Title IV-E Adoption Assistance</i>				
	92.659	53,031	10,742	10,703
<i>Independent Living - LINKS</i>				
	93.674	-	-	-
 <i>Division of Medical Assistance:</i>				
<i>Administration:</i>				
<i>Title XIX - Medicaid</i>				
	93.778	302,905	11,721	291,058
 <i>Direct Benefit Payments:</i>				
<i>Title XIX - Medicaid</i>				
	93.778	13,055,154	4,662,105	3,631

EVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>Subsidized Child Care Cluster:</u>				
<i>Division of Social Services:</i>				
Child Care Development Fund	93.596	80,000	-	-
<i>Division of Child Development:</i>				
Child Care Development Fund-Discretionary	93.575	112,949	-	-
Temporary Assistance	93.575	6,517	-	-
Child Care Development Fund	93.596	118,350	44,895	-
Total Child Care Fund Cluster:		<u>317,816</u>	<u>44,895</u>	<u>-</u>
Social Services Block Grant	93.667	5,740	-	-
Temporary Assistance for Needy Families	93.558	38,953	25,062	-
Smart Start		-	17,216	-
Temporary Assistance for Needy Families - MOE		-	38,144	-
State Funding		-	36,956	-
Total Subsidized Child Care Cluster		<u>362,509</u>	<u>162,273</u>	<u>-</u>
Adoption Foster Care	93.659		-	-
Total U.S. Department of Health & Human Resources		<u>14,806,399</u>	<u>4,945,526</u>	<u>458,702</u>
<u>U.S. Department of Agriculture</u>				
<i>Passed through Region D Council of Governments:</i>				
Nutrition Program for the Elderly	10.570	17,358	-	-
Total U.S. Department of Agriculture		<u>17,358</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through N.C. Dept. of Transportation</i>				
<i>Public Transportation Programs:</i>				
<i>Section 5311 Admin., Operating,</i>				
Planning, & Capital	20.509	153,072	9,567	28,701
Governor's Highway Safety Program	20.601	11,718	-	-
Governor's Highway Safety Program K-4 2010 -04-27	20.609	42,921	-	-
Total U.S. Department of Transportation		<u>207,711</u>	<u>9,567</u>	<u>28,701</u>
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed through N.C. Dept. of Commerce</i>				
<i>Division of Community Assistance:</i>				
Scattered Housing Grant	14.228	40,500	-	-
Total U.S. Department of Housing and Urban Development		<u>40,500</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through N.C. Dept. of Crime Control & Public Safety</i>				
Emergency Management Reimbursement	97.042	24,886	-	-
Violence Against Women	16.588	44,598	-	-
Byrne Jag Recovery	16.803	20,000	-	-
Total U.S. Department of Homeland Security		<u>89,484</u>	<u>-</u>	<u>-</u>

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Total federal assistance		15,161,452	4,955,093	487,403
STATE GRANTS				
Cash Programs:				
<u>N.C. Department of Health and Human Resources:</u>				
<i>Passed-through Region D Council of Governments:</i>				
Senior Center General Purchases		-	12,653	-
Senior Center Operations		-	10,507	-
Senior Center FANS		-	484	-
<i>Division of Social Services:</i>				
State Aid to Counties		-		-
<i>Direct Benefit Payment:</i>				
SFHF Maximization		-	22,265	22,265
State Foster Care Benefits Program		-	25,007	25,007
Foster Care at Risk Maximization		-	25,868	3,378
State/County Special Assistance for Adults		-	140,682	140,682
Child Welfare Services - Adoption Subsidy		-	123,607	42,479
TANF Program Integrity		-		-
<i>Department of Juvenile Justice and Delinquency Prevention:</i>				
Adolescent Substance Abuse		-	14,331	-
Juvenile Service Landship		-	11,403	-
PASS		-	22,560	-
Juvenile Non-Det		-	4,991	-
Project Challenge		-	20,499	-
Juvenile Service Operational		-	150	-
Total N.C. Department of Health and Human Resources		-	435,007	233,811
<u>N.C. Department of Transportation:</u>				
Elderly & Disabled TAP	DOT 16 CL	-	3,202	-
Work First Program	DOT 16 CL	-	31,902	-
Rural General Public Transportation	DOT 16 CL	-	31,531	-
Capital Grant	DOT 2	-	79,637	8,649
Total N.C. Department of Transportation		-	146,272	8,649
<u>N.C. Department of Administration</u>				
County Aid - Veterans Service Office		-	2,000	-
Total N.C. Department of Administration		-	2,000	-
<u>N.C. Department of Commerce</u>				
Criminal Justice Partnership Program		-	76,225	-
<u>N.C. Office of State Budget and Management</u>				
Public School Building Capital Fund - Lottery		-	93,655	-

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Total State assistance		-	753,159	242,460
Total assistance		\$ 15,161,452	\$ 5,708,252	\$ 729,863

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Avery 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, and Non-Profit Organizations and the State Single Audit Implementation Act. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Benefits payments are paid directly to recipients and are included in the County's 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.

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