

AVERY COUNTY, NORTH CAROLINA

Newland, North Carolina

Financial Statements

June 30, 2012

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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, 2012, 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, 2012, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2012 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.

Accounting principles and generally accepted auditing standards in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowances' and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires the basic financial statements, and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Avery County's basic financial statements. The combining and individual nonmajor fund statements, 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards are 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.
October 26, 2012*

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, 2012. 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 \$26,524,136.*
- *The government's total net assets decreased by \$7,449,112 primarily due to the transfer of costs of the completed school at Banner Elk to the Avery County Board of Education.*
- *As of the close of the current fiscal year, Avery County's governmental funds reported combined ending fund balances of \$16,532,767 a decrease of \$2,488,720 in comparison with the prior year. Approximately 67.0 percent of this total amount, or \$11,161,794, 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 \$4,784,068, 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.*

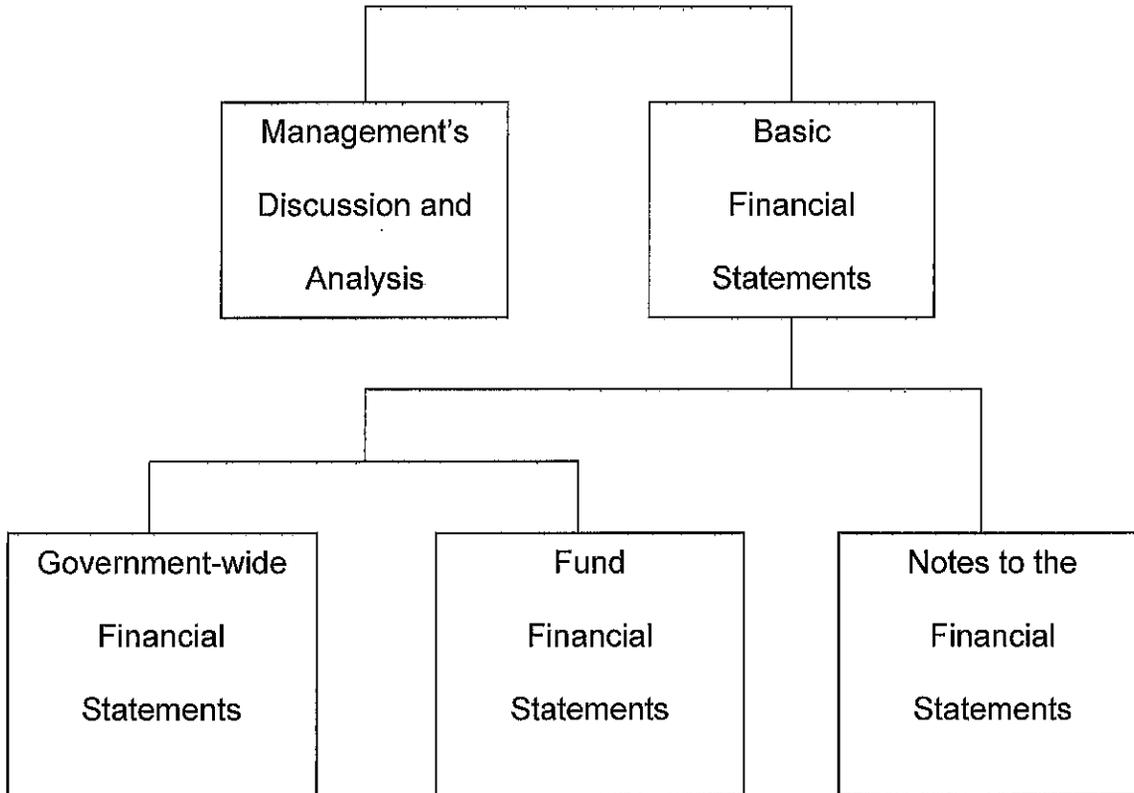
Overview of the Financial Statements

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		
	2012	2011	Difference
Current and other assets	\$ 18,943,194	\$ 23,674,117	\$ (4,730,923)
Capital assets	18,345,984	24,255,211	(5,909,227)
Total assets	\$ 37,289,178	\$ 47,929,328	\$ (10,640,150)
Long-term liabilities outstanding	\$ 7,239,340	\$ 8,316,116	\$ (1,076,776)
Other liabilities	3,525,702	5,590,134	(2,064,432)
Total liabilities	10,765,042	13,906,250	(3,141,208)
 Net assets:			
Invested in capital assets, net of related debt	18,345,984	19,588,545	(1,242,561)
Restricted	5,132,745	3,683,965	1,448,780
Unrestricted	3,045,407	10,700,738	(7,655,331)
Total net assets	\$ 26,524,136	\$ 33,973,248	\$ (7,449,112)

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 \$26,524,136 as of June 30, 2012. The County's net assets decreased by \$7,449,112 for the fiscal year ended June 30, 2012. 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 \$3,045,407 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 96.33%, higher than the statewide average in 2011 for counties of comparable size (94.54%).
- Controlled expenditures

The reduction in net assets for the year was caused by the transfer of the costs of the Banner Elk School to the Avery County Board of Education.

Management's Discussion and Analysis

Avery County's Changes in Net Assets

Figure 3

	<i>Governmental Activities</i>	
	2012	2011
<i>Revenues:</i>		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 1,302,303	\$ 1,268,043
<i>Operating grants and contributions</i>	2,855,627	2,861,186
<i>Capital grants and contributions</i>	378,114	211,087
<i>General revenues:</i>		
<i>Property taxes</i>	16,957,308	16,675,006
<i>Other taxes</i>	4,767,703	4,860,256
<i>Investment earnings</i>	279,105	345,704
<i>Other</i>	98,122	111,909
<i>Total revenues</i>	26,638,282	26,333,191
<i>Expenses:</i>		
<i>General government</i>	3,117,483	2,984,662
<i>Public safety</i>	8,420,699	8,281,154
<i>Transportation</i>	714,958	713,223
<i>Environmental protection</i>	1,930,522	2,199,218
<i>Economic and physical development</i>	544,037	479,483
<i>Human services</i>	4,598,265	4,263,479
<i>Cultural and recreation</i>	602,749	665,990
<i>Education</i>	13,753,416	5,211,271
<i>Interest on long-term debt</i>	405,265	462,592
<i>Total expenses</i>	34,087,394	25,261,072
<i>Increase in net assets</i>	(7,449,112)	1,072,119
<i>Net assets, beginning</i>	33,973,248	32,901,129
<i>Net assets, ending</i>	\$ 26,524,136	\$ 33,973,248

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 decreased the County's net assets by \$2,488,720.*

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 \$4,784,068 while total general fund balance reached \$12,700,845. 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 53 percent of that same amount.

At June 30, 2012, the governmental funds of Avery County reported a combined fund balance of \$16,532,767, a 13 percent decrease over last year. The primary reason for this decrease is the continuing expenditures on the school and jail projects. Also, the County transferred out the expenses and title to the Banner Elk School at the completion of the project.

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 \$814,132. 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, 2012, totals \$18,345,984 (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 completed on the Banner Elk School Project
- Updates and new equipment for emergency response within the County

Avery County's Capital Assets (net of depreciation)

Figure 4

	<i>Governmental Activities</i>	<i>Governmental Activities</i>		<i>Difference</i>
	<i>2012</i>	<i>2011</i>		
<i>Land</i>	\$ 3,615,789	\$ 3,640,789	\$	(25,000)
<i>Construction in progress</i>	6,152,261	12,373,877		(6,221,616)
<i>Buildings</i>	6,041,315	6,295,533		(254,218)
<i>Improvements other than buildings</i>	526,010	497,295		28,715
<i>Machinery and equipment</i>	1,295,533	860,580		434,953
<i>Vehicles and motorized equipment</i>	715,076	587,137		127,939
<i>Total</i>	<u>\$ 18,345,984</u>	<u>\$ 24,255,211</u>	<u>\$</u>	<u>(5,909,227)</u>

Additional information on the County's capital assets can be found in note 2A pages 33 through 34 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2012 Avery County had total debt outstanding of \$9,379,230. Of this, \$8,316,117 is debt secured by deeds of trust, \$155,000 is a pension obligation, \$412,614 is accrued vacation liability, and \$495,499 is for other post employment health benefits offered to employees.

Additional information regarding Avery County's long-term debt can be found in note 2B beginning on page 39.

Management's Discussion and Analysis

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: Total budgeted revenues are projected to increase \$362,826 or 1.5 percent from the 2011-12 budgeted revenues. The increase is attributed to a \$1,170,000 increase in ad-valorem tax revenue resulting from a two and one-half cent general fund tax increase for the 2012-13 fiscal year. This will be partially offset by a \$465,000 decrease in fund balance appropriation and a \$215,378 decrease in reimbursements from the NC Department of Transportation.

Budgeted General Fund appropriations are expected to increase \$362,826 or 1.5 percent from the 2011-12 budget. Human Services is increasing \$217,451 primarily due to increases in assistance programs. Economic Development and Physical Development increased \$204,296 due to the hiring of a full-time economic development director and the formation of a stand-alone department. Public Safety increased \$182,324 primarily due to the full year staffing and operational expenses of the new jail. These increases were partially offset by a \$254,103 reduction in the Transportation Department due to lowered capital expenditures.

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, 2012

	<i>Primary Government</i>	<i>Component Unit</i>
	<i>Governmental</i>	<i>Avery County</i>
	<i>Activities</i>	<i>Airport</i>
ASSETS		
<i>Cash and cash equivalents</i>	\$ 15,798,705	\$ 74,755
<i>Receivables (net)</i>	1,571,956	53,807
<i>Due from other governments</i>	1,510,380	-
<i>Prepaid items</i>	62,153	-
<i>Capital assets:</i>		
<i>Land, improvements, and construction in progress</i>	3,615,789	5,310
<i>Other capital assets, net of depreciation</i>	14,730,195	1,433,988
<i>Total capital assets</i>	<u>18,345,984</u>	<u>1,439,298</u>
<i>Total assets</i>	<u>37,289,178</u>	<u>1,567,860</u>
LIABILITIES		
<i>Accounts payable and accrued expenses</i>	945,554	5,019
<i>Accrued interest payable</i>	440,258	-
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	2,139,890	-
<i>Due in more than one year</i>	7,239,340	-
<i>Total liabilities</i>	<u>10,765,042</u>	<u>5,019</u>
NET ASSETS		
<i>Invested in capital assets, net of related debt</i>	18,345,984	1,439,298
<i>Restricted for:</i>		
<i>Stabilization by State Statute</i>	1,667,709	53,807
<i>Register of Deeds</i>	32,789	-
<i>Fire Protection</i>	343,358	-
<i>Construction commitments</i>	3,088,889	-
<i>Unrestricted (deficit)</i>	3,045,407	69,736
<i>Total net assets</i>	<u>\$ 26,524,136</u>	<u>\$ 1,562,841</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, 2012

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	\$ 3,117,483	\$ 227,154	\$ 4,399	\$ -	\$ (2,885,930)	
Public safety	8,420,699	664,598	41,063	-	(7,715,038)	
Transportation	714,958	23,835	298,621	177,087	(215,415)	
Environmental protection	1,930,522	300,625	21,882	-	(1,608,015)	
Economic and physical development	544,037	37,893	1,376	-	(504,768)	
Human services	4,598,265	-	2,481,844	201,027	(1,915,394)	
Cultural and recreation	602,749	48,198	6,442	-	(548,109)	
Education	13,753,416	-	-	-	(13,753,416)	
Interest on long-term debt	405,265	-	-	-	(405,265)	
Total governmental activities	\$ 34,087,394	\$ 1,302,303	\$ 2,855,627	\$ 378,114	\$ (29,551,350)	
Component units:						
Airport	227,529	-	40,320	127,856	(59,353)	
	\$ 227,529	\$ -	\$ 40,320	\$ 127,856		
General revenues:						
Taxes:						
Property taxes, levied for general purpose					16,957,308	-
Local option sales tax					4,096,666	-
Other taxes and licenses					671,037	-
Investment earnings, unrestricted					279,105	72
Miscellaneous, unrestricted					98,122	11,082
Total general revenues, special items, and transfers					22,102,238	11,154
Change in net assets					(7,449,112)	(48,199)
Net assets-beginning					33,973,248	1,611,040
Net assets-ending					\$ 26,524,136	\$ 1,562,841

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

Avery County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2012

	General	Jail Addition Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 11,713,674	\$ 3,315,346	\$ 769,685	\$ 15,798,705
Receivables, net	1,242,185	-	135,716	1,377,901
Due from other governments	1,528,159	3,181	32,446	1,563,786
Prepaid assets	62,153	-	-	62,153
Total assets	\$ 14,546,171	\$ 3,318,527	\$ 937,847	\$ 18,802,545

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 710,245	\$ 229,638	\$ 59,098	\$ 998,981
Deferred revenue	1,135,081	-	135,716	1,270,797
Total liabilities	1,845,326	229,638	194,814	2,269,778

Fund balances:

<i>Nonspendable:</i>				
Prepaid assets	62,153	-	-	62,153
<i>Restricted:</i>				
Stabilization by State statute	1,635,263	-	32,446	1,667,709
Register of Deeds	32,789	-	-	32,789
Fire Protection	-	-	343,358	343,358
<i>Committed:</i>				
Tax revaluation	12,179	-	-	12,179
<i>Assigned:</i>				
Subsequent years' expenditures	-	-	163,896	163,896
For Capital Outlay projects	6,174,393	3,088,889	-	9,263,282
Unassigned	4,784,068	-	203,333	4,987,401
Total fund balances	12,700,845	3,088,889	743,033	16,532,767
Total liabilities and fund balances	\$ 14,546,171	\$ 3,318,527	\$ 937,847	

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

Deferred revenue not available for current operations

1,270,797

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

18,345,984

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

194,076

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

(9,819,488)

Net assets of governmental activities

\$ 26,524,136

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, 2012

	General Fund	Jail Renovation Capital Project Fund	Other Non- major Governmental Funds	Total Governmental Funds
REVENUES				
<i>Ad valorem taxes</i>	\$ 15,205,828	\$ -	\$ 1,817,224	\$ 17,023,052
<i>Local option sales taxes</i>	4,096,666	-	-	4,096,666
<i>Other taxes and licenses</i>	376,761	-	-	376,761
<i>Unrestricted intergovernmental</i>	165,903	-	-	165,903
<i>Restricted intergovernmental</i>	2,614,281	-	362,799	2,977,080
<i>Permits and fees</i>	306,212	-	-	306,212
<i>Sales and services</i>	1,380,046	-	-	1,380,046
<i>Investment earnings</i>	273,269	-	4,804	278,073
<i>Miscellaneous</i>	124,720	-	-	124,720
<i>Total revenues</i>	24,543,686	-	2,184,827	26,728,513
EXPENDITURES				
<i>Current:</i>				
<i>General government</i>	2,800,750	-	-	2,800,750
<i>Public safety</i>	6,050,113	-	1,955,650	8,005,763
<i>Transportation</i>	614,161	-	-	614,161
<i>Environmental protection</i>	1,768,510	-	-	1,768,510
<i>Economic and physical development</i>	340,088	-	201,027	541,115
<i>Human services</i>	4,510,431	-	-	4,510,431
<i>Cultural and recreational</i>	569,621	-	-	569,621
<i>Intergovernmental:</i>				
<i>Education</i>	4,850,000	-	-	4,850,000
<i>Capital outlay</i>	777,296	2,362,812	877,405	4,017,513
<i>Debt service:</i>				
<i>Principal</i>	1,076,776	-	-	1,076,776
<i>Interest</i>	462,593	-	-	462,593
<i>Total expenditures</i>	23,820,339	2,362,812	3,034,082	29,217,233
<i>Excess (deficiency) of revenues over expenditures</i>	723,347	(2,362,812)	(849,255)	(2,488,720)
OTHER FINANCING SOURCES (USES)				
<i>Transfers to other funds</i>	(100,000)	-	100,000	-
<i>Transfers from other funds</i>	280,186	-	(280,186)	-
<i>Total other financing sources and uses</i>	180,186	-	(180,186)	-
<i>Net change in fund balance</i>	903,533	(2,362,812)	(1,029,441)	(2,488,720)
<i>Fund balances-beginning</i>	11,797,312	5,451,701	1,772,474	19,021,487
<i>Fund balances-ending</i>	\$ 12,700,845	\$ 3,088,889	\$ 743,033	\$ 16,532,767

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, 2012

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

Net changes in fund balances - total governmental funds \$ (2,488,720)

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. (5,909,227)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (64,710)

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. (63,232)

Total changes in net assets of governmental activities \$ (7,449,112)

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, 2012

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 14,586,500	\$ 14,600,000	\$ 15,205,828	\$ 605,828
Local option sales tax	4,323,000	4,323,000	4,096,666	(226,334)
Other taxes and licenses	287,500	337,500	376,761	39,261
Unrestricted intergovernmental	408,031	159,500	165,903	6,403
Restricted intergovernmental	2,609,251	2,797,972	2,614,281	(183,691)
Permits and fees	298,900	300,400	306,212	5,812
Sales and services	1,489,000	1,496,200	1,380,046	(116,154)
Investment earnings	20,500	271,031	273,269	2,238
Miscellaneous	34,200	66,513	124,720	58,207
Total revenues	24,036,882	24,352,116	24,543,686	191,570
Expenditures:				
<i>Current:</i>				
General government	2,946,991	3,056,271	2,837,850	218,421
Public safety	6,517,100	6,756,246	6,281,111	475,135
Transportation	1,084,519	1,084,519	757,808	326,711
Environmental protection	2,079,637	2,129,204	1,953,277	175,927
Economic and physical development	328,403	356,533	340,088	16,445
Human services	4,323,177	4,686,186	4,513,681	172,505
Cultural and recreational	614,084	639,084	619,171	19,913
<i>Intergovernmental:</i>				
Education	4,850,000	4,850,000	4,850,000	-
<i>Debt service:</i>				
Principal retirement	1,076,875	1,076,875	1,076,776	99
Interest and other charges	462,593	462,593	462,593	-
Total expenditures	24,283,379	25,097,511	23,692,355	1,405,156
Revenues over (under) expenditures	(226,497)	(745,395)	851,331	(1,596,726)
Other financing sources (uses):				
Transfers (to) from other funds	(165,000)	115,186	115,186	-
Transfers to component unit	(73,503)	(123,503)	(49,835)	(73,668)
Fund balance appropriated	465,000	753,712	-	753,712
Total other financing sources (uses)	226,497	745,395	65,351	680,044
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	916,682	\$ (916,682)
Fund balances:				
Beginning of year, July 1			11,771,984	
A legally budgeted Tax Revaluation Fund is consolidated into the General Fund for reporting purposes:				
Transfers in from General Fund			65,000	
Labor and Fringe Benefits			(78,149)	
Opening Fund Balance			25,328	
Fund Balance, Ending (Exhibit 4)			\$ 12,700,845	

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

Avery County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
	<u>June 30, 2012</u>	<u>June 30, 2012</u>
<i>Assets</i>		
<i>Current assets:</i>		
<i>Cash and cash equivalents</i>	\$ 147,354	\$ 9,932
<i>Total assets</i>	<u>\$ 147,354</u>	<u>\$ 9,932</u>
 <i>Liabilities and Net Assets</i>		
<i>Liabilities:</i>		
<i>Miscellaneous liabilities</i>	\$ -	\$ 9,932
<i>Total liabilities</i>	<u>-</u>	<u>9,932</u>
<i>Net assets</i>	<u>147,354</u>	<u>-</u>
<i>Total liabilities and net assets</i>	<u>\$ 147,354</u>	<u>\$ 9,932</u>

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

Avery County, North Carolina
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Pension Trust Funds</u>
<i>Additions:</i>	
<i>Employer contributions</i>	\$ 3,376
<i>Investment income</i>	<u>2,766</u>
<i>Total additions</i>	6,142
 <i>Deductions:</i>	
<i>Administrative expense</i>	<u>1,458</u>
<i>Total deductions</i>	1,458
 <i>Change in net assets</i>	 4,684
 <i>Net assets, beginning</i>	 <u>142,670</u>
<i>Net assets, ending</i>	\$ <u><u>147,354</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, 2012

(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, 2012

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, 2012

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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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, 2012

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, 2012

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.

Restricted Cash

Money in the Tax Revaluation Fund is classified as restricted assets because its use is restricted per North Carolina General Statute 153A-150.

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, 2011.

Allowance for Doubtful Accounts

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

Fixed Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: land, buildings, improvements, substations, lines, and other plant and distribution system, infrastructure, furniture and equipment, and vehicles, \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

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

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

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Long-Term Debt

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

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

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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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 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.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$9,991,369 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)	\$ 27,905,734
Less Accumulated Depreciation	<u>(9,559,750)</u>
Net capital assets	18,345,984
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	194,076
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	1,270,797
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	(155,000)
Compensated absences payable	(412,614)
Bonds, leases, and installment financing	(8,316,117)
Other post-employment health benefits	(495,499)
Accrued interest payable	<u>(440,258)</u>
Total adjustment	<u>\$ 9,991,369</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 (\$4,960,392) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$4,017,512
Transfer of Banner Elk School that had been recorded as Construction in Progress	(8,903,416)

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

<i>Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements</i>	(997,791)
<i>Book gain on assets sold, recovery of un-depreciated costs</i>	(25,532)
<i>Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements</i>	1,076,777
<i>Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements</i>	(120,560)
<i>Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)</i>	57,328
<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>	(1,336,541)
<i>Recording of tax receipts deferred in the fund statements as of 6/30/12</i>	1,270,797
<i>Increase in accrued interest on taxes receivable for year ended 6/30/11</i>	1,034
	<hr/>
<i>Total adjustment</i>	<u>\$ 4,960,392</u>

(2) DETAIL NOTES ON ALL FUNDS

(A) Assets

Deposits

All of the County's, the Airport Authority's, and the Fire Commission's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's, the Airport Authority's and the Fire Commission's agents in these units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, the Airport Authority, and the Fire Commission, these deposits are considered to be held by their agents in the entities' name. The amount of pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, the Airport Authority, and the Fire Commission or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County, the Airport Authority and the Fire Commission under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The County and its two component units have no formal policy regarding custodial credit risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The County analyzes the financial soundness of any other financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

At June 30, 2012, the County's deposits had a carrying value of \$1,567,364 and a bank balance of \$1,692,293. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,067,364 was covered by collateral held under the Pooling Method. The County maintains a petty cash fund of \$500.

At June 30, 2012, the carrying amount of deposits for the Avery County Airport Authority was \$74,755 and the bank balance was \$75,606. All of the bank balance was covered by federal depository insurance.

At June 30, 2012, the carrying amount of deposits for the Avery County Fire Commission was \$299,803 and the bank balance was \$303,923. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling method.

Investments

At June 30, 2012, the County's investments consisted of \$13,931,036 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The County has no policy on credit risk.

Receivable – Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2012 were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 98,422	\$ 1,558,003	\$ 1,528,180	\$ 3,184,605
Other Governmental	-	162,580	35,627	198,207
Total receivables	98,422	1,720,583	1,563,807	3,382,812
Allowance for doubtful accounts	-	(247,049)	-	(247,049)
Total-governmental activities	\$ 98,422	\$ 1,473,534	\$ 1,563,807	\$ 3,135,763

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, 2012</u>
General Fund:	
Property taxes	\$ 228,845
Special Revenue Fund:	18,204
Total	\$ 247,049

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

Local option sales tax	\$ 922,132
NC DHHS operating funds	280,821
NC DOT operating and capital funds	70,408
Emergency Management reimbursement	14,636
NC E-911 fees	13,481
Hold Harmless tax	126,999
Sales tax refunds	135,330
Total	<u>\$ 1,563,807</u>

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Transfers/ (Decreases)	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,634,704	\$ -	\$ (18,915)	\$ 3,615,789
Construction in progress	12,379,963	2,877,101	(9,104,802)	6,152,262
<i>Total capital assets not being depreciated</i>	<u>16,014,667</u>	<u>2,877,101</u>	<u>(9,123,717)</u>	<u>9,768,051</u>
<i>Capital assets being depreciated:</i>				
Buildings	9,512,781	-	-	9,512,781
Other improvements	1,700,967	75,170	5,258	1,781,395
Equipment	3,022,503	624,938	105,043	3,752,484
Vehicles and motor equipment	2,800,899	440,303	(151,177)	3,090,025
<i>Total capital assets being depreciated</i>	<u>17,037,150</u>	<u>1,140,411</u>	<u>(40,876)</u>	<u>18,136,685</u>
<i>Less accumulated depreciation for:</i>				
Buildings	3,217,247	254,218	-	3,471,465
Other improvements	1,203,672	51,713	-	1,255,385
Equipment	2,161,923	295,029	-	2,456,952
Vehicles and motor equipment	2,213,764	396,830	234,645	2,375,949
<i>Total accumulated depreciation</i>	<u>8,796,606</u>	<u>997,790</u>	<u>234,645</u>	<u>9,559,751</u>
<i>Total capital assets being depreciated, net</i>	<u>8,240,544</u>			<u>8,576,934</u>
<i>Governmental activity capital assets, net</i>	<u>\$ 24,255,211</u>			<u>\$ 18,344,985</u>
General government	\$ 299,537			
Public safety	348,411			
Environmental Protection	160,175			
Human services	99,226			
Transportation	62,040			
Cultural and recreational	28,402			
<i>Total depreciation expense</i>	<u>\$ 997,791</u>			

Construction commitments

The government has two active construction projects as of June 30, 2012. The projects are listed below. At June 30, 2012, the government's commitments with contractors are as follows:

Project	Spent To Date	Remaining Commitment
Jail Project	\$ 5,808,826	\$ 149,992

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

Discretely presented component units

Activity for the Avery County Airport for the year ended June 30, 2012, 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	\$48,476	140,676	-	\$189,152
Total capital assets not being depreciated	48,476	140,676	-	189,152
<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	2,106,673	-	-	2,106,673
<i>Less accumulated depreciation for:</i>				
Equipment	11,978	-	-	11,978
Building improvements	2,544	1,260	-	3,804
Leasehold improvements	607,200	168,191	-	775,391
Fuel storage facility	65,133	221	-	65,354
Total accumulated depreciation	686,855	169,672	-	856,527
Total capital assets being depreciated, net	1,419,818			1,250,146
Avery County Airport capital assets, net	\$1,468,294			\$1,439,298

Payables

Payables at the government-wide level at June 30, 2012, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
<i>Governmental Activities:</i>				
General	\$ 377,204	\$ 333,041	\$ 440,258	\$ 1,150,503
Other Governmental	235,309	-	-	235,309
Total-governmental activities	\$ 612,513	\$ 333,041	\$ 440,258	\$ 1,385,812

(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
For the Fiscal Year Ended June 30, 2012

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, 2012, 2011, and 2010 was \$433,995, \$366,823, and \$269,269, 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, 2011 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>25</u>
Total	<u><u>25</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, 2011 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
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

Annual required contribution	\$ 32,708
Annual pension cost	6,174
Contributions made	<u>(7,367)</u>
Increase (decrease) in net pension obligation	31,515
Net pension obligation beginning of year	<u>123,485</u>
Net pension obligation end of year	<u>\$ 155,000</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, 2012 were \$46,366 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, 2012 the County contributed \$3,030 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
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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 \$94,089. 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	94,089
Increase (decrease) in net OPEB obligation	69,176
Net OPEB obligation, beginning of year	<u>426,323</u>
Net OPEB obligation, end of year	\$495,499

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, the date of the latest actuarial study, 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
For the Fiscal Year Ended June 30, 2012

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)	1,135,081	135,716
	\$ 1,135,081	\$ 135,716

(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
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, 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, 2012 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 \$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, 2012

For Avery County, the future minimum payments as of June 30, 2012 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>
2013	\$1,076,777	\$ 440,256
2014	1,076,777	382,926
2015	1,076,777	325,596
2016	1,076,777	262,266
2017	1,076,777	210,936
2018-2022	1,932,233	630,936
2023-2025	<u>999,999</u>	<u>109,363</u>
Total	\$8,316,117	\$ 2,362,279

At June 30, 2012, the County had a legal debt margin of \$ 448,029,146.

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, 2012:

Governmental activities:	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
Installment purchase	\$ 9,392,894	-	1,076,777	8,316,117	1,076,777
Other post employment benefits	426,323	69,176	-	495,499	495,499
Pension plan obligation	123,485	31,515	-	155,000	155,000
Vacation pay obligation	392,745	19,869	-	412,614	412,614
Total governmental activities	\$ 10,335,447	\$120,560	\$ 1,076,777	\$ 9,379,230	\$2,139,890

b. Interfund Balances and Activity

Transfers to/from other fund

Transfers to/from other funds at June 30, 2012, consist of the following:

From the Banner Elk School Project fund to the General Fund to close	\$(280,188)
From the General fund to the Fire District fund for use of the Fire Commission	100,000

Total	\$180,188
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(3) JOINT VENTURES

The County participates in a joint venture to operate Avery-Mitchell-Yancey Regional Library with three other local governments. Each participating government appoints three members to the twelve-member board of the library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$78,280 to the library to supplement its activities. Complete financial statements can be obtained from the Library's offices at Highway 19E, Burnsville, North Carolina 28714.

Avery County, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

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 \$274,000 to the College for operating purposes and \$30,000 for capital outlay during the fiscal year ended June 30, 2012. 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, 2012. 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, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$284,700 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, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$286,311 to the Center to supplement its activities. Complete financial statements can be obtained from the New River Center's offices located in Boone, North Carolina 28607.

(4) JOINTLY GOVERNED ORGANIZATION

The County, in conjunction with seven other counties and nineteen municipalities, established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$8,867 to the Council during the fiscal year ending June 30, 2012.

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

State law (Chapter 105, Articles 40 and 42, of the North Carolina General Statutes) requires the County to use a portion of the proceeds of its supplemental and additional supplemental sales taxes, or local option sales taxes, for public school capital outlays or to retire public school indebtedness. During the fiscal year ended June 30, 2012, 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, 2012

(6) BENEFIT PAYMENTS ISSUED BY THE STATE

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

	<u>Federal</u>	<u>State</u>
Medicaid	\$ 13,410,200	\$ 7,815,549
Temporary Assistance for Needy Families	102,115	-
Title IV-E Foster Care Assistance	37,476	9,998
Title IV-E Adoption Assistance	73,356	17,708
State Foster Care Benefits Program	-	9,293
State Special Assistance for Adults	-	112,332
CWS Adoption Subsidy	-	153,245
SFHF Maximization	-	10,317

(7) SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Federal and State Assisted Programs

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

(8) 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	\$16,532,767
Less:	
Prepaid assets	62,153
Stabilization by State Statute	1,667,709
Register of Deeds fund	32,789
Fire Protection	343,358
Appropriated Fund Balance in 2013 budget	163,896
Tax Revaluation	12,179
Capital projects in progress	3,088,889
Capital reserves for future projects	6,174,393
Working Capital/ Fund Balance Policy	4,787,401
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

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

Schedule of Funding Progress

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

<i>Year Ended June 30</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
2010	163,265	13.2%
2011	163,265 (estimated)	19% (estimated)
2012	163,265 (estimated)	57% (estimated)

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:

<i>Valuation date</i>	12/31/2009
<i>Actuarial cost method</i>	Projected unit credit
<i>Amortization method</i>	Level percent of pay, open
<i>Remaining amortization period</i>	30 years
<i>Asset valuation method</i>	Market value of assets
<i>Actuarial assumptions:</i>	
<i>Investment rate of return</i>	4.00%
<i>Medical cost trend</i>	10.5% - 5.0%
<i>Year of Ultimate trend rate</i>	2017
<i>Includes inflation at</i>	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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
Revenues:				
<i>Ad valorem taxes:</i>				
Taxes	\$	\$ 15,072,993	\$	\$ 14,781,550
Penalties and interest		164,147		118,740
Refunds and releases		(31,312)		(70,419)
Total		<u>14,600,000</u>		<u>14,829,871</u>
<i>Local option sales taxes:</i>				
Article 39 one percent		1,790,849		1,805,398
Article 40 one-half of one percent		983,795		956,596
Article 42 one-half of one percent		898,137		914,585
Article 44 one-half of one percent		(1,079)		8,801
Video programming distribution		58,405		64,667
Medicaid Hold Harmless payment		366,559		402,959
Total		<u>4,323,000</u>		<u>4,153,006</u>
<i>Other taxes and licenses:</i>				
Real estate transfer tax		342,454		239,586
Scrap tire disposal tax		21,882		21,637
Solid waste disposal		12,425		12,879
Total		<u>337,500</u>		<u>274,122</u>
<i>Unrestricted intergovernmental:</i>				
Payments in lieu of taxes		160,512		167,005
Food stamp tax reimbursement		5,391		2,838
Sales tax refunds		-		30,406
Total		<u>159,500</u>		<u>200,249</u>
<i>Restricted intergovernmental:</i>				
State and federal grants		2,585,965		2,418,357
Court facilities fees		21,562		23,644
ABC bottle tax		6,754		6,810
Total		<u>2,797,972</u>		<u>2,448,811</u>
<i>Licenses and permits:</i>				
Inspection fees and building permits		127,537		126,990
Register of deeds		148,015		146,601
Marriage licenses		8,640		7,560
Officer fees		6,125		6,244
Gun permits		1,210		1,144
IPM dues		1,975		1,630
Fingerprint fees		2,380		1,730
Flood plain mapping fees		-		0
Concealed weapons fees		10,330		9,250
Total		<u>300,400</u>		<u>301,149</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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Sales and services:</i>				
Election department		13,897		26
Transportation fees		427,043		430,845
Rents, concessions and fees		2,800		1
Recreation fees		54,640		59,971
Jail fees		6,918		21,314
Tax assessor fees		1,166		709
Emergency medical service		517,016		569,940
Solid waste fees		324,117		265,657
Civil process fees		28,789		18,520
Electronic mgmt program		1,376		1,313.00
Civil license revocations		2,284		1,968
Total	<u>1,496,200</u>	<u>1,380,046</u>	<u>(116,154)</u>	<u>1,370,264</u>
Investment earnings	<u>271,031</u>	<u>273,269</u>	<u>2,238</u>	<u>295,533</u>
<i>Miscellaneous:</i>				
Sales of fixed assets		56,804		15,993
Donations		2,068		8,930
Restitution fees		5,013		162
Drug fund		1,080		56
DARE program		51,478		49,168
Other		8,277		7,194
Total	<u>66,513</u>	<u>124,720</u>	<u>58,207</u>	<u>81,503</u>
Total revenues	<u>24,352,116</u>	<u>24,543,686</u>	<u>191,570</u>	<u>23,954,508</u>
<i>Expenditures:</i>				
General government -				
Governing body:				
Salaries and employee benefits		116,647		111,678
Other operating expenditures		46,825		65,291
Total	<u>190,394</u>	<u>163,472</u>	<u>26,922</u>	<u>176,969</u>
Administration:				
Salaries and employee benefits		150,869		143,753
Other operating expenditures		41,917		13,996
Capital outlay		727		1,009
Total	<u>193,999</u>	<u>193,513</u>	<u>486</u>	<u>158,758</u>
Elections:				
Salaries and employee benefits		136,709		123,494
Other operating expenditures		45,078		30,564
Capital outlay		-		2,136
Total	<u>252,697</u>	<u>181,787</u>	<u>70,910</u>	<u>156,194</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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Finance:</i>				
Salaries and employee benefits		282,697		275,786
Other operating expenditures		37,332		41,053
Capital outlay		10,381		15,881
Total	351,460	330,410	21,050	332,720
<i>Tax listing and supervisor:</i>				
Salaries and employee benefits		299,292		256,980
Other operating expenditures		112,057		105,164
Capital outlay		24,490		37,674
Total	456,410	435,839	20,571	399,818
<i>Tax collections:</i>				
Salaries and employee benefits		57,626		167,887
Other operating expenditures		3,670		17,381
Capital outlay		-		2,510
Total	58,676	61,296	(2,620)	187,778
<i>Tax mapping:</i>				
Salaries and employee benefits		53,801		53,238
Operating expenditures		25,353		24,960
Capital outlay		25,436		19,483
Total	118,880	104,590	14,290	97,681
<i>Register of Deeds:</i>				
Salaries and employee benefits		148,698		159,667
Other operating expenditures		278,413		228,844
Capital outlay		1,794		15,671
Total	466,462	428,905	37,557	404,182
<i>Public Buildings:</i>				
Salaries and employee benefits		317,582		272,124
Other operating expenditures		420,878		412,045
Capital outlay		83,865		68,759
Total	873,861	822,325	51,536	752,928
<i>Legal and auditing:</i>				
Contracted services	81,900	106,998	(25,098)	70,172
<i>Facilities fees:</i>				
Operating expenditures		5,808		5,068
Capital outlay		2,907		4,030
Total	11,532	8,715	2,817	9,098
Total general government	3,056,271	2,837,850	218,421	2,746,298

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
Public safety -				
Sheriff's Department:				
Salaries and employee benefits		1,476,115		1,420,161
Other operating expenditures		290,074		306,160
Capital outlay		120,761		92,802
Total	1,936,251	1,886,950	49,301	1,819,123
Jail:				
Salaries and employee benefits		821,409		441,908
Other operating expenditures		413,894		221,743
Capital outlay		2,853		599
Total	1,457,887	1,238,156	219,731	664,250
Building inspection:				
Salaries and employee benefits		305,833		275,530
Other operating expenditures		38,790		51,532
Capital outlay		25,436		4,356
Total	447,621	370,059	77,562	331,418
Emergency management:				
Salaries and employee benefits		68,108		65,863
Other operating expenditures		45,900		23,443
Capital outlay		1,816		6,430
Total	122,432	115,824	6,608	95,736
Emergency medical services:				
Salaries and employee benefits		1,420,166		1,384,538
Other operating expenditures		232,352		244,914
Capital outlay		102,109		185,467
Total	1,835,969	1,754,627	81,342	1,814,919
Central dispatch:				
Salaries and employee benefits		588,436		555,507
Other operating expenditures		74,415		68,947
Capital outlay		754		123,535
Total	694,681	663,605	31,076	747,989
OSHA instruction:				
Other operating expenditures				
Total	725	-	725	-
Medical examiner:				
Professional services	15,000	14,200	800	3,900

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
Community agency contributions:				
Avery Search & Rescue		178,465		133,000
Humane Society		59,225		59,225
Total	245,680	237,690	7,990	192,225
Total public safety	6,756,246	6,281,111	475,135	5,669,560
Public transportation:				
Streets and highways:				
Salaries and employee benefits		429,328		434,022
Other operating expenditures		138,496		114,212
Capital outlay		189,984		141,635
Total public transportation	1,084,519	757,808	326,711	689,869
Environmental protection -				
Sanitation:				
Salaries and employee benefits		736,576		733,428
Other operating expenditures		827,936		936,994
Capital outlay		193,979		301,800
Total	1,914,563	1,758,491	156,072	1,972,222
Soil conservation service:				
Contracted services	214,641	194,786	19,855	200,386
Total environmental protection	2,129,204	1,953,277	175,927	2,172,608
Economic and physical development -				
Agricultural extension agent:				
Salaries and employee benefits		197,588		175,052
Other operating expenditures		87,837		110,237
Capital outlay		2,082		4,048
Total	295,803	287,507	8,296	289,337
Physical development:				
Operating expenditures				
Total	59,730	51,581	8,149	3,717
Regional economic development:				
Region D Development Council	1,000	1,000	-	1,000
Total economic and physical development	356,533	340,088	16,445	294,054

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
Human services -				
Public Health:				
Toe River Health District		284,700		280,140
New River Mental Health		286,311		92,400
Alcoholic rehabilitation		6,061		6,810
Total	582,942	577,072	5,870	379,350
Veteran's Service Officer -				
Salaries and employee benefits		18,434		17,040
Other operating expenditures		2,171		2,239
Capital outlay		-		1,065
Total	23,606	20,605	3,001	20,344
Social Services:				
Salaries and employee benefits		1,631,181		1,528,567
Other operating expenditures		141,313		182,671
Capital outlay		7,213		12,847
Total	1,858,233	1,779,707	78,526	1,724,085
County participation:				
Medicaid		30,032		15,254
Special assistance		333,662		217,012
Foster care		110,683		142,972
Crisis intervention		131,987		99,520
Family Support Act		97,549		85,707
Aid for children		-		63,189
Independent living		1,983		80
JOBS program		51,324		65,489
Total	770,447	757,220	13,227	689,223
Senior Citizens:				
Salaries and employee benefits		560,618		549,838
Other operating expenditures		248,702		218,816
Capital outlay		9,081		4,982
Total	877,262	818,401	58,861	773,636
Day Care and Child Development:				
Contracted services	369,882	360,559	9,323	352,529
Community Based Alternatives				
Operating expenditures	102,185	98,260	3,925	99,252
CJPP Program	53,626	53,626	-	53,649
Aid to the Blind	1,683	1,911	(228)	1,561

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Community agency contributions:</i>				
ADAP - Yellow Mountain		23,690		23,690
Avery Alzheimer's Support		1,000		-
ACADA		21,630		21,630
Total	46,320	46,320	-	45,320
Total human services	4,686,186	4,513,681	172,505	4,138,949
<i>Cultural and recreational -</i>				
<i>Parks & recreation:</i>				
Salaries and employee benefits		286,908		276,067
Other operating expenditures		123,365		135,808
Capital outlay		59,878		73,461
Total	489,664	470,151	19,513	485,336
<i>Community agency contributions:</i>				
Shrine Club		1,000		1,000
Arts Council		3,500		3,500
Blue Ridge Resource		-		400
Avery Little League		7,060		7,060
WAMY		6,180		6,180
Tag Office		20,000		10,000
Avery Smart Start		5,000		5,000
YMCA		25,000		35,000
Municipality Donation		-		60,000
Avery Museum		3,000		3,000
Total	71,140	70,740	400	131,140
<i>Library:</i>				
Contracted services	78,280	78,280	-	78,280
Total cultural and recreational	639,084	619,171	19,913	694,756
<i>Education -</i>				
Public schools - current expense		4,036,000		4,068,000
Public schools - capital outlay		510,000		747,000
Community College - current expense		274,000		273,831
Community College - capital outlay		30,000		122,440
Total education	4,850,000	4,850,000	-	5,211,271
<i>Debt service -</i>				
Principal retirement		1,076,776		1,077,177
Interest and fees		462,593		519,322
Total debt service	1,539,468	1,539,369	99	1,596,699

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
Total expenditures	<u>25,097,511</u>	<u>23,692,355</u>	<u>1,405,156</u>	<u>23,214,064</u>
Revenue over (under) expenditures	<u>(745,395)</u>	<u>851,331</u>	<u>1,596,726</u>	<u>740,444</u>
Other financing sources (uses):				
Operating transfers in (out):				
To Revaluation Fund	(65,000)	(65,000)	-	(80,000)
To/From Landfill Fund	-	-	-	320,597
To/From Capital Projects Fund	280,186	280,186	-	-
To Fire Tax Fund	(100,000)	(100,000)	-	(560,000)
To component unit - Airport	(123,503)	(49,835)	73,668	(40,000)
Total operating transfers	<u>(8,317)</u>	<u>65,351</u>	<u>73,668</u>	<u>(359,403)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(753,712)</u>	<u>916,682</u>	<u>1,670,394</u>	<u>381,041</u>
Appropriated fund balance	<u>753,712</u>	<u>-</u>	<u>(753,712)</u>	<u>-</u>
Excess of revenues, other sources and appropriated fund balance over (under) expenditures and other uses	<u>\$ -</u>	<u>916,682</u>	<u>\$ 916,682</u>	<u>381,041</u>
Fund balances - beginning of year		<u>11,771,984</u>		<u>11,390,943</u>
Fund balances - end of year		<u>\$ 12,688,666</u>		<u>\$ 11,771,984</u>

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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>Investment earnings</i>	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
<i>General government:</i>				
<i>Tax listing</i>	79,334	78,148	1,186	63,840
<i>Total expenditures</i>	<u>79,334</u>	<u>78,148</u>	<u>1,186</u>	<u>63,840</u>
<i>Revenues over (under) expenditures</i>	(79,334)	(78,148)	1,186	(63,840)
<i>Other financing sources (uses):</i>				
<i>Fund balance appropriated</i>	14,334		14,334	
<i>Operating transfer in (out) from General Fund</i>	<u>65,000</u>	<u>65,000</u>	<u>-</u>	<u>80,000</u>
<i>Total other financing sources (uses)</i>	79,334	65,000	14,334	80,000
<i>Excess of revenues and other sources over (under) expenditures</i>	\$ <u>-</u>	(13,148)	\$ <u>(13,148)</u>	16,160
<i>Fund balances - beginning of year</i>		<u>25,325</u>		<u>9,165</u>
<i>Fund balances - end of year</i>		\$ <u>12,177</u>		\$ <u>25,325</u>

See the accompanying Independent Auditor's Report.

Avery County, North Carolina
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2012

	<i>Emergency Telephone System Fund</i>	<i>Fire District Fund</i>	<i>Total Non-major Special Revenue Funds</i>
ASSETS			
<i>Cash and cash equivalents</i>	\$ 420,657	\$ 349,028	\$ 769,685
<i>Taxes receivable, net</i>	-	135,716	135,716
<i>Due from other governments</i>	32,446	-	32,446
Total assets	\$ 453,103	\$ 484,744	\$ 937,847
LIABILITIES AND FUND BALANCES			
<i>Liabilities:</i>			
<i>Accounts payable and accrued liabilities</i>	\$ 53,428	\$ 5,670	\$ 59,098
<i>Deferred revenue</i>	-	135,716	135,716
Total liabilities	53,428	141,386	194,814
<i>Fund balances:</i>			
<i>Restricted:</i>			
<i>Reserved by State statute</i>	32,446	-	32,446
<i>Fire Protection</i>	-	343,358	343,358
<i>Assigned:</i>			
<i>Designated for subsequent year's expenditures</i>	163,896	-	163,896
<i>Unrestricted</i>	203,333	-	203,333
Total fund balances	399,675	343,358	743,033
Total liabilities and fund balances	\$ 453,103	\$ 484,744	\$ 937,847

See the accompanying Independent Auditor's Report.

**Avery County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-major Governmental Funds
For the Year Ended June 30, 2012**

	Emergency Telephone System Fund	Fire District Fund	Grant Projects Funds	Total Non-major Special Revenue Funds	Banner Elk School Project	Non-major Capital Projects Fund	Total Non-major Governmental Funds
REVENUES							
Ad valorem taxes	-	1,817,224	-	1,817,224	-	-	1,817,224
Restricted intergovernmental	161,772	-	201,027	362,799	-	-	362,799
Investment earnings	1,447	3,357	-	4,804	-	-	4,804
Total revenues	163,219	1,820,581	201,027	2,184,827	-	-	2,184,827
EXPENDITURES							
Current:							
General government	-	-	-	-	-	-	-
Economic and physical development	-	-	201,027	201,027	-	-	201,027
Public safety	127,790	1,812,869	-	1,940,659	-	-	1,940,659
Capital outlay	410,358	-	-	410,358	482,038	-	892,396
Total expenditures	538,148	1,812,869	201,027	2,552,044	482,038	-	3,034,082
Excess (deficiency) of revenues over expenditures	(374,929)	7,712	-	(367,217)	(482,038)	-	(849,235)
OTHER FINANCING SOURCES (USES)							
Transfers (to) from other funds	-	100,000	-	100,000	(280,186)	-	(180,186)
Total other financing sources and uses	-	100,000	-	100,000	(280,186)	-	(180,186)
Net change in fund balances	(374,929)	107,712	-	(267,217)	(762,224)	-	(1,029,441)
Fund balances - beginning	774,604	235,646	-	1,010,250	762,224	-	1,772,474
Fund balances - ending	\$ 399,675	\$ 343,358	\$ -	\$ 743,033	\$ -	\$ -	\$ 743,033

See the accompanying Independent Auditor's Report.

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, 2012
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2011)

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>E-911 surcharges</i>	\$	\$ 161,772	\$	\$ 300,622
<i>Investment earnings - surcharges</i>		1,447		2,064
<i>Total revenues</i>	<u>163,272</u>	<u>163,219</u>	<u>(53)</u>	<u>302,686</u>
<i>Expenditures:</i>				
<i>Public safety:</i>				
<i>Public safety expenditures</i>		127,790		132,112
<i>Capital outlay for public safety</i>		410,358		7,657
<i>Total expenditures</i>	<u>722,667</u>	<u>538,148</u>	<u>184,519</u>	<u>139,769</u>
<i>Revenues over (under) expenditures</i>	<u>(559,395)</u>	<u>(374,929)</u>	<u>184,466</u>	<u>162,917</u>
<i>Other financing sources (uses):</i>				
<i>Operating transfer in (out):</i>				
<i>To General Fund</i>	-	-	-	-
<i>Fund balance appropriated</i>	559,395	-	559,395	-
<i>Total other financing sources (uses)</i>	<u>559,395</u>	<u>-</u>	<u>559,395</u>	<u>-</u>
<i>Excess of revenues and other sources over (under) expenditures and other uses</i>	\$ <u>-</u>	<u>(374,929)</u>	\$ <u>(374,929)</u>	<u>162,917</u>
<i>Fund balances - beginning of year</i>		<u>774,604</u>		<u>611,687</u>
<i>Fund balances - end of year</i>		\$ <u>399,675</u>		\$ <u>774,604</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, 2012

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

	2012		Variance Favorable (Unfavorable)	2011
	Budget	Actual		Actual
<i>Revenues:</i>				
Ad valorem taxes	\$	\$ 1,817,224	\$	\$ 1,770,698
Interest and other income		3,357		2,754
Total revenues	<u>1,768,000</u>	<u>1,820,581</u>	<u>(52,581)</u>	<u>1,773,452</u>
<i>Expenditures:</i>				
<i>Public safety:</i>				
Volunteer fire departments		777,885		701,956
Fire commission		1,034,984		1,702,557
Total expenditures	<u>1,868,000</u>	<u>1,812,869</u>	<u>55,131</u>	<u>2,404,513</u>
Revenues over expenditures	<u>(100,000)</u>	<u>7,712</u>	<u>(107,712)</u>	<u>(631,061)</u>
<i>Other financing sources (uses):</i>				
Transfers in (out)	<u>100,000</u>	<u>100,000</u>	-	<u>560,000</u>
Total other financing sources (uses)	<u>100,000</u>	<u>100,000</u>	-	<u>560,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$ <u>-</u>	<u>107,712</u>	\$ <u>(107,712)</u>	<u>(71,061)</u>
Fund balances - beginning of year		<u>235,646</u>		<u>306,707</u>
Fund balances - end of year		\$ <u>343,358</u>		\$ <u>235,646</u>

See the accompanying Independent Auditor's Report.

Avery County, North Carolina
 Capital Projects Fund - Jail Addition and Renovations
 Statement of Revenue, Expenditures and Changes in Fund Balances--
 Budget and Actual (Non-GAAP)
 From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
<i>Revenues:</i>					
Restricted intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total	-	-	-	-	-
<i>Expenditures - Public Safety</i>					
General construction	\$ 7,706,000	3,026,713	2,107,251	5,133,964	2,572,036
Architect/engineering fees	914,000	694,415	194,056	888,471	25,529
Permits, surveys, insurance	25,000	7,170	-	7,170	17,830
Furniture	150,000	-	61,506	61,506	88,494
Site prep	385,000	-	-	-	385,000
Total expenditures	9,180,000	3,728,298	2,362,813	6,091,111	3,088,889
Revenues over (under) expenditures	(9,180,000)	(3,728,298)	(2,362,813)	(6,091,111)	3,088,889
<i>Other financing sources and uses</i>					
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	9,180,000	9,180,000	-	9,180,000	-
Revenues and other sources over (under) expenditures	\$ -	\$ 5,451,702	(2,362,813)	\$ 3,088,889	\$ 3,088,889
<i>Fund balances:</i>					
Beginning of year, July 1			5,451,702		
End of year, June 30			\$ 3,088,889		

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, 2012

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
Revenues:					
Investment earnings	\$ 30,000	\$ 7,072	\$ -	\$ 7,072	\$ (22,928)
Total	<u>30,000</u>	<u>7,072</u>	<u>-</u>	<u>7,072</u>	<u>(22,928)</u>
Expenditures - Education					
General construction	7,468,000	6,666,410	385,535	7,051,945	416,055
Architect/engineering fees	1,160,000	1,111,503	50,083	1,161,586	(1,586)
Permits, surveys	30,000	26,796	1,000	27,796	2,204
Site prep	565,000	537,150	-	537,150	27,850
Furniture	780,000	597,250	44,551	641,801	138,199
Attorney fees	30,000	26,272	871	27,143	2,857
Total expenditures	<u>10,033,000</u>	<u>8,965,381</u>	<u>482,040</u>	<u>9,447,421</u>	<u>585,579</u>
Revenues over (under) expenditures	(10,003,000)	(8,958,309)	(482,040)	(9,440,349)	562,651
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	(280,184)	3,892,816	(280,184)
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>(280,184)</u>	<u>9,440,349</u>	<u>(562,651)</u>
Revenues and other sources over (under) expenditures	\$ <u>-</u>	\$ <u>762,224</u>	<u>(762,224)</u>	\$ <u>-</u>	\$ <u>-</u>
Fund balances:					
Beginning of year, July 1			<u>762,224</u>		
End of year, June 30			\$ <u>-</u>		

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, 2012

	<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	\$ 223,255	\$ 157,110	\$ 380,365	\$ (19,635)
Total	<u>400,000</u>	<u>223,255</u>	<u>157,110</u>	<u>380,365</u>	<u>(19,635)</u>
<i>Expenditures - Economic and physical development</i>					
Relocation assistance	248,000	168,508	69,120	237,628	10,372
Rehabilitation	80,000	1,400	78,590	79,990	10
Administration	40,000	35,047	4,200	39,247	753
Planning	7,000	7,000	-	7,000	-
Clearance	25,000	11,300	5,200	16,500	8,500
Total expenditures	<u>400,000</u>	<u>223,255</u>	<u>157,110</u>	<u>380,365</u>	<u>19,635</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>		

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, 2012

	<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>					
Grant Number 11-C-2271	\$ 50,000	\$ -	\$ 33,648	\$ 33,648	\$ (16,352)
Total	<u>50,000</u>	<u>-</u>	<u>33,648</u>	<u>33,648</u>	<u>(16,352)</u>
<i>Expenditures - Economic and physical development</i>					
Planning	45,000	-	30,648	30,648	14,352
Clearance	5,000	-	3,000	3,000	2,000
Total expenditures	<u>50,000</u>	<u>-</u>	<u>33,648</u>	<u>33,648</u>	<u>16,352</u>
<i>Revenues and other sources over (under) expenditures</i>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Fund balances:</i>					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

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, 2012

	<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 10-C-2208	\$ 192,000	\$ -	\$ 10,269	\$ 10,269	\$ (181,731)
Total	<u>192,000</u>	<u>-</u>	<u>10,269</u>	<u>10,269</u>	<u>(181,731)</u>
<i>Expenditures - Economic and physical development</i>					
Pedestrian improvements	150,735	-	10,269	10,269	140,466
Public sewer improvements	15,290	-	-	-	15,290
Public water improvements	25,975	-	-	-	25,975
Total expenditures	<u>192,000</u>	<u>-</u>	<u>10,269</u>	<u>10,269</u>	<u>181,731</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
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2012

	<u>Balance</u> <u>July 1,</u> <u>2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>2012</u>
Social Services -				
<i>Assets:</i>				
Cash and investments	\$ 3,829	\$ 96,167	\$ (90,064)	\$ 9,932
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 3,829	\$ 96,167	\$ (90,064)	\$ 9,932
Motor Vehicle Tax -				
<i>Assets:</i>				
Taxes receivable	\$ -	\$ 64,764	\$ (64,764)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables	\$ -	\$ 64,764	\$ (64,764)	\$ -
Fines and Forfeitures -				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 80,747	\$ (80,747)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - Board of Education	\$ -	\$ 68,417	\$ (68,417)	\$ -
Intergovernmental payables - State of North Carolina	\$ -	\$ 12,330	\$ (12,330)	\$ -
Total intergovernmental payables	\$ -	\$ 80,747	\$ (80,747)	\$ -
Deed of Trust Fee Fund				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 4,202	\$ (4,202)	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - State of NC	\$ -	\$ 4,202	\$ (4,202)	\$ -
Totals - All Agency Funds				
<i>Assets:</i>				
Cash and investments	\$ 3,829	\$ 181,116	\$ (175,013)	\$ 9,932
Taxes receivable	\$ -	\$ 64,764	\$ (64,764)	\$ -
Total assets	\$ 3,829	\$ 245,880	\$ (239,777)	\$ 9,932
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 3,829	\$ 96,167	\$ (90,064)	\$ 9,932
Intergovernmental payables - Town Motor Vehicles	\$ -	\$ 64,764	\$ (64,764)	\$ -
Intergovernmental payables - Board of Education	\$ -	\$ 68,417	\$ (68,417)	\$ -
Intergovernmental payables - State of North Carolina	\$ -	\$ 16,532	\$ (16,532)	\$ -
Total liabilities	\$ 3,829	\$ 245,880	\$ (239,777)	\$ 9,932

See the accompanying Independent Auditor's report.

AVERY COUNTY, NORTH CAROLINA
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012

	<i>Uncollected Balance June 30, 2011</i>	<i>Additions</i>	<i>Collections and Credits</i>	<i>Uncollected Balance June 30, 2012</i>
2011 - 2012	\$	\$ 15,009,889	\$ 14,458,978	\$ 550,911
2010 - 2011	686,559	-	358,491	328,068
2009 - 2010	366,471	-	143,072	223,399
2008 - 2009	146,248	-	36,998	109,250
2007 - 2008	62,985	-	19,167	43,818
2006 - 2007	46,545	-	13,008	33,537
2005 - 2006	28,469	-	6,534	21,935
2004 - 2005	25,676	-	5,292	20,384
2003 - 2004	22,832	-	4,692	18,140
2002 - 2003	19,254	-	4,770	14,484
2001 - 2002	19,039	-	19,039	-
	<u>\$ 1,424,078</u>	<u>\$ 15,009,889</u>	<u>\$ 15,070,041</u>	<u>\$ 1,363,926</u>
<i>Less: allowance for uncollectible accounts:</i>				
General Fund				<u>(228,845)</u>
<i>Ad valorem taxes receivable - net</i>				
General Fund				<u>\$ 1,592,771</u>
Reconciliation with revenues:				
<i>Ad valorem taxes - General Fund</i>				<u>\$ 15,205,828</u>
<i>Reconciling items:</i>				
Interest collected				(164,147)
Taxes written off				28,360
Total reconciling items				<u>(135,787)</u>
<i>Total collections and credits</i>				<u>\$ 15,070,041</u>

AVERY COUNTY, NORTH CAROLINA*Analysis of Current Tax Levy**County-Wide Levy**For the Fiscal Year Ended June 30, 2012*

	<i>County-wide</i>		<i>Total Levy</i>		
			<i>Property excluding Registered Motor Vehicles</i>	<i>Registered Motor Vehicles</i>	
	<i>Property Valuation</i>	<i>Rate</i>	<i>Amount of Levy</i>		
<i>Original levy:</i>					
<i>Property taxed at current year's rate</i>	\$ 4,557,083,702	0.330	\$ 15,038,376	\$ 14,530,174	\$ 508,202
<i>Penalties</i>	-		5,871	5,871	-
<i>Total</i>	<u>4,557,083,702</u>		<u>15,044,247</u>	<u>14,536,045</u>	<u>508,202</u>
<i>Discoveries:</i>					
<i>Current year taxes</i>	721,200	0.330	2,379	2,379	-
<i>Penalties</i>	-		717	717	-
<i>Total</i>	<u>721,200</u>		<u>3,096</u>	<u>3,096</u>	<u>-</u>
<i>Abatements</i>	<u>(11,349,821)</u>		<u>(37,454)</u>	<u>-</u>	<u>(37,454)</u>
<i>Total property valuations</i>	<u>4,546,455,081</u>				
<i>Net levy</i>			15,009,889	14,539,141	470,748
<i>Uncollected taxes at June 30, 2012</i>			550,911	467,997	82,914
<i>Current year's taxes collected</i>			\$ <u>14,458,978</u>	\$ <u>14,071,144</u>	\$ <u>387,834</u>
<i>Current year's collection percentage</i>			<u>96.33%</u>	<u>96.78%</u>	<u>82.39%</u>

***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, 2012, which collectively comprises Avery County's basic financial statements, and have issued our report thereon dated October 26, 2012. 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

Management of Avery County, North Carolina responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Avery County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Avery County's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-1 to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Avery County, North Carolina, in a separate letter dated October 26, 2012.

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.
October 26, 2012

***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, 2012. Avery County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Avery County's management. Our responsibility is to express an opinion on Avery County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Avery County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Avery County's compliance with those requirements.

In our opinion, Avery County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Avery County, North Carolina is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Avery County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control 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.

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

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.
October 26, 2012*

AVERY COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2012****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 one significant deficiency in the internal controls. The significant deficiency was not determined to be a material weakness.
- C. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the financial statements.
- D. Our audit of compliance with types of compliance requirements applicable to the County's major programs disclosed no significant deficiencies in internal controls over major programs.
- E. An unqualified opinion was issued on Avery County's compliance with the types of compliance requirements applicable to its major federal and State programs.
- F. Audit findings relative to the major federal and State award programs for Avery County are reported in this schedule.
- G. Major federal programs for Avery County for the fiscal year ended June 30, 2012 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, 2012.
- I. The threshold for determining Type A programs for Avery County is \$486,569.
- J. Avery County did not qualify 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 12-1*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, 2012**

Corrective Action Plan

Contact person: Robert Wiseman, County Manager

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

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

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

None

IV. Status of Prior Year Findings

Findings as noted in the prior year audit related to the same significant deficiency as discussed above under item 12-1 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. Also in the prior year, there was a finding in regard to budgetary violations and in regard to indirect costs reported to NC DHHS for reimbursement. Both of these prior year findings have been resolved.

EVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2012

<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:					
Cash Programs:					
U.S. Department of Health & Human Services					
<i>Passed-through Region D Council of Governments:</i>					
Special Programs for the Aging-Title III B					
Special Programs for the Aging-Title III C					
Nutrition Services	93.045		\$ 71,009	\$ 4,133	\$ -
Family Caregiver Support	93.052		2,606	152	-
In Home & Supplemental Support	93.667		109,430	3,037	-
<i>Passed through N.C. Dept. of Health and Human Resources</i>					
<i>Division of Social Services:</i>					
<i>Administration:</i>					
Family Preservation	93.556		1,306	-	-
Work First Service	93.558		184,973	-	144,058
Work First Administrative	93.558		36,847	-	25,820
TANF-Domestic Violence	93.558		4,323	-	-
<i>Low-Income Home Energy Assistance</i>					
Block Grant	93.568		14,290	-	-
Crisis Intervention Payments	93.568		132,730	-	-
Adoption Foster Care	93.658		170,402	9,461	131,034
Permanency Planning	93.645		3,480	816	1,432
Child Support Enforcement	93.563		119,380	-	61,498
In-Home Service - SSBG	93.667		74,660	-	-
NC Health Choice	93.767		25,284	2,101	7,275
Independent Living - LINKS	93.674		4,093	736	-
IV-E Adoption Subsidy	93.659		67,479	17,684	18,455
<i>Direct Benefit Payments:</i>					
Temporary Assistance for Needy Families	93.558		109,621	-	-
Energy Assistance Payment	93.568		49,270	-	-
Title IV-E Foster Care Assistance	93.658		42,285	11,500	11,500
IV-D Administrative	93.563		3,048	1,524	1,524
<i>Division of Medical Assistance:</i>					
<i>Administration:</i>					
Title XIX - Medicaid	93.778		333,350	12,713	320,206
<i>Direct Benefit Payments:</i>					
Title XIX - Medicaid	93.778		13,410,200	7,815,549	18,644
Subsidized Child Care Cluster:					
<i>Division of Social Services:</i>					
Child Care Development Fund	93.596		76,224	-	-
<i>Division of Child Development:</i>					
Child Care Development Fund-Discretionary	93.575		105,112	-	-
IV E Foster Care	93.658		1,768	-	-
Temporary Assistance	93.714		9,488	-	-
Child Care Development Fund	93.596		140,498	56,665	-
Total Child Care Fund Cluster:			333,090	56,665	-
Social Services Block Grant	93.667		74,660	(10,308)	18,054
Temporary Assistance for Needy Families	93.558		43,778	-	-
Smart Start			-	29,614	-
Temporary Assistance for Needy Families - MOE			-	10,749	-
State Funding			-	61,087	-
Total Subsidized Child Care Cluster			451,528	147,807	18,054
Total U.S. Department of Health & Human Resources			15,421,594	8,027,213	777,554

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2012

<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>
<u>U.S. Department of Agriculture</u>					
<i>Passed through Region D Council of Governments:</i>					
Nutrition Program for the Elderly	10.570		18,938	-	-
<i>Passed through N.C. Dept. of Health and Human Resources Division of Social Services:</i>					
<i>Administration:</i>					
<i>Supplemental Nutrition Assistance Program: State Administrative Matching Grants for the SNAP</i>					
	10.561		159,321	-	158,241
Total U.S. Department of Agriculture			178,259	-	158,241.00
<u>U.S. Department of Transportation</u>					
<i>Passed through N.C. Dept. of Transportation</i>					
<i>Public Transportation Programs:</i>					
<i>Section 5311 Admin., Operating, Planning, & Capital</i>					
	20.509		274,018	23,178	45,620
ARRA-Public Transportation	20.509		72,500	-	-
Governor's Highway Safety Program	20.600		17,186	-	-
Total U.S. Department of Transportation			363,704	23,178	45,620
<u>U.S. Department of Housing and Urban Development</u>					
<i>Passed through N.C. Dept. of Commerce</i>					
<i>Division of Community Assistance:</i>					
Scattered Housing Grant	14.228		201,027	-	-
Total U.S. Department of Housing and Urban Development			201,027	-	-
<u>U.S. Department of Homeland Security</u>					
<i>Passed through N.C. Dept. of Crime Control & Public Safety</i>					
Byrne Justice Assistance Grants	16.738		7,479	-	-
Violence Against Women	16.588		657	-	-
Emergency Management Reimbursement	97.042		35,261	-	-
Homeland Security-2007-GE-T7	97.067		10,972	-	-
Total U.S. Department of Homeland Security			54,369	-	-
Total federal assistance			16,218,953	8,050,391	981,415
STATE GRANTS					
Cash Programs:					
<u>N.C. Department of Health and Human Resources:</u>					
<i>Passed-through Region D Council of Governments:</i>					
Senior Center General Purchases				12,203	-
Senior Center Operations				10,826	-
<i>Division of Social Services:</i>					
<i>Direct Benefit Payment:</i>					
<i>SFHF Maximization</i>					
				10,721	10,720
<i>State Foster Care Benefits Program</i>					
				7,981	7,981
<i>State/County Special Assistance for Adults</i>					
				112,436	112,436
<i>Child Welfare Services - Adoption Subsidy</i>					
				152,136	50,712
<i>TANF Program Integrity</i>					
				-	-
<i>Department of Juvenile Justice and Delinquency Prevention:</i>					
<i>Aolescent Substance Abuse</i>					
				8,578	-
<i>Juvenile Service Landship</i>					
				7,634	-
<i>PASS</i>					
				23,925	-

AVERY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2012

<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>
Project Challenge			-	23,000	-
Juvenile Service Mediation			-	7,000	-
Total N.C. Department of Health and Human Resources			-	376,440	181,849
<u>N.C. Department of Transportation:</u>					
Elderly & Disabled TAP	DOT 16 CL		-	42,107	-
Work First Program	DOT 16 CL		-	8,706	-
Rural General Public Transportation	DOT 16 CL		-	45,199	-
Total N.C. Department of Transportation			-	96,012	-
<u>N.C. Department of Administration</u>					
County Aid - Veterans Service Office			-	1,452	-
Elections Grant			-	4,399	-
Total N.C. Department of Administration			-	5,851	-
<u>N.C. Department of Crime Control and Public Safety</u>					
Crisis Housing Grant			-	9,820	-
Total N.C. Department of Crime Control and Public Safety			-	9,820	-
<u>N.C. Department of Commerce</u>					
Criminal Justice Partnership Program			-	53,626	-
<u>N.C. Soil and Water Conservation</u>					
Conservation Grant			-	22,302	-
Total State assistance			-	564,051	181,849
Total assistance			\$ 16,218,953	\$ 8,614,442	\$ 1,163,264

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

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Avery County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Benefits payments are paid directly to recipients and are included in the County's financial statements. However, due to the County's involvement in determining eligibility, they are considered federal awards to the County and are included on this schedule.

The following are clustered by the NC Department of Health and Human Services and are treated separately for State audit requirement purposes:
Subsidized Child Care