

AVERY COUNTY, NORTH CAROLINA

Newland, North Carolina

Financial Statements

June 30, 2011

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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, 2011, 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, 2011, 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 November 2, 2011 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.

*Young, Miller & Gillespie, P.A.
November 2, 2011*

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, 2011. 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 \$33,973,248.*
- *The government's total net assets increased by \$1,072,119 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 \$19,021,484 a decrease of \$9,768,099 in comparison with the prior year. Approximately 84.0 percent of this total amount, or \$15,966,401, 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 \$4,778,813, or 20 percent of total general fund expenditures and transfers to other funds for the fiscal year.*
- *Avery County's total debt decreased by \$1,076,778 during the current fiscal year primarily due to repayment of debt proceeds.*

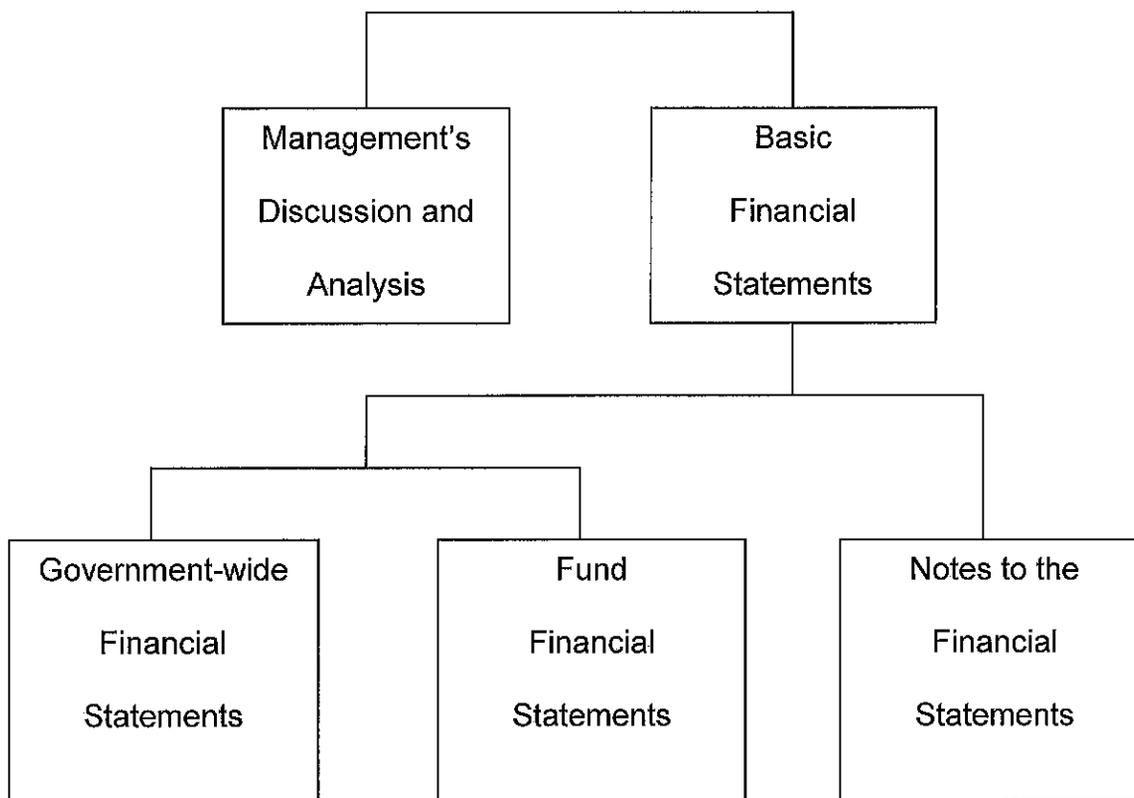
Overview of the Financial Statements

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 gage 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 23 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

	Governmental Activities		
	2011	2010	Difference
<i>Current and other assets</i>	\$ 23,674,117	\$ 31,715,205	\$ (8,041,088)
<i>Capital assets</i>	24,255,211	14,439,203	9,816,008
<i>Total assets</i>	\$ 47,929,328	\$ 46,154,408	\$ 1,774,920
 <i>Long-term liabilities outstanding</i>	 \$ 8,316,116	 \$ 9,392,893	 \$ (1,076,777)
<i>Other liabilities</i>	5,590,134	3,860,386	1,729,748
<i>Total liabilities</i>	13,906,250	13,253,279	652,971
 <i>Net assets:</i>			
<i>Invested in capital assets, net of related debt</i>	19,588,545	9,439,203	10,149,342
<i>Restricted</i>	3,683,965	5,017,879	(1,333,914)
<i>Unrestricted</i>	10,700,738	18,444,047	(7,743,309)
<i>Total net assets</i>	\$ 33,973,248	\$ 32,901,129	\$ 1,072,119

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 \$33,973,248 as of June 30, 2011. The County's net assets increased by \$1,072,119 for the fiscal year ended June 30, 2011. 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,700,738 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 95.37%, higher than the statewide average in 2010 for counties of comparable size (94.79%).
- Increased ad valorem tax revenues due to real property reappraisals during 2010
- Controlled expenditures

Management's Discussion and Analysis

Avery County's Changes in Net Assets

Figure 3

	Governmental Activities	
	2011	2010
<i>Revenues:</i>		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 1,268,043	\$ 1,374,601
<i>Operating grants and contributions</i>	2,861,186	2,738,306
<i>Capital grants and contributions</i>	211,087	120,025
<i>General revenues:</i>		
<i>Property taxes</i>	16,675,006	16,640,642
<i>Other taxes</i>	4,860,256	4,612,637
<i>Investment earnings</i>	345,704	74,980
<i>Other</i>	111,909	79,258
<i>Total revenues</i>	26,333,191	25,640,449
<i>Expenses:</i>		
<i>General government</i>	2,984,662	2,911,534
<i>Public safety</i>	8,281,154	7,200,861
<i>Transportation</i>	713,223	692,198
<i>Environmental protection</i>	2,199,218	1,836,264
<i>Economic and physical development</i>	479,483	323,924
<i>Human services</i>	4,263,479	4,064,754
<i>Cultural and recreation</i>	665,990	548,148
<i>Education</i>	5,211,271	4,820,020
<i>Interest on long-term debt</i>	462,592	520,210
<i>Total expenses</i>	25,261,072	22,917,913
<i>Increase in net assets</i>	1,072,119	2,722,536
<i>Net assets, beginning</i>	32,901,129	30,178,593
<i>Net assets, ending</i>	\$ 33,973,248	\$ 32,901,129

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 \$1,072,119.*

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, unassigned fund balance of the General Fund was \$4,778,813 while total general fund balance reached \$11,771,984. 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 49 percent of that same amount.

At June 30, 2011, the governmental funds of Avery County reported a combined fund balance of \$19,021,484, a 34 percent decrease over last year. The primary reason for this decrease is the continuing expenditures on the school and jail projects.

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 \$619,307. 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, 2011, totals \$24,255,211 (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 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>2011</u>		<u>2010</u>		
<i>Land</i>	\$ 3,640,789	\$	3,576,351	\$	64,438
<i>Construction in progress</i>	12,373,877		2,311,373		10,062,504
<i>Buildings</i>	6,295,533		6,550,231		(254,698)
<i>Improvements other than buildings</i>	497,295		537,388		(40,093)
<i>Machinery and equipment</i>	860,580		882,288		(21,708)
<i>Vehicles and motorized equipment</i>	587,137		581,572		5,565
Total	<u>\$ 24,255,211</u>	<u>\$</u>	<u>14,439,203</u>	<u>\$</u>	<u>9,816,008</u>

Additional information on the County's capital assets can be found in note 3A pages 33 through 34 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2011 Avery County had total debt outstanding of \$10,335,446. Of this, \$9,392,893 is debt secured by deeds of trust, \$123,485 is a pension obligation, \$392,745 is accrued vacation liability, and \$426,323 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 39.

Management's Discussion and Analysis

Budget Highlights for the Fiscal Year Ending June 30, 2012

***Governmental Activities:** Total budgeted revenues are projected to increase only \$368,142 or 2 percent from the 2010-11 budgeted revenues. The increase is attributed to expected increases in sales taxes, hold harmless payments, and sales and service fees, partially offset by decreases in property tax revenues.*

Budgeted General Fund expenditures are expected to increase \$435,306 or 2 percent from the 2010-11 budget. The increase is primarily due to increases in personnel expenses related to staffing the new jail and increased capital expenditures in the solid waste and transportation departments.

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, 2011

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component Unit</u> <u>Avery County</u> <u>Airport</u>
ASSETS		
Cash and cash equivalents	\$ 20,506,610	\$ 111,671
Receivables (net)	1,565,877	31,809
Due from other governments	1,497,824	-
Prepaid items	54,246	-
Capital assets:		
Land, improvements, and construction in progress	16,014,666	5,310
Other capital assets, net of depreciation	8,240,545	1,462,984
Total capital assets	<u>24,255,211</u>	<u>1,468,294</u>
Total assets	<u>47,879,768</u>	<u>1,611,774</u>
LIABILITIES		
Accounts payable and accrued expenses	3,073,488	734
Accrued interest payable	497,586	-
Long-term liabilities:		
Due within one year	2,019,330	-
Due in more than one year	8,316,116	-
Total liabilities	<u>13,906,520</u>	<u>734</u>
NET ASSETS		
Invested in capital assets, net of related debt	19,588,545	1,468,294
Restricted for:		
Stabilization by State Statute	1,559,757	-
Register of Deeds	20,469	-
Fire Protection	235,646	-
Construction commitments	1,868,093	-
Unrestricted (deficit)	10,700,738	142,746
Total net assets	<u>\$ 33,973,248</u>	<u>\$ 1,611,040</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, 2011**

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	\$ 2,984,662	\$ 199,029	\$ -	\$ -	(2,785,633)	
Public safety	8,281,154	736,613	116,557	-	(7,427,984)	
Transportation	713,223	-	406,727	24,118	(282,378)	
Environmental protection	2,199,218	228,676	21,657	4,214	(1,944,671)	
Economic and physical development	479,483	51,490	1,313	-	(426,680)	
Human services	4,263,479	-	2,307,196	182,755	(1,773,528)	
Cultural and recreation	665,990	52,235	7,736	-	(606,019)	
Education	5,211,271	-	-	-	(5,211,271)	
Interest on long-term debt	462,592	-	-	-	(462,592)	
Total governmental activities	\$ 25,261,072	\$ 1,268,043	\$ 2,861,186	\$ 211,087	\$ (20,920,756)	
Component units:						
Airport	211,475	-	40,000	31,809	(139,666)	
	\$ 211,475	\$ -	\$ 40,000	\$ 31,809		
General revenues:						
Taxes:						
Property taxes, levied for general purpose					16,675,006	
Local option sales tax					4,153,006	
Other taxes and licenses					707,250	
Investment earnings, unrestricted					345,704	244
Miscellaneous, unrestricted					111,909	11,794
Total general revenues, special items, and transfers					21,992,875	12,038
Change in net assets					1,072,119	(127,628)
Net assets-beginning					32,901,129	1,738,668
Net assets-ending					\$ 33,973,248	\$ 1,611,040

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

Avery County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2011

	General	Jail Addition Capital Project Fund	Banner Elk School Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 11,677,253	\$ 5,893,198	\$ 1,868,093	\$ 1,068,066	\$ 20,506,610
Receivables, net	1,281,075	-	-	141,318	1,422,393
Due from other governments	1,448,197	-	23,909	25,718	1,497,824
Prepaid assets	54,246	-	-	-	54,246
Total assets	\$ 14,460,771	\$ 5,893,198	\$ 1,892,002	\$ 1,235,102	\$ 23,481,073

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 1,493,564	\$ 441,497	\$ 1,129,778	\$ 58,209	\$ 3,123,048
Deferred revenue	1,195,223	-	-	141,318	1,336,541
Total liabilities	2,688,787	441,497	1,129,778	199,527	4,459,589

Fund balances:

<i>Restricted:</i>					
Stabilization by State statute	1,534,039	-	-	25,718	1,559,757
Register of Deeds	20,469	-	-	-	20,469
Fire Protection	-	-	-	235,646	235,646
<i>Committed:</i>					
Tax revaluation	-	-	-	25,325	25,325
<i>Assigned:</i>					
Subsequent years' expenditures	465,000	-	-	253,552	718,552
For Capital Outlay projects	4,973,663	5,451,701	762,224	-	11,187,588
Unassigned	4,778,813	-	-	495,334	5,274,147
Total fund balances	11,771,984	5,451,701	762,224	1,035,575	19,021,484
Total liabilities and fund balances	\$ 14,460,771	\$ 5,893,198	\$ 1,892,002	\$ 1,235,102	

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

Deferred revenue not available for current operations	1,336,541
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,255,211
Interest receivable is not available to pay for current period expenditures and therefore not reported in the funds	193,044
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 4).	<u>(10,833,032)</u>
Net assets of governmental activities	\$ 33,973,248

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, 2011

	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	\$ 14,829,872	\$ -	\$ -	\$ 1,770,698	\$ 16,600,570
Local option sales taxes	4,153,006	-	-	-	4,153,006
Other taxes and licenses	274,122	-	-	-	274,122
Unrestricted intergovernmental	200,248	-	-	-	200,248
Restricted intergovernmental	2,448,811	-	-	483,377	2,932,188
Permits and fees	301,149	-	-	-	301,149
Sales and services	1,370,264	-	-	-	1,370,264
Investment earnings	295,533	-	5,757	4,818	306,108
Miscellaneous	81,503	-	-	-	81,503
Total revenues	23,954,508	-	5,757	2,258,893	26,219,158
EXPENDITURES					
Current:					
General government	2,636,321	-	-	63,840	2,700,161
Public safety	5,311,351	-	-	2,544,282	7,855,633
Transportation	622,928	-	-	-	622,928
Environmental protection	2,065,468	-	-	-	2,065,468
Economic and physical development	294,054	-	-	182,755	476,809
Human services	4,136,941	-	-	-	4,136,941
Cultural and recreational	627,551	-	-	-	627,551
Intergovernmental:					
Education	5,211,271	-	-	-	5,211,271
Capital outlay	751,480	3,346,579	6,561,084	34,653	10,693,796
Debt service:					
Principal	1,076,777	-	-	-	1,076,777
Interest	519,922	-	-	-	519,922
Total expenditures	23,254,064	3,346,579	6,561,084	2,825,530	35,987,257
Excess (deficiency) of revenues over expenditures	700,444	(3,346,579)	(6,555,327)	(566,637)	(9,768,099)
OTHER FINANCING SOURCES (USES)					
Transfers to other funds	(640,000)	-	-	640,000	-
Transfers from other funds	320,597	-	-	(320,597)	-
Total other financing sources and uses	(319,403)	-	-	319,403	-
Net change in fund balance	381,041	(3,346,579)	(6,555,327)	(247,234)	(9,768,099)
Fund balances-beginning	11,390,943	8,798,280	7,317,551	1,282,809	28,789,583
Fund balances-ending	\$ 11,771,984	\$ 5,451,701	\$ 762,224	\$ 1,035,575	\$ 19,021,484

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, 2011*

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

Net changes in fund balances - total governmental funds \$ (9,768,099)

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. 9,816,007

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 114,047

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. 1,076,777

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. (166,613)

Total changes in net assets of governmental activities \$ 1,072,119

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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 14,813,500	\$ 14,813,500	\$ 14,829,872	\$ 16,372
Local option sales tax	3,933,000	3,933,000	4,153,006	220,006
Other taxes and licenses	277,000	277,000	274,122	(2,878)
Unrestricted intergovernmental	398,329	138,500	200,248	61,748
Restricted intergovernmental	2,609,811	2,644,693	2,448,811	(195,882)
Permits and fees	271,500	273,000	301,149	28,149
Sales and services	1,298,100	1,322,255	1,370,264	48,009
Investment earnings	49,000	310,826	295,533	(15,293)
Miscellaneous	38,500	147,652	81,503	(66,149)
Total revenues	23,688,740	23,860,426	23,954,508	94,082
Expenditures:				
Current:				
General government	2,988,316	2,969,577	2,746,298	223,279
Public safety	5,812,485	5,914,009	5,669,560	244,449
Transportation	996,615	1,015,123	689,869	325,254
Environmental protection	1,932,586	2,269,351	2,172,608	96,743
Economic and physical development	331,329	331,329	294,054	37,275
Human services	4,446,361	4,507,671	4,138,949	368,722
Cultural and recreational	576,312	602,987	694,756	(91,769)
Intergovernmental:				
Education	5,167,271	5,260,535	5,211,271	49,264
Debt service:				
Principal retirement	1,077,177	1,077,177	1,077,177	-
Interest and other charges	519,621	519,621	519,522	99
Total expenditures	23,848,073	24,467,380	23,214,064	1,253,316
Revenues over (under) expenditures	(159,333)	(606,954)	740,444	(1,347,398)
Other financing sources (uses):				
Transfers (to) from other funds	216,000	(319,403)	(319,403)	-
Transfers to component unit	(56,667)	(56,667)	(40,000)	(16,667)
Fund balance appropriated	-	983,024	-	983,024
Total other financing sources (uses)	159,333	606,954	(359,403)	966,357
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	381,041	\$ (381,041)
Fund balances:				
Beginning of year, July 1			11,390,943	
End of year, June 30			\$ 11,771,984	

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

Avery County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Pension Trust Fund</u> <u>June 30, 2011</u>	<u>Agency Funds</u> <u>June 30, 2011</u>
<i>Assets</i>		
<i>Current assets:</i>		
<i>Cash and cash equivalents</i>	\$ 142,670	\$ 3,829
<i>Total assets</i>	<u>\$ 142,670</u>	<u>\$ 3,829</u>
 <i>Liabilities and Net Assets</i>		
<i>Liabilities:</i>		
<i>Miscellaneous liabilities</i>	\$ -	\$ 3,829
<i>Total liabilities</i>	<u>-</u>	<u>3,829</u>
<i>Net assets</i>	<u>142,670</u>	<u>-</u>
<i>Total liabilities and net assets</i>	<u>\$ 142,670</u>	<u>\$ 3,829</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, 2011

	<u>Pension Trust Funds</u>
<i>Additions:</i>	
<i>Employer contributions</i>	\$ 4,671
<i>Investment income:</i>	<u>17,998</u>
<i>Total additions</i>	22,669
 <i>Deductions:</i>	
<i>Benefits</i>	8,047
<i>Administrative expense</i>	<u>1,038</u>
<i>Total deductions</i>	9,085
 <i>Change in net assets</i>	 13,584
 <i>Net assets, beginning</i>	 <u>129,086</u>
<i>Net assets, ending</i>	\$ <u><u>142,670</u></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, 2011

(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, 2011

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:

Pension Trust Fund. The County maintains a Pension Trust Fund to account for the IRC section 457 deferred compensation plan. Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans.

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.

Nonmajor Funds. The County maintains five legally budgeted funds. The Emergency Telephone System Fund, the Fire District Fund, the Revaluation Fund and the Grant Project Fund are reported as nonmajor special revenue funds. The Landfill Expansion Project Fund is reported as a capital projects fund. As the capital reserve fund is not for a specific ongoing project, it is consolidated in the General Fund in accordance with GASB Statement No. 54.

(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)

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 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:

	Years
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:

	Years
Facility upgrades	10
Improvements	12
Additions	20

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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

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."

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

The governmental fund types classify fund balances as follows:

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

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

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

Restricted for Register of Deeds- portion of fund balance that is restricted by revenue source to pay for the computer equipment and imaging technology for the Register of Deeds office.

Restricted for Fire Protection- portion of fund balance that is restricted by revenue source for fire protection expenditures.

Restricted for School Capital-portion of fund balance that can only be used for School Capital per G.S. 159-18-22.

Committed Fund Balance - Portion of fund balance that can only be used for specific purpose imposed by majority vote of Avery County's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Assigned Fund Balance- portion of fund balance that the Avery County governing board has budgeted.

Subsequent year's expenditures-portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

Assigned School Capital Outlay- portion of fund balance that has been budgeted by the board for future school capital construction.

Unassigned Fund Balance - Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Avery County has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, and county funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

Avery County has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the County in such a manor that available fund balance is at least equal to 20% of budgeted expenditures. Any portion of the General Fund balance in excess of 20% of budgeted expenditures will be transferred to reserves for use for future capital projects.

(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 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.*

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

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 \$14,951,764 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)	\$ 33,051,816
Less Accumulated Depreciation	<u>(8,796,605)</u>
Net capital assets	24,255,211
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	193,044
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	1,336,541
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	(123,485)
Compensated absences payable	(392,745)
Bonds, leases, and installment financing	(9,392,893)
Other post-employment health benefits	(426,323)
Accrued interest payable	<u>(497,586)</u>
Total adjustment	<u>\$ 14,951,764</u>

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 (\$10,840,218) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$10,693,796
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	(877,789)
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	1,076,777
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	(223,943)

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

<i>Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)</i>	57,330
<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 7/1/11</i>	(1,262,091)
<i>Recording of tax receipts deferred in the fund statements as of 6/30/11</i>	1,336,541
<i>Increase in accrued interest on taxes receivable for year ended 6/30/11</i>	<u>39,597</u>
<i>Total adjustment</i>	<u><u>\$ 10,840,218</u></u>

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Noncompliance with North Carolina General Statutes
Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2011, the County reported expenditures within both the general and special revenue funds that violated State law because they exceeded the amounts appropriated in the budget. The general fund violation was due to under-budgeting in the function of cultural and recreational salaries. The special revenue fund, the fire district fund, also had a violation due to under-budgeting of the blended component unit, the Avery Fire Commission.

(3) 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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

At June 30, 2011, the County's deposits had a carrying value of \$1,972,073 and a bank balance of \$2,015,147. Of the bank balance, \$750,000 was covered by federal depository insurance and \$1,265,147 was covered by collateral held under the Pooling Method. The County maintains a petty cash fund of \$500.

At June 30, 2011, the carrying amount of deposits for the Avery County Airport Authority was \$111,671 and the bank balance was \$113,090. All of the bank balance was covered by federal depository insurance.

At June 30, 2011, the carrying amount of deposits for the Avery County Fire Commission was \$240,597 and the bank balance was \$243,746. All of the bank balance was covered by federal depository insurance.

Investments

At June 30, 2011, the County's investments consisted of \$18,681,036 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.

Receivable – Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2011 were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
<i>Governmental Activities:</i>				
General	\$ 36,292	\$ 1,599,452	\$ 1,448,197	\$ 3,083,941
Other Governmental	-	177,182	49,627	226,809
<i>Total receivables</i>	<u>36,292</u>	<u>1,776,634</u>	<u>1,497,824</u>	<u>3,310,750</u>
<i>Allowance for doubtful accounts</i>	-	(247,049)	-	(247,049)
<i>Total-governmental activities</i>	<u>\$ 36,292</u>	<u>\$ 1,529,585</u>	<u>\$ 1,497,824</u>	<u>\$ 3,063,701</u>

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, 2011</u>
<i>General Fund:</i>	
Property taxes	\$ 228,845
<i>Special Revenue Fund:</i>	
Total	<u>\$ 247,049</u>

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

Local option sales tax	\$ 913,745
NC DHHS operating funds	144,906
NC DOT operating and capital funds	149,961
NC Governors Crime Commission	24,659
NC E-911 fees	25,052
NC DOC CJPP funds	13,285
Hold Harmless tax	100,791
Sales tax refunds	<u>125,425</u>
Total	<u>\$ 1,497,824</u>

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Transfers/ (Decreases)	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,831,601	\$ 64,438	\$ 738,665	\$ 3,634,704
Construction in progress	3,056,123	10,131,864	(808,024)	12,379,963
<i>Total capital assets not being depreciated</i>	<u>5,887,724</u>	<u>10,196,302</u>	<u>(69,359)</u>	<u>16,014,667</u>
<i>Capital assets being depreciated</i>				
Buildings	9,512,781	-	-	9,512,781
Other improvements	1,664,965	13,510	22,492	1,700,967
Equipment	2,847,197	138,761	36,545	3,022,503
Vehicles and motor equipment	2,579,188	345,223	(123,512)	2,800,899
<i>Total capital assets being depreciated</i>	<u>16,604,131</u>	<u>497,494</u>	<u>(64,475)</u>	<u>17,037,150</u>
<i>Less accumulated depreciation for:</i>				
Buildings	2,962,549	254,698	-	3,217,247
Other improvements	1,150,070	53,602	-	1,203,672
Equipment	1,947,494	229,829	15,400	2,161,923
Vehicles and motor equipment	1,992,539	339,659	118,434	2,213,764
<i>Total accumulated depreciation</i>	<u>8,052,652</u>	<u>877,788</u>	<u>133,834</u>	<u>8,796,606</u>
<i>Total capital assets being depreciated, net</i>	<u>8,551,479</u>			<u>8,240,544</u>
<i>Governmental activity capital assets, net</i>	<u>\$ 14,439,203</u>			<u>\$ 24,255,211</u>
General government	\$ 248,487			
Public safety	343,823			
Environmental Protection	125,875			
Human services	62,470			
Transportation	68,776			
Cultural and recreational	28,357			
<i>Total depreciation expense</i>	<u>\$ 877,788</u>			

Construction commitments

The government has two active construction projects as of June 30, 2011. The projects are listed below. At June 30, 2011, 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	\$ 6,218,656	\$ 451,726
Jail Project	2,775,690	2,526,673

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

Discretely presented component units

Activity for the Avery County Airport for the year ended June 30, 2011, 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	\$12,709	35,767	-	\$48,476
Total capital assets not being depreciated	<u>12,709</u>	<u>35,767</u>	<u>-</u>	<u>48,476</u>
<i>Capital assets being depreciated:</i>				
Equipment	11,978	-	-	11,978
Building improvements	5,310	-	-	5,310
Leasehold improvements	2,022,781	-	-	2,022,781
Fuel storage facility	66,604	-	-	66,604
Total capital assets being depreciated	<u>2,106,673</u>	<u>-</u>	<u>-</u>	<u>2,106,673</u>
<i>Less accumulated depreciation for:</i>				
Equipment	11,978	-	-	11,978
Building improvements	2,323	221	-	2,544
Leasehold improvements	439,009	168,191	-	607,200
Fuel storage facility	63,543	1,590	-	65,133
Total accumulated depreciation	<u>516,853</u>	<u>170,002</u>	<u>-</u>	<u>686,855</u>
Total capital assets being depreciated, net	<u>1,589,820</u>			<u>1,419,818</u>
<i>Avery County Airport capital assets, net</i>	<u>\$1,602,529</u>			<u>\$1,468,294</u>

Payables

Payables at the government-wide level at June 30, 2011, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
<i>Governmental Activities:</i>				
General	\$ 904,498	\$ 589,066	\$ 497,586	\$ 1,991,150
Other Governmental	1,629,484	-	-	1,629,484
<i>Total-governmental activities</i>	<u>\$ 2,533,982</u>	<u>\$ 589,066</u>	<u>\$ 497,586</u>	<u>\$ 3,620,634</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 writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27609-1410, or calling (919) 981-5454.

Avery County, North Carolina
Notes to Financial Statements
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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 6.5% and 6.4%, 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, 2011, 2010, and 2009 was \$366,823, \$269,269, and \$268,576, 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, 2010 the Separation Allowance membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not Yet receiving benefits	0
Active plan members	<u>26</u>
Total	<u><u>26</u></u>

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.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Item (b) included an inflation component of 3%. 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:

Avery County, North Carolina
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Annual required contribution	\$ 28,611
Annual pension cost	4,761
Contributions made	(-0-)
Increase (decrease) in net pension obligation	<u>28,275</u>
Net pension obligation beginning of year	95,210
Net pension obligation end of year	<u>\$ 123,485</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, 2011 were \$47,586 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, 2011 the County contributed \$2,719 to the fund, representing 100% of its required contribution.

(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

Avery County, North Carolina
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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 made contributions of \$31,055. 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 estimated 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	\$ 163,265
Annual OPEB cost (expense)	163,265
Contributions made	31,055
Increase (decrease) in net OPEB obligation	163,265
Net OPEB obligation, beginning of year	<u>263,058</u>
Net OPEB obligation, end of year	\$426,323

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

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

Avery County, North Carolina
Notes to Financial Statements
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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:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Taxes receivable (net)	1,195,223	141,318
	\$ 1,195,223	\$ 141,318

(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.

(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

Avery County, North Carolina
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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, 2011, 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, 2011 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.

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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

For Avery County, the future minimum payments as of June 30, 2011 are:

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>General</u> <u>Long-Term</u> <u>Debt</u>	<u>Interest</u> <u>Due and</u> <u>Payable</u>
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	1,076,777	268,266
2017-2021	2,850,553	-0-
2022-2025	<u>1,158,455</u>	<u>-0-</u>
Total	\$9,392,893	\$ 1,914,630

At June 30, 2011, the County had a legal debt margin of \$ 443,865,704.

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, 2011:

Governmental activities:	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Current</u> <u>Portion</u>
Installment purchase	\$ 10,469,671	-	1,076,777	9,392,893	1,076,777
Other post employment benefits	263,058	163,265	-	426,323	426,323
Pension plan obligation	95,210	28,275	-	123,485	123,485
Vacation pay obligation	360,342	32,403	-	392,745	392,745
Total governmental activities	\$ 11,188,281	\$223,943	\$ 1,076,777	\$ 10,335,446	\$2,019,330

b. Interfund Balances and Activity

Transfers to/from other fund

Transfers to/from other funds at June 30, 2011, consist of the following:

From the Landfill fund to close	\$(320,597)
From the General fund to the Revaluation fund to accumulate resources for the revaluation of real property	80,000
From the General fund to the Fire District fund for use of the Fire Commission	560,000
Total	\$319,403

(4) 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, 2011. In accordance with the intergovernmental agreement between the participating governments, the

Avery County, North Carolina
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For the Fiscal Year Ended June 30, 2011

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 \$273,831 to the College for operating purposes and \$122,440 for capital outlay during the fiscal year ended June 30, 2011. 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, 2011. 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, 2011. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$280,140 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.

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, 2011. 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.

(5) 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 \$9,084 to the Council during the fiscal year ending June 30, 2011.

(6) 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, 2011, 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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2011

(7) 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	\$ 12,890,438	\$ 5,251,729
Temporary Assistance for Needy Families	100,698	-
Title IV-E Foster Care Assistance	22,223	4,803
Title IV-E Adoption Assistance	54,672	12,306
State Foster Care Benefits Program	-	22,360
State Special Assistance for Adults	-	128,116
Low Income Energy Assistance	244,211	-
CWS Adoption Subsidy	-	148,096
SFHF Maximization	-	34,380

(8) 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.

(9) FUND BALANCE

Avery County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officers will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

The following schedule provides management and citizens with information on the portion of governmental fund balances that are available for appropriation:

Total fund balance-Governmental Funds	\$19,021,484
Less:	
Stabilization by State Statute	1,559,757
Register of Deeds fund	20,469
Fire Protection	235,646
Appropriated Fund Balance in 2012 budget	718,552
Tax Revaluation	25,325
Capital projects in progress	6,709,259
Capital reserves for future projects	4,973,663
Working Capital/ Fund Balance Policy	4,778,813
Remaining Fund Balance	-0-

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%
12/31/2010	0	248,739	248,739	0%	966,193	25.74%

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%
2011	28,275	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	12/31/2010
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

See the accompanying Independent Auditor's Report.

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

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)</u>	<u>Unfunded (AAL) (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b -a)/c)</u>
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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	162,599	12.2%
2010	163,265	13.2%
2011	163,265 (estimated)	19%

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Revenues:				
<i>Ad valorem taxes:</i>				
Taxes	\$	\$ 14,781,550	\$	\$ 14,563,945
Penalties and interest		118,740		116,440
Refunds and releases		(70,419)		(31,980)
Total		<u>14,813,500</u>		<u>14,648,405</u>
<i>Local option sales taxes:</i>				
Article 39 one percent		1,805,398		1,749,900
Article 40 one-half of one percent		956,596		946,294
Article 42 one-half of one percent		914,585		814,450
Article 44 one-half of one percent		8,801		100,564
Video programming distribution		64,667		65,650
Medicaid Hold Harmless payment		402,959		198,590
Total		<u>3,933,000</u>		<u>3,875,448</u>
<i>Other taxes and licenses:</i>				
Real estate transfer tax		239,586		261,357
Scrap tire disposal tax		21,657		20,374
Solid waste disposal		12,879		13,039
Total		<u>277,000</u>		<u>294,770</u>
<i>Unrestricted intergovernmental:</i>				
Payments in lieu of taxes		167,005		176,660
Food stamp tax reimbursement		2,838		230
Sales tax refunds		30,406		0
Total		<u>138,500</u>		<u>176,890</u>
<i>Restricted intergovernmental:</i>				
State and federal grants		2,418,357		2,483,221
Court facilities fees		23,644		26,995
ABC bottle tax		6,810		7,067
Total		<u>2,644,693</u>		<u>2,517,283</u>
<i>Licenses and permits:</i>				
Inspection fees and building permits		126,990		106,696
Register of deeds		146,601		144,025
Marriage licenses		7,560		7,170
Officer fees		6,244		6,405
Gun permits		1,144		1,135
IPM dues		1,630		1,842
Fingerprint fees		1,730		2,340
Flood plain mapping fees		-		2,330
Concealed weapons fees		9,250		7,916
Total		<u>273,000</u>		<u>280,053</u>

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Sales and services:				
Election department		26		11,786
Transportation fees		430,845		320,888
Rents, concessions and fees		1		0
Recreation fees		59,971		59,153
Jail fees		21,314		31,628
Tax assessor fees		709		1,330
Emergency medical service		569,940		662,922
Solid waste fees		265,657		252,218
Civil process fees		18,520		17,860
Electronic mgmt program		1,313		-
Civil license revocations		1,968		2,077
Total	1,322,255	1,370,264	48,009	1,359,862
Investment earnings	310,829	295,533	(15,296)	48,230
Miscellaneous:				
Sales of fixed assets		15,993		28,662
Donations		8,930		250
Restitution fees		162		777
Drug fund		56		252
DARE program		49,168		41,290
Other		7,194		8,279
Total	147,652	81,503	(66,149)	79,510
Total revenues	23,860,429	23,954,508	94,079	23,280,451
Expenditures:				
General government -				
Governing body:				
Salaries and employee benefits		111,678		101,073
Other operating expenditures		65,291		47,063
Capital outlay		-		2,543
Total	206,973	176,969	30,004	150,679
Administration:				
Salaries and employee benefits		143,753		134,739
Other operating expenditures		13,996		16,066
Capital outlay		1,009		0
Total	161,690	158,758	2,932	150,805
Elections:				
Salaries and employee benefits		123,494		140,482
Other operating expenditures		30,564		73,356
Capital outlay		2,136		698
Total	168,279	156,194	12,085	216,536

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<i>Finance:</i>				
Salaries and employee benefits		275,786		234,606
Other operating expenditures		41,053		35,480
Capital outlay		15,881		10,148
Total	362,561	332,720	29,841	280,234
<i>Tax listing and supervisor:</i>				
Salaries and employee benefits		256,980		245,448
Other operating expenditures		105,164		101,479
Capital outlay		37,674		75,202
Total	392,578	399,818	(7,240)	422,129
<i>Tax collections:</i>				
Salaries and employee benefits		167,887		168,194
Other operating expenditures		17,381		20,402
Capital outlay		2,510		1,347
Total	195,685	187,778	7,907	189,943
<i>Tax mapping:</i>				
Salaries and employee benefits		53,238		
Operating expenditures		24,960		67,272
Capital outlay		19,483		
Total	144,842	97,681	47,161	67,272
<i>Register of Deeds:</i>				
Salaries and employee benefits		159,667		180,390
Other operating expenditures		228,844		246,158
Capital outlay		15,671		
Total	453,320	404,182	49,138	426,548
<i>Public Buildings:</i>				
Salaries and employee benefits		272,124		245,476
Other operating expenditures		412,045		398,632
Capital outlay		68,759		78,164
Total	785,852	752,928	32,924	722,272
<i>Legal and auditing:</i>				
Contracted services	81,900	70,172	11,728	72,520
<i>Facilities fees:</i>				
Operating expenditures		5,068		5,603
Capital outlay		4,030		3,416
Total	15,900	9,098	6,802	9,019
Total general government	2,969,580	2,746,298	223,282	2,707,957

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, 2011
 (With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Public safety -				
Sheriff's Department:				
Salaries and employee benefits		1,420,161		1,265,861
Other operating expenditures		306,160		274,180
Capital outlay		92,802		114,801
Total	1,789,602	1,819,123	(29,521)	1,654,842
Jail:				
Salaries and employee benefits		441,908		421,769
Other operating expenditures		221,743		256,009
Capital outlay		599		19,536
Total	700,155	664,250	35,905	697,314
Building inspection:				
Salaries and employee benefits		275,530		271,555
Other operating expenditures		51,532		53,718
Capital outlay		4,356		3,145
Total	418,179	331,418	86,761	328,418
Emergency management:				
Salaries and employee benefits		65,863		60,148
Other operating expenditures		23,443		17,879
Capital outlay		6,430		3,441
Total	111,713	95,736	15,977	81,468
Emergency medical services:				
Salaries and employee benefits		1,384,538		1,278,019
Other operating expenditures		244,914		248,246
Capital outlay		185,467		103,159
Total	1,836,603	1,814,919	21,684	1,629,424
Central dispatch:				
Salaries and employee benefits		555,507		529,832
Other operating expenditures		68,947		73,786
Capital outlay		123,535		983
Total	850,207	747,989	102,218	604,601
OSHA instruction:				
Other operating expenditures		-		-
Total	325	-	325	-
Medical examiner:				
Professional services	15,000	3,900	11,100	19,000

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<i>Community agency contributions:</i>				
<i>Avery Search & Rescue</i>		133,000		156,500
<i>Humane Society</i>		59,225		59,225
<i>Total</i>	192,225	192,225	-	215,725
<i>Total public safety</i>	5,914,009	5,669,560	244,449	5,290,852
<i>Public transportation:</i>				
<i>Streets and highways:</i>				
<i>Salaries and employee benefits</i>		434,022		394,716
<i>Other operating expenditures</i>		114,212		123,170
<i>Capital outlay</i>		141,635		89,510
<i>Total public transportation</i>	1,015,123	689,869	325,254	607,396
<i>Environmental protection -</i>				
<i>Sanitation:</i>				
<i>Salaries and employee benefits</i>		733,428		691,893
<i>Other operating expenditures</i>		936,994		822,824
<i>Capital outlay</i>		301,800		140,183
<i>Total</i>	2,055,979	1,972,222	83,757	1,654,900
<i>Soil conservation service:</i>				
<i>Contracted services</i>	213,372	200,386	12,986	196,922
<i>Total environmental protection</i>	2,269,351	2,172,608	96,743	1,851,822
<i>Economic and physical development -</i>				
<i>Agricultural extension agent:</i>				
<i>Salaries and employee benefits</i>		175,052		168,271
<i>Other operating expenditures</i>		110,237		96,719
<i>Capital outlay</i>		4,048		6,627
<i>Total</i>	300,429	289,337	11,092	271,617
<i>Physical development:</i>				
<i>Operating expenditures</i>				
<i>Total</i>	29,900	3,717	26,183	10,411
<i>Regional economic development:</i>				
<i>Region D Development Council</i>	1,000	1,000	-	1,000
<i>Total economic and physical development</i>	331,329	294,054	37,275	283,028

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Human services -				
Public Health:				
Toe River Health District		280,140		279,140
New River Mental Health		92,400		92,400
Alcoholic rehabilitation		6,810		7,068
Total	382,540	379,350	3,190	378,608
Veteran's Service Officer -				
Salaries and employee benefits		17,040		16,795
Other operating expenditures		2,239		2,122
Capital outlay		1,065		
Total	34,835	20,344	14,491	18,917
Social Services:				
Salaries and employee benefits		1,528,567		1,404,983
Other operating expenditures		182,671		165,163
Capital outlay		12,847		25,039
Total	1,810,299	1,724,085	86,214	1,595,185
County participation:				
Medicaid		15,254		16,474
Special assistance		217,012		221,523
Foster care		142,972		133,896
Crisis intervention		99,520		80,320
Family Support Act		85,707		85,121
Aid for children		63,189		58,008
Independent living		80		
JOBS program		65,489		56,126
Total	696,346	689,223	7,123	651,468
Senior Citizens:				
Salaries and employee benefits		549,838		528,306
Other operating expenditures		218,816		238,508
Capital outlay		4,982		12,771
Total	850,493	773,636	76,857	779,685
Day Care and Child Development:				
Contracted services	530,500	352,529	177,971	360,601
Community Based Alternatives				
Operating expenditures	101,974	99,252	2,722	114,802
CJPP Program	53,649	53,649	-	53,649
Aid to the Blind	1,715	1,561	154	1,736

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<i>Community agency contributions:</i>				
Hospice		-		
ADAP - Yellow Mountain		23,690		23,690
Avery Alzheimer's Support		-		2,000
ACADA		21,630		21,630
Total	45,320	45,320	-	47,320
<i>Total human services</i>	4,507,671	4,138,949	368,722	4,001,971
<i>Cultural and recreational -</i>				
<i>Parks & recreation:</i>				
Salaries and employee benefits		276,067		230,219
Other operating expenditures		135,808		112,033
Capital outlay		73,461		64,998
Total	453,567	485,336	(31,769)	407,250
<i>Community agency contributions:</i>				
Shrine Club		1,000		1,000
Arts Council		3,500		
Blue Ridge Resource		400		400
Avery Little League		7,060		7,060
WAMY		6,180		6,180
Tag Office		10,000		10,000
Avery Smart Start		5,000		5,000
YMCA		35,000		25,000
Municipality Donation		60,000		
Avery Museum		3,000		3,000
Total	71,140	131,140	(60,000)	57,640
Library:				
Contracted services	78,280	78,280	-	78,280
<i>Total cultural and recreational</i>	602,987	694,756	(91,769)	543,170
<i>Education -</i>				
Public schools - current expense		4,068,000		3,921,000
Public schools - capital outlay		747,000		600,000
Community College - current expense		273,831		267,820
Community College - capital outlay		122,440		31,200
<i>Total education</i>	5,260,535	5,211,271	49,264	4,820,020
<i>Debt service -</i>				
Principal retirement		1,077,177		1,102,461
Interest and fees		519,522		233,735
<i>Total debt service</i>	1,596,798	1,596,699	99	1,336,196

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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Total expenditures	24,467,383	23,214,064	1,253,319	21,382,412
Revenue over (under) expenditures	(606,954)	740,444	1,347,398	1,898,039
Other financing sources (uses):				
Operating transfers in (out):				
To Revaluation Fund	(80,000)	(80,000)	-	(55,318)
To/From Landfill Fund	320,597	320,597	-	(8,435)
To/From Capital Reserve Fund	-	-	-	(3,018,319)
To Fire Tax Fund	(560,000)	(560,000)	-	(141,685)
To component unit - Airport	(56,667)	(40,000)	16,667	(89,187)
Total operating transfers	(376,070)	(359,403)	16,667	(3,313,144)
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	(376,070)	(359,403)	16,667	(3,313,144)
Excess of revenues and other sources over (under) expenditures and other uses	(983,024)	381,041	1,364,065	(1,415,105)
Appropriated fund balance	983,024	-	(983,024)	-
Excess of revenues, other sources and appropriated fund balance over (under) expenditures and other uses	\$ -	381,041	\$ 381,041	(1,415,105)
Fund balances - beginning of year		11,390,943		9,783,560
Fund balances - end of year		\$ 11,771,984		\$ 8,370,455

*Avery County, North Carolina
 Combining Balance Sheet
 Non-major Governmental Funds
 June 30, 2011*

	<i>Emergency Telephone System Fund</i>	<i>Fire District Fund</i>	<i>Revaluation Fund</i>	<i>Total Non-major Special Revenue Funds</i>
ASSETS				
<i>Cash and cash equivalents</i>	\$ 798,446	\$ 244,295	\$ 25,325	\$ 1,068,066
<i>Taxes receivable, net</i>	-	141,318	-	141,318
<i>Due from other governments</i>	25,718	-	-	25,718
<i>Total assets</i>	<u>\$ 824,164</u>	<u>\$ 385,613</u>	<u>\$ 25,325</u>	<u>\$ 1,235,102</u>
 LIABILITIES AND FUND BALANCES				
<i>Liabilities:</i>				
<i>Accounts payable and accrued liabilities</i>	\$ 49,560	\$ 8,649	\$ -	\$ 58,209
<i>Deferred revenue</i>	-	141,318	-	141,318
<i>Total liabilities</i>	<u>49,560</u>	<u>149,967</u>	<u>-</u>	<u>199,527</u>
 <i>Fund balances:</i>				
<i>Restricted:</i>				
<i>Reserved by State statute</i>	25,718	-	-	25,718
<i>Fire Protection</i>	-	235,646	-	235,646
<i>Committed:</i>				
<i>Tax Revaluation</i>			25,325	25,325
<i>Assigned:</i>				
<i>Designated for subsequent year's expenditures</i>	253,552	-	-	253,552
<i>Unrestricted</i>	495,334	-	-	495,334
<i>Total fund balances</i>	<u>774,604</u>	<u>235,646</u>	<u>25,325</u>	<u>1,035,575</u>
<i>Total liabilities and fund balances</i>	<u>\$ 824,164</u>	<u>\$ 385,613</u>	<u>\$ 25,325</u>	<u>\$ 1,235,102</u>

Avery County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-major Governmental Funds
For the Year Ended June 30, 2011

	Emergency Telephone System Fund	Fire District Fund	Revaluation Fund	Grant Projects Funds	Total Non-major Special Revenue Funds	Landfill Expansion Project	Non-major Capital Projects Fund	Total Non-major Governmental Funds
REVENUES								
Ad valorem taxes	\$ -	\$ 1,770,698	\$ -	\$ -	\$ 1,770,698	\$ -	\$ -	\$ 1,770,698
Restricted intergovernmental	300,622	-	-	182,755	483,377	-	-	483,377
Investment earnings	2,064	2,754	-	-	4,818	-	-	4,818
Total revenues	302,686	1,773,452	-	182,755	2,238,893	-	-	2,238,893
EXPENDITURES								
Current:								
General government	-	-	63,840	-	63,840	-	-	63,840
Economic and physical development	-	-	-	182,755	182,755	-	-	182,755
Public safety	139,769	2,404,513	-	-	2,544,282	-	-	2,544,282
Capital outlay	-	-	-	-	-	34,653	-	34,653
Total expenditures	139,769	2,404,513	63,840	182,755	2,790,877	34,653	-	2,825,530
Excess (deficiency) of revenues over expenditures	162,917	(631,061)	(63,840)	-	(531,984)	(34,653)	-	(566,637)
OTHER FINANCING SOURCES (USES)								
Transfers (to) from other funds	-	560,000	80,000	-	640,000	(320,597)	-	319,403
Total other financing sources and uses	-	560,000	80,000	-	640,000	(320,597)	-	319,403
Net change in fund balances	162,917	(71,061)	16,160	-	108,016	(355,250)	-	(247,234)
Fund balances - beginning	611,687	306,707	9,165	-	927,559	355,250	-	1,282,809
Fund balances - ending	\$ 774,604	\$ 235,646	\$ 23,325	\$ -	\$ 1,035,575	\$ -	\$ -	\$ 1,035,575

See the accompanying Independent Auditor's Report.
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Avery County, North Carolina
Emergency Telephone System Fund
Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2011
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
Revenues:				
E-911 surcharges	\$	\$ 300,622	\$	\$ 300,622
Investment earnings - surcharges		2,064		2,266
Total revenues	<u>302,500</u>	<u>302,686</u>	<u>186</u>	<u>302,888</u>
Expenditures:				
Public safety:				
Salaries and fringe benefits		49,559		47,035
Other operating expenditures		82,553		84,739
Capital outlay		7,657		25,130
Total expenditures	<u>189,982</u>	<u>139,769</u>	<u>50,213</u>	<u>156,904</u>
Revenues over (under) expenditures	<u>112,518</u>	<u>162,917</u>	<u>50,399</u>	<u>145,984</u>
Other financing sources (uses):				
Operating transfer in (out):				
To General Fund	-		-	8,435
Fund balance appropriated	<u>(112,518)</u>	<u>-</u>	<u>(112,518)</u>	<u>-</u>
Total other financing sources (uses)	<u>(112,518)</u>	<u>-</u>	<u>(112,518)</u>	<u>8,435</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 162,917</u>	<u>\$ 162,917</u>	<u>\$ 154,419</u>
Fund balances - beginning of year		<u>611,687</u>		<u>457,268</u>
Fund balances - end of year		<u>\$ 774,604</u>		<u>\$ 611,687</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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<i>Revenues:</i>				
Ad valorem taxes	\$	\$ 1,770,698	\$	\$ 1,561,771
Interest and other income		2,754		5,199
Total revenues	<u>1,797,000</u>	<u>1,773,452</u>	<u>23,548</u>	<u>1,566,970</u>
<i>Expenditures:</i>				
Public safety:				
Volunteer fire departments		701,956		775,061
Fire commission		1,702,557		854,261
Total expenditures	<u>2,407,000</u>	<u>2,404,513</u>	<u>2,487</u>	<u>1,629,322</u>
Revenues over expenditures	<u>(610,000)</u>	<u>(631,061)</u>	<u>21,061</u>	<u>(62,352)</u>
<i>Other financing sources (uses):</i>				
Fund balance appropriated	50,000		50,000	
Transfers in (out)	560,000	560,000	-	141,685
Total other financing sources (uses)	<u>610,000</u>	<u>560,000</u>	<u>50,000</u>	<u>141,685</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$ <u>-</u>	\$ (71,061)	\$ <u>71,061</u>	\$ <u>79,333</u>
Fund balances - beginning of year		<u>306,707</u>		<u>227,374</u>
Fund balances - end of year		\$ <u>235,646</u>		\$ <u>306,707</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, 2011

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010)

	2011		Variance Favorable (Unfavorable)	2010
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>Investment earnings</i>	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
<i>General government:</i>				
<i>Tax listing</i>	73,135	63,840	9,295	82,543
<i>Total expenditures</i>	73,135	63,840	9,295	82,543
<i>Revenues over (under) expenditures</i>	(73,135)	(63,840)	9,295	(82,543)
<i>Other financing sources (uses):</i>				
<i>Fund balance appropriated</i>	(6,865)	-	(6,865)	-
<i>Operating transfer in (out) from General Fund</i>	80,000	80,000	-	55,318
<i>Total other financing sources (uses)</i>	73,135	80,000	(6,865)	55,318
<i>Excess of revenues and other sources over (under) expenditures</i>	\$ -	\$ 16,160	\$ 16,160	\$ (27,225)
<i>Fund balances - beginning of year</i>		9,165		36,390
<i>Fund balances - end of year</i>		\$ 25,325		\$ 9,165

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, 2011

	Project Authorization	Actual		Total To Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total	-	-	-	-	-
Expenditures - Public Safety					
General construction	\$ 7,706,000	-	3,026,713	3,026,713	4,679,287
Architect/engineering fees	914,000	376,050	318,365	694,415	219,585
Permits, surveys, insurance	25,000	5,670	1,500	7,170	17,830
Furniture	150,000	-	-	-	150,000
Site prep	385,000	-	-	-	385,000
Total expenditures	<u>9,180,000</u>	<u>381,720</u>	<u>3,346,578</u>	<u>3,728,298</u>	<u>5,451,702</u>
Revenues over (under) expenditures	(9,180,000)	(381,720)	(3,346,578)	(3,728,298)	5,451,702
Other financing sources and uses					
Transfers in (out) - capital reserve fund	2,591,542	2,591,542	-	2,591,542	-
Transfers in (out) - courthouse project fund	6,588,458	6,588,458	-	6,588,458	-
Total other financing sources	<u>9,180,000</u>	<u>9,180,000</u>	<u>-</u>	<u>9,180,000</u>	<u>-</u>
Revenues and other sources over (under) expenditures	\$ -	\$ <u>8,798,280</u>	(3,346,578)	\$ <u>5,451,702</u>	\$ <u>5,451,702</u>
Fund balances:					
Beginning of year, July 1			<u>8,798,280</u>		
End of year, June 30			\$ <u><u>5,451,702</u></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, 2011

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
Revenues:					
Investment earnings	\$ 30,000	\$ 1,315	\$ 5,757	\$ 7,072	\$ (22,928)
Total	<u>30,000</u>	<u>1,315</u>	<u>5,757</u>	<u>7,072</u>	<u>(22,928)</u>
Expenditures - Education					
General construction	7,468,000	1,043,594	5,622,816	6,666,410	801,590
Architect/engineering fees	1,160,000	792,187	319,316	1,111,503	48,497
Permits, surveys	30,000	22,366	4,430	26,796	3,204
Site prep	565,000	537,150	-	537,150	27,850
Furniture	780,000	-	597,250	597,250	182,750
Attorney fees	30,000	9,000	17,272	26,272	3,728
Total expenditures	<u>10,033,000</u>	<u>2,404,297</u>	<u>6,561,084</u>	<u>8,965,381</u>	<u>1,067,619</u>
Revenues over (under) expenditures	(10,003,000)	(2,402,982)	(6,555,327)	(8,958,309)	1,044,691
Other financing sources and uses					
Proceeds from loan	5,830,000	5,500,000	-	5,500,000	(330,000)
Transfers in (out) - general fund	-	389,200	-	389,200	389,200
Transfers in (out) - capital reserve	4,173,000	4,173,000	-	4,173,000	-
Transfers(out) to debt service	-	(341,667)	-	(341,667)	(341,667)
Total other financing sources	<u>10,003,000</u>	<u>9,720,533</u>	<u>-</u>	<u>9,720,533</u>	<u>(282,467)</u>
Revenues and other sources over (under) expenditures	\$ <u>-</u>	\$ <u>7,317,551</u>	(6,555,327)	\$ <u>762,224</u>	\$ <u>762,224</u>
Fund balances:					
Beginning of year, July 1			<u>7,317,551</u>		
End of year, June 30			\$ <u>762,224</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, 2011

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
Total	-	-	-	-	-
Expenditures - Environmental protection					
General construction	901,800	577,595	19,515	597,110	304,690
Architect/engineering fees	533,000	492,783	13,638	506,421	26,579
Permits, surveys and other	15,200	-	1,500	1,500	13,700
Total expenditures	<u>1,450,000</u>	<u>1,070,378</u>	<u>34,653</u>	<u>1,105,031</u>	<u>344,969</u>
Revenues over (under) expenditures	(1,450,000)	(1,070,378)	(34,653)	(1,105,031)	344,969
Other financing sources and uses					
Transfers in (out) - general fund	350,000	325,628	(320,597)	5,031	(344,969)
Transfers in (out) - capital reserve	1,100,000	1,100,000	-	1,100,000	-
Total other financing sources	<u>1,450,000</u>	<u>1,425,628</u>	<u>(320,597)</u>	<u>1,105,031</u>	<u>(344,969)</u>
Revenues and other sources over (under) expenditures	\$ -	\$ <u>355,250</u>	(355,250)	\$ -	\$ -
Fund balances:					
Beginning of year, July 1			<u>355,250</u>		
End of year, June 30			\$ -		

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, 2011

	<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	\$ 182,755	\$ 223,255	\$ (176,745)
Total	<u>400,000</u>	<u>40,500</u>	<u>182,755</u>	<u>223,255</u>	<u>(176,745)</u>
<i>Expenditures - Economic and physical development</i>					
Relocation assistance	248,000	32,700	135,808	168,508	79,492
Rehabilitation	80,000	800	600	1,400	78,600
Administration	40,000	-	35,047	35,047	4,953
Planning	7,000	7,000	-	7,000	-
Clearance	25,000	-	11,300	11,300	13,700
Total expenditures	<u>400,000</u>	<u>40,500</u>	<u>182,755</u>	<u>223,255</u>	<u>176,745</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			-		
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, 2011

	<u>Balance</u> <u>July 1,</u> <u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>2011</u>
Social Services -				
<i>Assets:</i>				
Cash and investments	\$ 1,025	\$ 120,041	\$ (117,237)	\$ 3,829
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 1,025	\$ 120,041	\$ (117,237)	\$ 3,829
Motor Vehicle Tax -				
<i>Assets:</i>				
Taxes receivable	\$ -	\$ 61,684	\$ (61,684)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables	\$ -	\$ 61,684	\$ (61,684)	\$ -
Fines and Forfeitures -				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 81,533	\$ (81,533)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - Board of Education	\$ -	\$ 76,403	\$ (76,403)	\$ -
Intergovernmental payables - State of North Carolina	\$ -	\$ 5,130	\$ (5,130)	\$ -
Total intergovernmental payables	\$ -	\$ 81,533	\$ (81,533)	\$ -
Deed of Trust Fee Fund				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 4,290	\$ (4,290)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - State of NC	\$ -	\$ 4,290	\$ (4,290)	\$ -
Totals - All Agency Funds				
<i>Assets:</i>				
Cash and investments	\$ 1,025	\$ 205,864	\$ (203,060)	\$ 3,829
Taxes receivable	\$ -	\$ 61,684	\$ (61,684)	\$ -
Total assets	\$ 1,025	\$ 267,548	\$ (264,744)	\$ 3,829
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 1,025	\$ 120,041	\$ (117,237)	\$ 3,829
Intergovernmental payables - Town Motor Vehicles	\$ -	\$ 61,684	\$ (61,684)	\$ -
Intergovernmental payables - Board of Education	\$ -	\$ 76,403	\$ (76,403)	\$ -
Intergovernmental payables - State of North Carolina	\$ -	\$ 9,420	\$ (9,420)	\$ -
Total liabilities	\$ 1,025	\$ 267,548	\$ (264,744)	\$ 3,829

See the accompanying Independent Auditor's report.

AVERY COUNTY, NORTH CAROLINA**General Fund****Schedule of Ad Valorem Taxes Receivable****June 30, 2011**

	<i>Uncollected Balance June 30, 2010</i>	<i>Additions</i>	<i>Collections and Credits</i>	<i>Uncollected Balance June 30, 2011</i>
2010 - 2011	\$	\$ 14,819,857	\$ 14,133,298	\$ 686,559
2009 - 2010	659,726	-	293,255	366,471
2008 - 2009	295,859	-	149,611	146,248
2007 - 2008	118,197	-	55,212	62,985
2006 - 2007	95,625	-	49,080	46,545
2005 - 2006	80,362	-	51,893	28,469
2004 - 2005	29,357	-	3,681	25,676
2003 - 2004	25,452	-	2,620	22,832
2002 - 2003	20,727	-	1,473	19,254
2001 - 2002	20,498	-	1,459	19,039
2000 - 2001	16,289	-	16,289	-
	<u>\$ 1,362,092</u>	<u>\$ 14,819,857</u>	<u>\$ 14,757,871</u>	<u>\$ 1,424,078</u>
<i>Less: allowance for uncollectible accounts:</i>				
General Fund				<u>(228,845)</u>
<i>Ad valorem taxes receivable - net</i>				
General Fund				<u>\$ 1,652,923</u>
<i>Reconciliation with revenues:</i>				
<i>Ad valorem taxes - General Fund</i>				<u>\$ 14,829,871</u>
<i>Reconciling items:</i>				
Interest collected				(118,740)
Taxes written off				46,740
Total reconciling items				<u>(72,000)</u>
<i>Total collections and credits</i>				<u>\$ 14,757,871</u>

AVERY COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-Wide Levy
For the Fiscal Year Ended June 30, 2011

	County-wide		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
<i>Original levy:</i>					
Property taxed at current year's rate	\$ 4,548,996,620	0.330	\$ 15,011,689	\$ 14,517,497	\$ 494,192
Penalties	-		5,352	5,352	-
Total	<u>4,548,996,620</u>		<u>15,017,041</u>	<u>14,522,849</u>	<u>494,192</u>
<i>Discoveries:</i>					
Current year taxes	382,941	0.330	1,263	1,263	-
Total	<u>382,941</u>		<u>1,263</u>	<u>1,263</u>	<u>-</u>
<i>Abatements</i>	<u>(60,135,455)</u>		<u>(198,447)</u>	<u>(58,358)</u>	<u>(140,079)</u>
Total property valuations	<u>4,489,244,106</u>				
Net levy			14,819,857	14,465,754	354,113
Uncollected taxes at June 30, 2011			686,559	583,128	103,431
Current year's taxes collected			\$ <u>14,133,298</u>	\$ <u>13,882,626</u>	\$ <u>250,682</u>
Current year's collection percentage			<u>95.37%</u>	<u>95.97%</u>	<u>70.79%</u>

 **Young, Miller & Gillespie, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2011, which collectively comprises Avery County's basic financial statements, and have issued our report thereon dated November 2, 2011. 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 deficiencies described in the accompanying schedule of findings and questioned costs as item 11-1 and 11-2 to be significant deficiencies 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.

We noted certain matters that we reported to management of Avery County, North Carolina, in a separate letter dated November 2, 2011.

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.

Young, Miller & Gillespie, P.A.
November 2, 2011

**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, 2011. 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.

As described in item 11-3 in the accompanying schedule of findings and questioned costs, Avery County did not comply with requirements applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for Avery County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Avery County complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

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.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-3 to be material weaknesses.

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

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.

*Young, Miller & Gillespie, P.A.
November 2, 2011*

AVERY COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2011****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 one significant deficiency in internal controls over major programs. The significant deficiency was determined to be a material weakness.
- 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, 2011 are:

<u>Program Name</u>	<u>CFDA #s</u>
Medical Assistance Program	93.778
Energy Assistance Program	93.568

- H. There are no major State programs for Avery County for the fiscal year ended June 30, 2011.
- I. The threshold for determining Type A programs for Avery County is \$ 468,909.
- 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 11-1*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, 2011

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.

Finding 11-2

Refer to Note (2) Stewardship, Compliance and Accountability of the Notes to Financial Statements.

Condition: Budgetary violations of the General Statutes of North Carolina were noted during the year of audit regarding disbursements in Cultural and Recreational functions and in the Fire Tax fund in excess of budget.

Effect: The requisite and contemporaneous financial information necessary to perform their duties within the framework of the General Statutes of North Carolina was not available to the governing body of Avery County, North Carolina.

Cause: The governing body failed to appropriately monitor and acknowledge the deficiencies within the financial/accounting functions of the County and implement corrective action by budget amendment.

Recommendation: The governing body should monitor financial statements and accounting functions to ensure that the budget is amended as needed.

Internal Control

Condition: Board members failed to properly monitor revenues and expenditures as they related to the budget ordinance as adopted and amended during the year of audit.

Recommendation: The Board members should monitor the activities of the financial staff to insure that the budget amendments are requested and recorded in accordance with the General Statutes of North Carolina.

Corrective Action Plan

Contact person: Robert Wiseman, County Manager

Corrective action: Management concurs with the above recommendations and is aware of General Statute requirements. Procedures to correct these deficiencies will be immediately implemented by the Board and management.

Implementation Date: To be immediately implemented.

AVERY COUNTY, NORTH CAROLINA
Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2011

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

U.S. Department of Health and Human Services

CFDA 93.667

Program Name: Title XIX Medical Assistance

CFDA 93.658

Program Name: Energy Assistance Payments

Finding 11-3

Compliance, Internal Control

Criteria: Allowable indirect costs for the period should be remitted to DHHS for reimbursement.

Condition: Costs as computed on monthly reimbursement form for indirect costs were inaccurate.

Questioned Costs: \$44,115. This amount was determined by computing monies that should have been requested monthly on form DSS 1571 and deducting the amount that was actually requested and received during the fiscal year.

Effect: The County Department of Social Services did not receive reimbursement for all indirect costs.

Cause: Correct cost reporting information was available but was not utilized.

Recommendation: The governing body and Executive Director should establish clear policies in regard to monitoring the cost reports. As soon as the Cost Allocation report is available from the third party preparer, steps should be documented to update monthly reporting procedures.

Corrective Action Plan

Contact person: Robert Wiseman, County Manager

Corrective action: The correct indirect cost figures were immediately transferred to the monthly report and additional reimbursement monies were requested by the County Department of Social Services.

Implementation date: November, 2011.

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 11-1 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.

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2011

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through Grantor's Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Grants:					
<i>Cash Programs:</i>					
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		\$ 103,412	\$ 6,019	\$ -
<i>Special Programs for the Aging-Title III C</i>					
<i>Nutrition Services</i>					
	93.045		64,538	3,756	-
<i>Special Programs for the Aging-Title III F</i>					
<i>Disease Prevention and Health Promotion</i>					
	93.043		1,663	97	-
<i>Family Caregiver Support</i>					
	93.052		2,606	152	-
<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		1,235	-	-
<i>Work First Service</i>					
	93.558		197,097	-	118,135
<i>Work First Administrative</i>					
	93.558		36,760	-	21,481
<i>TANF-Domestic Violence</i>					
	93.558		111,159	-	444
<i>TANF - TEA Foster Care</i>					
	93.558		57,600	-	-
<i>TANF- TEA-Foster Care Max.</i>					
	93.558		3,325	-	-
<i>Low-Income Home Energy Assistance</i>					
<i>Block Grant</i>					
	93.568		12,021	-	-
<i>Crisis Intervention Payments</i>					
	93.568		95,476	-	-
<i>Title IV-E Foster Care</i>					
	93.658		129,587	13,536	103,159
<i>Adoption Foster Care</i>					
	93.658		72,547	-	11,797
<i>Permanency Planning</i>					
	93.645		4,902	148,096	51,051
<i>Child Support Enforcement</i>					
	93.563		6,027	-	3,105
<i>In-Home Service - SSBG</i>					
	93.667				
<i>Other Services and Training - SSBG</i>					
	93.667		60,162	6,395	22,186
<i>NC Health Choice</i>					
	93.767		28,100	1,011	8,172
<i>Independent Living - LINKS</i>					
	93.674		1,306	327	-
<i>Direct Benefit Payments:</i>					
<i>Temporary Assistance for Needy Families</i>					
	93.558				
<i>Energy Assistance Payment</i>					
	93.568		244,211	-	-
<i>Title IV-E Foster Care Assistance</i>					
	93.658				
<i>Title IV-E Adoption Assistance</i>					
	92.659		54,672	12,306	12,306
<i>Division of Medical Assistance:</i>					
<i>Administration:</i>					
<i>Title XIX - Medicaid</i>					
	93.778		339,936	3,676	329,436
<i>Direct Benefit Payments:</i>					
<i>Title XIX - Medicaid</i>					
	93.778		12,890,438	5,251,729	3,459
Subsidized Child Care Cluster:					
<i>Division of Social Services:</i>					
<i>Child Care Development Fund</i>					
	93.596		80,000	80,000	-
<i>Division of Child Development:</i>					
<i>Child Care Development Fund-Discretionary</i>					
	93.575		118,609	-	-
<i>Temporary Assistance</i>					
	93.714		21,321	-	-
<i>Child Care Development Fund</i>					
	93.596		111,102	30,973	-
<i>Total Child Care Fund Cluster:</i>					
			<u>331,032</u>	<u>30,973</u>	<u>-</u>
<i>Social Services Block Grant</i>					
	93.667		1,821	-	-
<i>Temporary Assistance for Needy Families</i>					
	93.558		36,587	-	-

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2011

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through Grantor's Number</u>	<u>Federal (Direct & Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Smart Start			-	8,654	-
Temporary Assistance for Needy Families - MOE					-
State Funding			369,440	39,627	-
Total Subsidized Child Care Cluster			14,888,220	5,486,727	684,731
Total U.S. Department of Health & Human Resources					
<u>U.S. Department of Agriculture</u>					
Passed through Region D Council of Governments:					
Nutrition Program for the Elderly	10.570		16,373	-	-
Passed through N.C. Dept. of Health and Human Resources					
Division of Social Services:					
Administration:					
Supplemental Nutrition Assistance Program:					
State Administrative Matching Grants for the SNAP	10.561		186,307	-	119,015
Total U.S. Department of Agriculture			202,680	-	119,015.00
<u>U.S. Department of Transportation</u>					
Passed through N.C. Dept. of Transportation					
Public Transportation Programs:					
Section 5311 Admin., Operating, Planning, & Capital	20.509		225,807	34,801	40,381
Governor's Highway Safety Program	20.600		21,756	-	-
Governor's Highway Safety Program K-4 2010 -04-27	20.609		31,777	-	-
Total U.S. Department of Transportation			279,340	34,801	40,381
<u>U.S. Department of Housing and Urban Development</u>					
Passed through N.C. Dept. of Commerce					
Division of Community Assistance:					
Scattered Housing Grant	14.228		182,755	-	-
Total U.S. Department of Housing and Urban Development			182,755	-	-
<u>U.S. Department of Homeland Security</u>					
Passed through N.C. Dept. of Crime Control & Public Safety					
Emergency Management Reimbursement	97.042		26,532	-	-
Violence Against Women	16.588		50,779	-	-
Total U.S. Department of Homeland Security			77,311	-	-
Total federal assistance			15,630,306	5,521,528	844,127
STATE GRANTS					
Cash Programs:					
<u>N.C. Department of Health and Human Resources:</u>					
Passed-through Region D Council of Governments:					
Senior Center General Purchases			-	13,481	-
Senior Center Operations			-	10,826	-
Senior Center FANS			-	142	-
Division of Social Services:					
Direct Benefit Payment:					
SFHIF Maximization			-	34,380	34,380
State Foster Care Benefits Program			-	22,360	22,360
Foster Care Special Provision			-	5,798	-
State/County Special Assistance for Adults			-	128,116	128,116
Child Welfare Services - Adoption Subsidy			-	148,096	49,365

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2011

Grantor/Pass-through Grantor/Program Title	Federal	State	Federal	State	Local
	CFDA Number	Pass-Through Grantor's Number	(Direct & Pass-Through) Expenditures	Expenditures	Expenditures
<i>Department of Juvenile Justice and Delinquency Prevention:</i>					
Aolescent Substance Abuse			-	13,615	-
Juvenile Service Landship			-	11,400	-
PASS			-	23,478	-
Project Challenge			-	20,918	-
Juvenile Service Operational			-	(50)	-
Juvenile Service Mediation			-	5,010	-
<i>Total N.C. Department of Health and Human Resources</i>			-	<u>437,570</u>	<u>234,221</u>
<u>N.C. Department of Transportation:</u>					
Elderly & Disabled TAP	DOT 16 CL		-	62,660	-
Work First Program	DOT 16 CL		-	8,960	-
Rural General Public Transportation	DOT 16 CL		-	62,623	-
<i>Total N.C. Department of Transportation</i>			-	<u>134,243</u>	-
<u>N.C. Department of Administration</u>					
County Aid - Veterans Service Office			-	2,000	-
<i>Total N.C. Department of Administration</i>			-	<u>2,000</u>	-
<u>N.C. Department of Commerce</u>					
Criminal Justice Partnership Program			-	53,649	-
<u>N.C. Office of State Budget and Management</u>					
Public School Building Capital Fund - Lottery			-	145,000	-
<i>Total State assistance</i>			-	<u>772,462</u>	<u>234,221</u>
<i>Total assistance</i>			\$ <u>15,630,306</u>	\$ <u>6,293,990</u>	\$ <u>1,078,348</u>

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:
 Substidzed Child Care

November 2, 2011

To the Board of County Commissioners
Avery County, North Carolina

Management Letter

In planning and performing our audit of the financial statements of Avery County, North Carolina for the year ended June 30, 2011, we considered the County's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

The management of Avery County, North Carolina is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Avery County, North Carolina for the year ended June 30, 2011, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

The significant deficiencies we noted are as follows:

Segregation of Duties

The size of Avery County's accounting/administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the members of the Board of Commissioners remain involved in the financial affairs of the entity to provide oversight and independent review functions, and as new employees are hired, duties should be reassigned to segregate duties further.

During the fiscal year ended June 30, 2011, the County reported expenditures within both the general and special revenue funds that violated State law because they exceeded the amounts appropriated in the budget. The general fund violation was due to under-budgeting in the function of cultural and recreational salaries. The special revenue fund, the fire district fund, also had a violation due to under-budgeting by the blended component unit, the Avery Fire Commission. Budgets will be closely monitored in the future to prevent recurrence of this deficiency.

Indirect Cost Reimbursement

Form DSS-1571 is filed monthly by the Department of Social Services (DSS) to claim State reimbursement of expenses. Indirect cost for department overhead is computed by an outside agency and is included on the Form 1571. During the year under audit, DSS continued to use the indirect cost amounts from the prior year study, resulting in under-reporting for State reimbursement. An adjustment was filed and the reimbursement amounts corrected in November 2011.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Avery County's internal control.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Other

Social Services Fiduciary Funds

Our inspection of the fiduciary funds maintained by the Department of Social Services revealed that bank balances are not properly being reconciled to individual accounts and to bank statements. We recommend immediate implementation of monthly procedures to ensure accuracy of these fiduciary accounts.

Auditor Preparation of Financial Statements

Because the organization is a small government with limited funding sources, it is necessary to employ a finance officer who customarily does not prepare financial statements with note disclosures in the same format as presented in the annual audit. Avery County relies on our firm to perform these services and change the format of the statements to meet generally accepted accounting principles and requirements. To offset this deficiency in the internal controls, the Board of Commissioners, County Manager and Finance Officer review preliminary copies of the financial statements and note disclosures before final issuance of the documents.

Ad Valorem Tax Collection

The collection percentage for the fiscal year ended June 30, 2011, 2010 and 2009 was 95.37%, 95.57%, and 96.96%, respectively. The average collection rate for counties of comparable size (population of 24,999 and under) for the fiscal year ended June 30, 2010 was 94.79% while the statewide average for all counties was 97.17%. We commend Avery County for maintaining a collection rate that is higher than counties of comparable size.

Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Finance Officer and his staff for their support and assistance during our audit. Should you have any questions concerning the matters presented herein, we would be pleased to further discuss them with you at your convenience.

Sincerely,

Young, Miller & Gillespie, P.A.

Young, Miller & Gillespie, P.A.