

MITCHELL COUNTY, NORTH CAROLINA

Bakersville, North Carolina

Financial Statements

June 30, 2013

(with Independent Auditor's Report thereon)

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MITCHELL COUNTY, NORTH CAROLINA

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Independent Auditor's Report

To the Board of County Commissioners
Mitchell County
Bakersville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mitchell County, North Carolina, as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Mitchell County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell County, North Carolina as of June 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and the other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Mitchell County, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit and the procedures performed as described above, the combining and individual 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2013 on our consideration of Mitchell County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mitchell County's internal control over financial reporting and compliance.

Young, Miller & Gillespie, P.A.

Young, Miller & Gillespie, P.A.
Spruce Pine, North Carolina
September 18, 2013

Management's Discussion and Analysis

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

Financial Highlights

- The assets of Mitchell County exceeded its liabilities at the close of the fiscal year by \$17,814,039.*
- The government's total net position decreased by \$3,185,185 primarily due to the transfer out of expenditures for the water and sewer project. Due to the terms of the grant agreement, these improvements belong to the Town of Spruce Pine.*
- As of the close of the current fiscal year, Mitchell County's governmental funds reported combined ending fund balances of \$8,038,649 a decrease of \$406,709 in comparison with the prior year. Approximately 72 percent of this total amount, or \$5,796,919 is available for spending at the government's discretion. Part of this amount has been reserved to balance the 2013-14 budget.*
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,796,919 or 34 percent of total general fund expenditures and transfers to other funds for the fiscal year. In addition, \$1,445,825 of the General Fund balance has been appropriated for use in the 2013-14 budget year.*
- Mitchell County's tax collection rate remained consistent, averaging 94.39% in the prior year and 94.25% in the current fiscal year.*

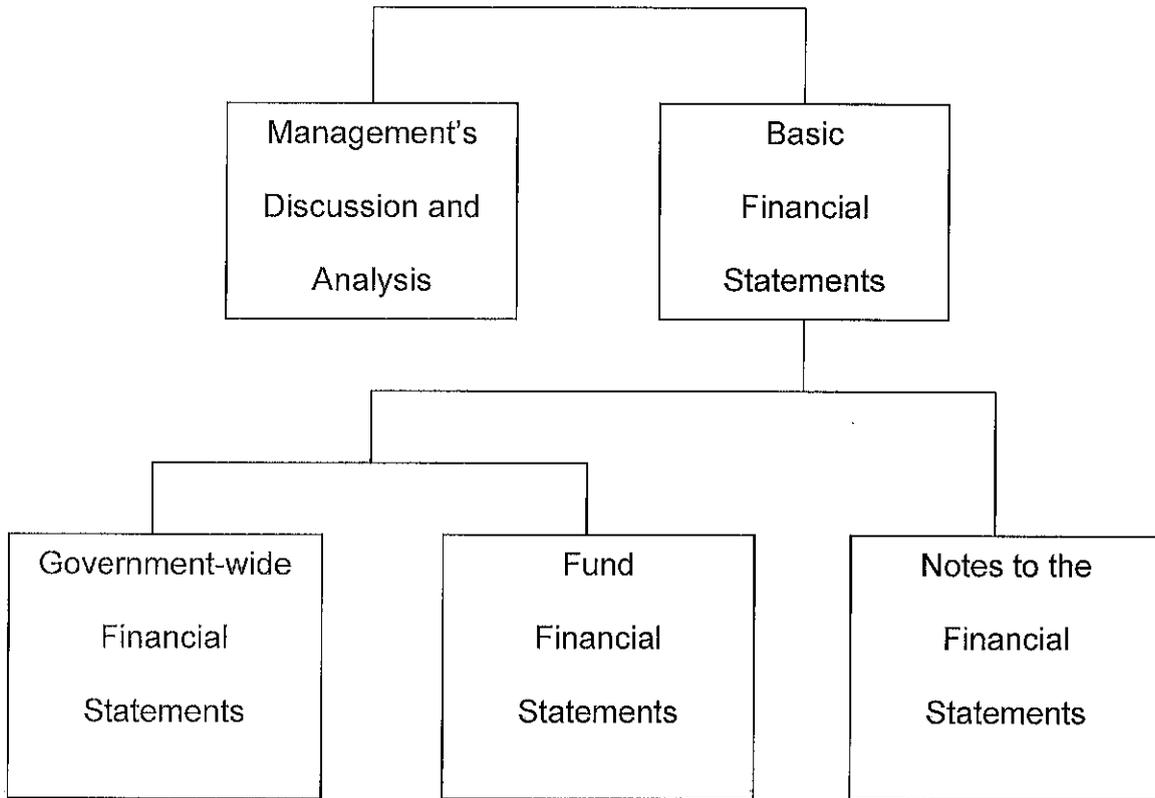
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Mitchell 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 Mitchell 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 position and how it has changed. Net position is the difference between the County's total assets and total liabilities. Measuring net position is one way to gauge the County's financial condition.

The government-wide statements represent governmental activities and 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 (see Figure 2) 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. Mitchell 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 Mitchell 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 readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting. 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 Position 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

Mitchell 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, changes to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and changes. 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. Mitchell County has four 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.*

Other Information – *In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Mitchell County's progress in funding its obligation to provide pension benefits to its employees.*

Management's Discussion and Analysis

Government-Wide Financial Analysis

Mitchell County's Net Position

Figure 2

	Governmental Activities		
	2013	2012	Difference
Current and other assets	\$ 10,004,453	\$ 10,708,111	\$ (703,658)
Capital assets	10,387,795	13,192,149	(2,804,354)
Total assets	<u>\$ 20,392,248</u>	<u>\$ 23,900,260</u>	<u>\$ (3,508,012)</u>
Long-term liabilities outstanding	\$ 1,886,563	\$ 2,088,410	\$ (201,847)
Other liabilities and deferred inflows	691,646	812,626	(120,980)
Total liabilities	<u>2,578,209</u>	<u>2,901,036</u>	<u>(322,827)</u>
<i>Net position:</i>			
Net investment in capital assets	10,387,795	13,192,149	(2,804,354)
Restricted for register of deeds	312	312	-
Restricted for stabilization by State statute	1,353,134	1,757,075	(403,941)
Unrestricted	6,072,798	6,049,688	23,110
Total net position	<u>\$ 17,814,039</u>	<u>\$ 20,999,224</u>	<u>\$ (3,185,185)</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of Mitchell County exceeded liabilities by \$17,814,039 as of June 30, 2013. One of the largest portions of net position 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. Mitchell County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Mitchell 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 Mitchell County's net position, \$1,353,134 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,072,798 is unrestricted.

Several particular aspects of the County's financial operations influenced the total unrestricted governmental net position resulting in a current year decrease:

- Increased costs of providing food, housing and medical treatment for inmates
- Additional required County matching costs for Social Services programs

Management's Discussion and Analysis

Figure 3

	Governmental Activities	
	2013	2012
<i>Revenues:</i>		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 822,694	\$ 811,161
<i>Operating grants and contributions</i>	4,754,593	5,021,613
<i>Capital grants and contributions</i>	603,667	1,483,687
<i>General revenues:</i>		
<i>Property taxes</i>	8,347,420	8,301,111
<i>Other taxes</i>	2,936,955	3,121,447
<i>Investment earnings</i>	49,501	(18,807)
<i>Other</i>	88,128	28,785
<i>Total revenues</i>	17,602,958	18,748,997
<i>Expenses:</i>		
<i>General government</i>	2,320,610	1,926,215
<i>Public safety</i>	4,514,058	4,447,826
<i>Transportation</i>	646,858	642,519
<i>Environmental protection</i>	1,354,540	1,425,054
<i>Economic and physical development</i>	3,328,026	756,614
<i>Human services</i>	5,414,579	5,138,323
<i>Cultural and recreation</i>	197,687	194,423
<i>Education</i>	3,011,785	2,838,244
<i>Total expenses</i>	20,788,143	17,369,218
<i>Increase (decrease) in net position</i>	(3,185,185)	1,379,779
<i>Net position, beginning</i>	20,999,224	19,619,445
<i>Net position, ending</i>	\$ 17,814,039	\$ 20,999,224

Financial Analysis of the County's Funds

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

Governmental Funds. The focus of Mitchell County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Mitchell 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 Mitchell County. At the end of the current fiscal year, unreserved, unassigned fund balance of the General Fund was \$4,351,094, while total fund balance reached \$8,038,649. As a measure of the general fund's liquidity, it may be

Management's Discussion and Analysis

useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, unassigned fund balance represents 25 percent of total General Fund expenditures and transfers to other funds, while total fund balance represents 42 percent of that same amount.

At June 30, 2013, the governmental funds of Mitchell County reported a combined fund balance of \$8,038,649, a 5 percent decrease over last year. The primary reason for this decrease is rising expenditures and decreases in grant funding.

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 decreased the original budgeted expenditures by \$60,996.

Capital Asset and Debt Administration

Capital assets. *Mitchell County's capital assets for its governmental activities as of June 30, 2013, total \$10,387,795 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.*

Major capital asset transactions during the year include:

- Completion of project for sewer line extension to Mitchell High School*
- Purchase of vehicles for transportation and public safety*

These major capital asset purchases were funded by proceeds from various restricted grant monies received by the County during the fiscal year as well as from local monies.

Management's Discussion and Analysis

Mitchell County's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities	Governmental Activities	Difference
	2013	2012	
Land	\$ 1,078,968	\$ 1,078,968	\$ -
Construction and other assets in progress	-	1,081,767	(1,081,767)
Buildings	5,687,091	5,751,880	(64,789)
Improvements other than buildings	1,322,120	2,776,072	(1,453,952)
Machinery and equipment	1,522,441	1,696,496	(174,055)
Vehicles and motorized equipment	777,175	806,966	(29,791)
Total	\$ 10,387,795	\$ 13,192,149	\$ (2,804,354)

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

Long-term Debt. *As of June 30, 2013, Mitchell County had total debt outstanding of \$2,029,420. Of this, \$179,913 is compensated absences, \$1,428,571 is qualified zone academy bond financing, \$228,318 is accrued liability for other post employment benefits such as health insurance and \$192,618 is a pension obligation.*

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities:

Budgeted expenditures in the General Fund are expected to increase approximately six percent to \$17,938,480. A total of twenty four percent, (24%) of the undesignated, unassigned fund balance has been appropriated for these future expenditures.

Requests for Information

This report is designed to provide an overview of Mitchell 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 County Manager, Mitchell County, 26 Crimson Laurel Circle, Bakersville, NC 28705.

MITCHELL COUNTY, NORTH CAROLINA
Statement of Net Position
June 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 7,093,238
Receivables (net)	1,846,361
Due from other governments	923,788
Restricted cash and equivalents	141,066
Capital assets:	
Land, improvements, and construction in progress	1,078,968
Other capital assets, net of depreciation	9,308,827
Total capital assets	<u>10,387,795</u>
Total assets	<u>20,392,248</u>
LIABILITIES	
Accounts payable and accrued expenses	524,602
Long-term liabilities:	
Due within one year	142,857
Due in more than one year	1,886,563
Total liabilities	<u>2,554,022</u>
DEFERRED INFLOWS OF RESOURCES	<u>24,187</u>
NET POSITION	
Net investment in capital assets	10,387,795
Restricted for:	
Stabilization by State statute	1,353,134
Register of Deeds	312
Unrestricted (deficit)	6,072,798
Total net position	<u>\$ 17,814,039</u>

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

Mitchell County, North Carolina
 Statement of Activities
 For the Year Ended June 30, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government					
Governmental Activities:					
General government	\$ 2,320,610	\$ 161,199	\$ -	\$ -	(2,159,411)
Public safety	4,514,058	168,357	300,266	150,059	(3,895,376)
Transportation	646,858	47,680	246,163	69,351	(283,664)
Environmental protection	1,354,540	409,397	85,818	-	(859,325)
Economic and physical development	3,328,026	-	-	384,257	(2,943,769)
Human services	5,414,579	-	4,122,346	-	(1,292,233)
Cultural and recreation	197,687	36,061	-	-	(161,626)
Education	3,011,785	-	-	-	(3,011,785)
Total governmental activities	\$ 20,788,143	\$ 822,694	\$ 4,754,593	\$ 603,667	(14,607,189)
General revenues:					
Taxes:					
Property taxes, levied for general purpose					8,347,420
Local option sales tax					2,759,296
Other taxes and licenses					177,659
Investment earnings, unrestricted					49,501
Miscellaneous, unrestricted					88,128
Total general revenues, special items, and transfers					11,422,004
Change in net position					(3,185,185)
Restatement					20,999,224
Net position-beginning, restated					\$ 17,814,039
Net position-ending					\$ 14,628,854

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

MITCHELL COUNTY, NORTH CAROLINA

Exhibit "3"

Balance Sheet

Governmental Funds

June 30, 2013

<i>Assets</i>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Assets:</i>			
<i>Cash and investments</i>	\$ 6,343,386	\$ 749,852	\$ 7,093,238
<i>Restricted cash</i>	141,066	-	141,066
<i>Receivables (net)</i>	1,472,519	126,636	1,599,155
<i>Prepaid expenses</i>	-	-	-
<i>Due from other governments</i>	877,229	46,559	923,788
<i>Total assets</i>	<u>\$ 8,834,200</u>	<u>\$ 923,047</u>	<u>\$ 9,757,247</u>
<i>Liabilities and Fund Balances</i>			
<i>Liabilities:</i>			
<i>Accounts payable</i>	\$ 521,268	\$ 3,334	\$ 524,602
<i>Total liabilities</i>	<u>521,268</u>	<u>3,334</u>	<u>524,602</u>
<i>Deferred Inflows of Resources:</i>	<u>1,067,891</u>	<u>126,105</u>	<u>1,193,996</u>
<i>Fund balances:</i>			
<i>Restricted:</i>			
<i>Stabilization by State statute</i>	1,306,044	47,090	1,353,134
<i>Register of Deeds</i>	312	-	312
<i>Committed:</i>			
<i>Tax revaluation</i>	141,766	-	141,766
<i>Emergency Telephone System</i>	-	746,518	746,518
<i>Assigned:</i>			
<i>Subsequent year's expenditures</i>	1,445,825	-	1,445,825
<i>Unassigned:</i>	<u>4,351,094</u>	<u>-</u>	<u>4,351,094</u>
<i>Total fund balances</i>	<u>7,245,041</u>	<u>793,608</u>	<u>8,038,649</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 8,834,200</u>	<u>\$ 923,047</u>	
<i>Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:</i>			
<i>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</i>			10,387,795
<i>Deferred inflows of resources for prepaid taxes</i>			1,169,809
<i>Interest receivable is not available to pay for current period expenditures and therefore not reported in the funds</i>			247,206
<i>Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.</i>			<u>(2,029,420)</u>
 <i>Net position of governmental activities</i>			 <u>\$ 17,814,039</u>

See the accompanying Independent Auditor's Report..

MITCHELL COUNTY, NORTH CAROLINA
Combined Statement of Revenue, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Revenues:</i>			
<i>Ad valorem taxes</i>	\$ 7,669,547	\$ 883,327	\$ 8,552,874
<i>Local option sales tax</i>	2,759,296	-	2,759,296
<i>Other taxes</i>	127,830	-	127,830
<i>Unrestricted intergovernmental</i>	14,700	-	14,700
<i>Restricted intergovernmental</i>	3,354,628	658,514	4,013,142
<i>Licenses and permits</i>	152,596	-	152,596
<i>Sales and services</i>	2,098,638	-	2,098,638
<i>Investment earnings</i>	19,979	35	20,014
<i>Miscellaneous</i>	39,836	-	39,836
<i>Total revenues</i>	<u>16,237,050</u>	<u>1,541,876</u>	<u>17,778,926</u>
<i>Expenditures:</i>			
<i>Current:</i>			
<i>General government</i>	2,279,597	-	2,279,597
<i>Public safety</i>	3,322,865	955,596	4,278,461
<i>Public transportation</i>	572,904	-	572,904
<i>Environmental protection</i>	1,284,863	-	1,284,863
<i>Economic and physical development</i>	404,665	92,044	496,709
<i>Human services</i>	5,422,711	-	5,422,711
<i>Cultural and recreational</i>	188,952	-	188,952
<i>Education</i>	3,011,785	-	3,011,785
<i>Capital outlay</i>	198,499	308,297	506,796
<i>Debt service:</i>			
<i>Principal retirement</i>	142,857	-	142,857
<i>Total expenditures</i>	<u>16,829,698</u>	<u>1,355,937</u>	<u>18,185,635</u>
<i>Excess of revenues over expenditures</i>	(592,648)	185,939	(406,709)
<i>Other financing sources (uses):</i>			
<i>Transfers - in (out)</i>	4,123	(4,123)	-
<i>Total other financing sources (uses)</i>	<u>4,123</u>	<u>(4,123)</u>	<u>-</u>
<i>Net change in fund balances</i>	(588,525)	181,816	(406,709)
<i>Fund balances - beginning of year</i>	<u>7,833,566</u>	<u>611,792</u>	<u>8,445,358</u>
<i>Fund balances - end of year</i>	<u>\$ 7,245,041</u>	<u>\$ 793,608</u>	<u>\$ 8,038,649</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

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

Net changes in fund balances - total governmental funds \$ (406,709)

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 and disposals in the current period. 27,194

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (175,969)

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. 142,857

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. (2,772,558)

Total changes in net position of governmental activities \$ (3,185,185)

MITCHELL COUNTY, NORTH CAROLINA
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 7,579,341	7,745,595	7,669,547	\$ (76,048)
Local option sales taxes	2,953,416	2,784,319	2,759,296	(25,023)
Other taxes and licenses	139,531	129,820	127,830	(1,990)
Unrestricted intergovernmental	28,031	28,031	14,700	(13,331)
Restricted intergovernmental	3,098,021	3,520,263	3,354,628	(165,635)
Licenses and permits	161,858	153,787	152,596	(1,191)
Sales and services	2,237,817	2,150,459	2,098,638	(51,821)
Investment earnings	-	21,001	19,694	(1,307)
Miscellaneous	-	34,380	39,836	5,456
Total revenues	<u>16,198,015</u>	<u>16,567,655</u>	<u>16,236,765</u>	<u>(330,890)</u>
Expenditures:				
Current:				
General government	1,948,188	2,050,180	2,024,835	25,345
Public safety	3,256,591	3,467,156	3,407,547	59,609
Public transportation	599,180	657,322	647,167	10,155
Environmental protection	1,387,143	1,308,741	1,297,663	11,078
Economic and physical development	899,032	412,335	404,665	7,670
Human services	5,480,832	5,533,704	5,438,724	94,980
Cultural and recreational	194,801	189,801	188,952	849
Intergovernmental:				
Education	2,985,363	3,070,896	3,011,785	59,111
Debt service:				
Principal retirement	142,858	142,857	142,857	-
Total expenditures	<u>16,893,988</u>	<u>16,832,992</u>	<u>16,564,195</u>	<u>268,797</u>
Revenues over (under) expenditures	<u>(695,973)</u>	<u>(265,337)</u>	<u>(327,430)</u>	<u>(62,093)</u>
Other financing sources (uses):				
Operating transfers from (to) other funds	(100,000)	(95,877)	(95,877)	-
Appropriated fund balance	795,973	361,214	-	(361,214)
Total other financing sources (uses)	<u>695,973</u>	<u>265,337</u>	<u>(95,877)</u>	<u>(361,214)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(423,307)</u>	<u>\$ (423,307)</u>
Fund balances:				
Beginning of year			<u>7,833,566</u>	
End of year			<u>\$ 7,410,259</u>	
<i>A legally budgeted Tax Revaluation Fund is consolidated into the General Fund for reporting purposes.</i>				
Interest earnings			285	
Transfers in from general fund			100,000	
Expenditures			(265,503)	
Beginning Fund Balance - Revaluation			-	
Ending Fund Balance - Exhibit 4			<u>\$ 7,245,041</u>	

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Statement of Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013

	<u>Agency Funds</u>
<i>Assets:</i>	
<i>Cash and investments</i>	\$ 34,155
<i>Taxes receivable</i>	<u>32,714</u>
<i>Total assets</i>	<u><u>\$ 66,869</u></u>
 <i>Liabilities:</i>	
<i>Miscellaneous liabilities</i>	\$ 34,155
<i>Intergovernmental payables</i>	<u>32,714</u>
<i>Total liabilities</i>	<u><u>\$ 66,869</u></u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mitchell 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.

(B) Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government (the County). These statements include the financial activity of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, as presented in these statements, generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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 functions 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. Separate statements for each fund category – governmental 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 nonmajor funds.

The County reports the following major governmental fund:

General Fund: This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The County reports the following fund types:

Agency Funds: Agency Funds are custodial in nature and do not involve the measurement of operating results. Agency Funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for money 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 the Mitchell 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 in 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.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

Nonmajor Funds. The County maintains three legally budgeted funds. The Emergency Telephone System Fund, the Revaluation Fund and the Fire District Fund are reported as nonmajor special revenue funds. The Capital Reserve Fund and the Revaluation Fund are consolidated in the General Fund in accordance with GASB Statement No. 54.

Measurement Focus, Basis of Accounting

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

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

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

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 that 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 financial 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 the change in law, Mitchell 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. Therefore, taxes for vehicles registered from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due.

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 programs expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the

MITCHELL COUNTY, NORTH CAROLINA

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

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 of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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

(C) Budgetary Data

The County's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund, the Emergency Telephone, Fire District, and Revaluation Special Revenue Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Special Revenue Fund and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures by more than \$5,000. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

(D) Assets, Liabilities and Fund Equity

1. Deposits and Investments

All deposits of the County are made in board-designated official depositories and are secured as required by G.S. 159-31. The County may designate as an official depository, any bank or savings 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's investments with a 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 (2a-7) 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 earning investment contracts are reported at cost.

2. 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.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012.

5. 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.

6. Capital 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.

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

	Years
Buildings	50
Improvements	25
Furniture and equipment	10
Vehicles	6
Computer equipment	3

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County has no items that meet this criterion. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County has only one item that meets the criterion for this category - prepaid taxes.

8. Long-Term Obligations

In the government-wide financial statements and fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities.

In the fund financial statements for government type funds, the face amount of debt issued is reported as an other financing source.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

9. Compensated Absences

The vacation policy of the County provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the County's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as leave is earned.

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.

10. Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of 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.

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

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

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

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

- 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.

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

Mitchell 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.

(E) 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 position.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of \$ 9,775,390 consists of several elements as follows:

<u>Description</u>	
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 assets on government-wide statement in governmental activities column)	\$ 14,188,507
Less Accumulated Depreciation	<u>(3,800,712)</u>
Net capital assets	10,387,795
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	247,206
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	1,169,809
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	(192,618)
Other post employment benefits	(228,318)
Compensated absences	(179,913)
Bonds, leases, and installment financing	<u>(1,428,571)</u>
Total adjustment	<u>\$ 9,775,390</u>

2. 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 reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$2,778,476) as

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

follows:

<u>Description</u>	
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 506,795
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	(479,602)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again only the statement of net assets in the government-wide statements	142,857
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	
Loss on the sale of assets	(2,831,548)
Change in compensated absences	(3,711)
Change in pension obligation	(5,563)
Change in other post employment benefits	68,264
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements	
Increase in interest receivable for the year ended 06/30/13	29,487
Decrease in deferred revenue from taxes receivable at 07/01/12	(205,455)
Total adjustment	<u>\$ (2,778,476)</u>

II. DETAIL NOTES ON ALL FUNDS

(A) Assets

1. Deposits

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

At June 30, 2013, the County's deposits had a carrying value of \$1,375,131 and a bank balance of \$1,593,174. The carrying value includes fiduciary funds of \$34,155. Of the bank balance, \$250,000 was

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

covered by federal depository insurance and \$1,343,174 was covered by collateral held under the Pooling Method.

The County maintains cash on hand of \$860.

2. Investments

At June 30, 2013, the County's investments consisted of \$5,892,644 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.

	<u>Reported Value</u>	<u>Market Value</u>
North Carolina Capital Management Trust	\$ 5,892,644	\$ 5,892,644

3. Receivables

In addition to the taxes and regular accounts receivable, the County has two promissory notes with local not-for-profit agencies. The first agreement, with the Mitchell County Development Foundation, is a promissory note receivable for \$450,000 with repayment terms of \$3,559 per month and an interest rate of five percent (5%). After the first four years, this loan requires a balloon repayment of the remaining balance. The second agreement, with Mitchell County Historic Courthouse Foundation, is for \$60,000 to be paid over a twelve year period with payments of \$5,000 per month plus interest of .35% per annum with the first payment due December 15, 2012.

Receivables – Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2013 were as follows:

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental activities:				
General	\$ 428,815	\$ 1,567,015	\$ 877,229	\$ 2,873,059
Other Governmental	-	127,105	46,559	173,664
Notes Receivable - General Fund	431,774	-	-	431,774
Total receivables	<u>860,589</u>	<u>1,694,120</u>	<u>923,788</u>	<u>3,478,497</u>
Allowance for doubtful accounts	-	(151,000)	-	(151,000)
Total - Governmental activities	<u>\$ 860,589</u>	<u>\$ 1,543,120</u>	<u>\$ 923,788</u>	<u>\$ 3,327,497</u>

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

Local option sales tax	\$ 470,629
NC DOT operating subsidy and capital grants	35,666
NC DHHS operating funds	218,326
High Country Council of Governments - operating funds	17,418
White Goods and Tire Disposal	17,273
NC Dept of Public Safety grants	54,458
NC PSAP payment	46,559
NC sales tax refund receivable	40,402
Other	23,057
	<u>\$ 923,788</u>

For the County, the amounts presented in Exhibit 1, the Statement of Net Position, are net of the following allowances for doubtful accounts at June 30, 2013:

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

<i>General Fund:</i>	
Property taxes	\$ 150,000
<i>Special Revenue Fund:</i>	
	<u>1,000</u>
Total	<u>\$ 151,000</u>

4. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	1,078,968	-	-	1,078,968
Construction in progress	1,081,767	283,082	(1,364,849)	-
	<u>\$ 2,160,735</u>	<u>\$ 283,082</u>	<u>\$ (1,364,849)</u>	<u>\$ 1,078,968</u>
<i>Capital assets being depreciated:</i>				
Buildings	6,757,516	-	-	6,757,516
Other improvements	3,113,183	39,554	(1,517,275)	1,635,462
Equipment	2,528,026	25,214	-	2,553,240
Vehicles and motor equipment	2,197,304	158,945	(192,928)	2,163,321
Total capital assets being depreciated	<u>14,596,029</u>	<u>223,713</u>	<u>(1,710,203)</u>	<u>13,109,539</u>
<i>Less accumulated depreciation for:</i>				
Buildings	1,005,636	64,789	-	1,070,425
Other improvements	337,112	26,807	(50,576)	313,343
Equipment	831,530	199,269	-	1,030,799
Vehicles and motor equipment	1,390,337	188,736	(192,928)	1,386,145
Total accumulated depreciation	<u>3,564,615</u>	<u>479,601</u>	<u>(243,504)</u>	<u>3,800,712</u>
Total capital assets being depreciated, net	<u>11,031,414</u>			<u>9,308,827</u>
Governmental activity capital assets, net	<u>\$ 13,192,149</u>			<u>\$ 10,387,795</u>

Reconciliation of County capital asset increases is as follows:

Capital outlay expenditures	\$ 528,268
Less:	
Inventory items	<u>(21,472)</u>
Total increases	<u>\$ 506,796</u>

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

General government	\$ 72,513
Public safety	228,966
Transportation	75,721
Environmental protection	69,408
Economic and physical development	59
Human services	22,820
Cultural and recreational	<u>10,114</u>
Total depreciation expense	<u>\$ 479,601</u>

Items listed in the above table as inventory items are those items purchased during the year that fall under the County's \$5,000 capitalization threshold policy.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

(B) Liabilities

(1) Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Mitchell 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 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.04% and 7.03%, respectively, of annual covered payroll. The contribution requirements of members and of Mitchell County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$313,358, \$286,396, and \$268,317, respectively. The contributions made by the County equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

Mitchell 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.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance membership consisted of:

<i>Retirees receiving benefits</i>	<i>2</i>
<i>Terminated plan members entitled to but not yet receiving benefits</i>	<i>0</i>
<i>Active plan members</i>	<i>16</i>
<i>Total</i>	<u><u><i>18</i></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.*

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

3. Contributions

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$30,017. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25- 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2012 was 20 years.

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

Annual required contribution	\$ 32,305
Interest on net pension obligation	9,353
Adjustment to annual required contribution	<u>(11,641)</u>
Annual pension cost	30,017
Contribution made	<u>(24,454)</u>
Increase (decrease) in net pension obligation	5,563
Net pension obligation beginning of year	<u>187,055</u>
Net pension obligation end of year	<u>\$ 192,618</u>

Three Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation End of Year
06/30/2011	\$ 22,915	88.95%	\$ 182,918
06/30/2012	\$ 28,591	85.53%	\$ 187,055
6/30/2013	\$ 30,017	81.47%	\$ 192,618

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, 2013 were \$30,465, all of which was contributed by the County.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

d. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all County employees, permits 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.

e. Register of Deeds' Supplemental Pension Fund

Plan Description. Mitchell 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 that 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, 2013, the County's required and actual contributions were \$4,785.

(2) Other Post Employment Benefits

HEALTHCARE BENEFITS

Plan Description. Under the terms of a County resolution, the County administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the County, provided they meet the following guidelines: Mitchell County will pay 75% of the cost of premiums for an employee retiring with 20 to 24 years of continuous service, 87.5% for an employee retiring with 25 to 30 years of continuous service, and 100% of the premiums retiring with 30 years of continuous service. The County pays the full cost of coverage for these benefits through private insurers. This coverage will continue until the employee becomes eligible for Medicare, at which time the County will convert coverage to a Medicare supplement policy. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

General Employees:	84
Law Enforcement Officers:	17
Retirees and dependents receiving benefits:	<u>14</u>
Total:	115

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 8.69% of annual covered payroll. For the current year, the County made contributions of \$68,793 to the retirees receiving benefits. 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

MITCHELL COUNTY, NORTH CAROLINA

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the healthcare benefits:

Annual required contribution \$ 297,109
Interest on net OPEB obligation: 4% per annum compounded annually
Contributions made: \$68,793
Net OPEB obligation, end of year \$ 228,316

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

<u>Ended June 30</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
2013	\$ 297,109	33%	\$ 228,316

Funded Status and Funding Progress. As of December 31, 2012, 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 \$3,413,249. The covered payroll (annual payroll of active employees covered by the plan) was \$3,490,904 and the ratio of the UAAL to the covered payroll was 97.8 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 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 8.50 to 5.00 percent pre-medicare, and 6.25 to 5.00 percent post-medicare, annually. Both rates included a 3.00 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 an 8 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, 2012, was 30 years.

OTHER EMPLOYMENT BENEFITS

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer,

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The County considers these contributions to be immaterial.

3. Deferred / Unearned Revenue

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

	General Fund	Special Revenue Fund
Prepaid taxes, not yet earned	\$ 24,187	\$ -
Taxes receivable (net)	1,043,704	126,105
	<u>\$ 1,067,891</u>	<u>\$ 126,105</u>

4. 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 other 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, workers' compensation coverage up to the statutory limits, and medical and dental insurance for County employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 per occurrence and an additional \$500,000 annual aggregate up to \$2 million limit for liability coverage, \$145 million of aggregate annual losses in excess of \$100,000 per occurrence and an additional \$1 million annual aggregate for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 per occurrence and \$300,000 annual aggregate for workers' compensation. For medical and dental insurance, the County is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through a commercial carrier for individual losses in excess of \$250,000.

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. Individual bonds are in the following amounts: The Director of Finance, bonded for \$250,000, Assistant Finance Officer, Tax Collector and Assistant, and Clerk to the Board, \$25,000 each, Register of Deeds and Deputies, Sheriff, and Assistant Director of Transportation, \$10,000 each.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

5. Long-Term Obligations

a. Installment Purchase QZAB

On August 28, 2008, the County entered into a commitment of \$2,000,000 in order to finance a school renovation project. The contract is with Rocky Mountain Bank located in Montana for the issuance of Qualified Zone Academy Bond (QZAB) funding. Required principal repayment is \$142,857 per year for a fourteen year term with no stated interest rate.

General Long-Term Debt:	<u>Principal</u>
2014	142,857
2015	142,857
2016	142,857
2017	142,857
2018	142,857
2019-2022	714,287
	<u>\$ 1,428,572</u>

b. 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, 2013:

	<u>Balance</u>		<u>Increases</u>		<u>Decreases</u>	<u>Balance</u>	<u>Current</u>
	<u>June 30, 2012</u>					<u>June 30, 2013</u>	<u>Portion of</u>
							<u>Balance</u>
Governmental activities:							
QZAB payable	\$ 1,571,429	\$ -	\$	142,857	\$	1,428,572	\$ 142,857
Compensated absences	176,202	711	-	-	-	176,913	-
Net pension obligation	187,055	5,563	-	-	-	192,618	-
Net health care plan obligation	296,581	-	68,264	-	-	228,317	-
	<u>\$ 2,231,267</u>	<u>\$ 6,274</u>	<u>\$</u>	<u>211,121</u>	<u>\$</u>	<u>2,026,420</u>	<u>\$ 142,857</u>

At June 30, 2013, the County had a legal debt margin of \$192,344,897.

6. Claims and Judgments

At June 30, 2013, 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, 2013 that may have an unfavorable outcome are covered by the County's liability insurance.

8. Closure and Postclosure Care Costs (Mitchell-Yancey Sanitary Landfill)

The Mitchell-Yancey Sanitary Landfill is an association between Mitchell and Yancey Counties, North Carolina. The Landfill was a joint venture for the purpose of operating and funding a sanitary landfill. During the fiscal year ended June 30, 1994, the two counties declined to accept any additional waste and began closure and postclosure procedures in order to comply with State and federal laws and regulations. On October 6, 1994, the two counties were notified that all requirements for closure had been successfully completed. As a result of successfully completing closure prior to the mandated date of October 8, 1994, the two counties will only be required to monitor the Landfill at shared costs. For the fiscal year ended June 30, 2013, Mitchell County's portion of shared costs was \$116,882.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

(C) Fund Balance

Mitchell County has a revenue spending policy that provides policy 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, 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 General fund balance that is available for appropriation:

<i>Total fund balance-General Fund</i>	<i>\$8,038,649</i>
<i>Less:</i>	
<i>Non-spendable prepaid expenses</i>	
<i>Stabilization by State Statute</i>	<i>1,353,134</i>
<i>Appropriated Fund Balance in 2014 budget</i>	<i>1,445,825</i>
<i>Committed to Tax Revaluation</i>	<i>141,766</i>
<i>Emergency Telephone System</i>	<i>746,518</i>
<i>Register of Deeds</i>	<i>312</i>
<i>Remaining Fund Balance</i>	<i>4,351,094</i>

III. 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, 2013. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$63,908 to the library to supplement its activities. Complete financial statements can be obtained from the Library's offices at Highway 19E, Burnsville, North Carolina 28714.

The County in conjunction with the State of North Carolina, Avery 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 president of the College's student government 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. Mitchell County contributed \$303,000 and \$11,100 to the College for operating and capital purposes, respectively, during the fiscal year ended June 30, 2013. 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, 2013. 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

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

participating governments have any equity interest in the Health District, so no equity interest has been reflected in the financial statements at June 30, 2013. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$301,891 to the Health District to supplement its activities. Complete financial statements can be obtained from the Toe River Health District's offices at Greenwood Avenue, Spruce Pine, North Carolina 28777.

The County participated in a joint venture to operate the Western Highlands Area Authority with eight other local governments. The County has an ongoing financial responsibility for the joint venture because the Center's continued existence depends on the participating governments' continued funding. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$18,000 to the Center to supplement its activities.

IV. 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 \$7,765 to the Council during the fiscal year ending June 30, 2013.

V. BENEFIT PAYMENTS ISSUED BY THE STATE

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. 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	\$ 15,908,261	\$ 9,027,220
Temporary Assistance for Needy Families	17,237	-
Title IV-E Foster Care Assistance	208,733	59,686
Title IV-E Adoption Assistance	93,523	24,679
Special Children Adoption	55,200	-
CWS Adoption Subsidy and Vendor	-	59,703
SC/SA Domiciliary Care Payment	-	117,947
State Foster Home	-	117,382

VI. SUMMARY DISCLOSURE OF SIGNIFICANT 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.

VII. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

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

MITCHELL COUNTY, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
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) (UAAL) (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>
12/31/2004	0	115,430	115,430	0%	397,278	29.06%
12/31/2005	0	109,147	109,147	0%	419,920	25.99%
12/31/2006	0	120,443	120,443	0%	426,261	28.26%
12/31/2007	0	163,982	163,982	0%	486,950	33.68%
12/31/2008	0	192,601	192,601	0%	566,921	33.97%
12/31/2009	0	205,876	205,876	0%	555,648	37.05%
12/31/2010	0	315,238	315,238	0%	521,178	60.49%
12/31/2011	0	318,361	318,361	0%	549,730	57.91%
12/31/2012	0	317,008	317,008	0%	590,657	53.67%

Schedule of Employer Contributions

<i>Year Ended June 30</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
2004	14,414	0%
2005	14,796	0%
2006	15,515	0%
2007	14,464	0%
2008	15,878	0%
2009	20,284	0%
2010	23,548	30.86%
2011	22,915	88.95%
2012	28,591	85.53%
2013	30,017	81.47%

Notes to the Required Schedules:

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

<i>Valuation date</i>	12/31/2012
<i>Actuarial cost method</i>	Projected unit credit
<i>Amortization method</i>	Level percent of pay closed
<i>Remaining amortization period</i>	18 years
<i>Asset valuation method</i>	Market value
<i>Actuarial assumptions:</i>	
<i>Investment rate of return</i>	5.00%
<i>Projected salary increases</i>	4.25 - 7.85%
<i>Includes inflation at</i>	3.00%
<i>Cost-of-living adjustments</i>	N/A

MITCHELL 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) (UAAL) (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	3,342,109	3,342,109	0%	4,037,533	82.8%
12/31/2009	0	3,066,154	3,066,154	0%	4,038,731	75.9%
12/31/2010	0	3,216,636	3,216,636	0%	3,301,415	97.4%
12/31/2011	0	3,251,635	3,251,635	0%	3,363,179	96.7%
12/31/2012	0	3,413,249	3,413,249	0%	3,490,904	97.8%

Schedule of Employer Contributions

<i>Year Ended June 30</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
2009	340,935	7%
2010	342,676	0%
2011	296,581	0%
2012	297,111	0%
2013	228,317	33%

Notes to the Required Schedules:

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

<i>Valuation date</i>	12/31/2012
<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>	
<i>Pre-Medicare trend rate</i>	8.5% - 5.0%
<i>Post-Medicare trend rate</i>	6.25% - 5.0%
<i>Year of Ultimate trend rate</i>	2018
<i>Includes inflation at</i>	3.00%

MITCHELL COUNTY, NORTH CAROLINA**General Fund****Statement of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual-
For the Fiscal Year Ended June 30, 2013***(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)*

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
Revenues:				
<i>Ad valorem taxes:</i>				
Taxes	\$	\$ 7,573,144	\$	\$ 7,432,080
Penalties and interest		96,403		160,723
Total		<u>7,745,595</u>		<u>7,592,803</u>
<i>Local option sales taxes:</i>				
Article 39 one percent		1,461,188		1,418,567
Article 40 one-half of one percent		632,441		758,315
Article 42 one-half of one percent		665,667		698,976
Total		<u>2,784,319</u>		<u>2,875,858</u>
<i>Other taxes and licenses:</i>				
Real estate transfer tax		48,300		31,833
Adm cost excise tax		980		635
Occupancy tax		50,832		63,312
Scrap tire disposal tax		18,972		19,150
Solid waste disposal tax		8,746		10,818
Total		<u>129,820</u>		<u>125,748</u>
<i>Unrestricted intergovernmental:</i>				
Payments in lieu of taxes		14,700		48,364
Total		<u>28,031</u>		<u>48,364</u>
<i>Restricted intergovernmental:</i>				
State and federal grants		3,339,575		3,355,797
Court facilities fees		15,053		18,547
Total		<u>3,520,263</u>		<u>3,374,344</u>
<i>Licenses and permits:</i>				
Inspection fees and building permits		83,943		98,076
Register of deeds		61,633		54,518
Marriage licenses		7,020		7,080
Total		<u>153,787</u>		<u>159,674</u>
<i>Sales and services:</i>				
Officer and jail fees		25,190		35,885
CAP/DA claims		1,276,129		1,383,184
Rent		52,518		51,518
Cable and telephone fees		68,847		73,415
Recycling waste revenue		77,313		67,408
Tipping fees		394,320		384,838
Transportation fees		164,678		185,778
Recreation fees		36,061		40,493
Other fees		3,582		39,879
Total		<u>2,150,459</u>		<u>2,262,398</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual-
For the Fiscal Year Ended June 30, 2013

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

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
Investment earnings	21,001	19,694	(1,307)	34,322
Miscellaneous:				
Sales of fixed assets		3,750		-
Insurance refunds		22,946		33,691
Other		13,140		1,924
Total	34,380	39,836	5,456	35,615
Total revenues	16,567,655	16,236,765	(330,890)	16,509,126
Expenditures:				
General government -				
Administration:				
Salaries and employee benefits		342,706		320,712
Other operating expenditures		345,361		267,370
Capital outlay		10,741		-
Total	703,305	698,808	4,497	588,082
Elections:				
Salaries and employee benefits		87,112		67,270
Other operating expenditures		38,141		45,615
Total	126,924	125,253	1,671	112,885
Finance:				
Salaries and employee benefits		109,332		107,853
Other operating expenditures		7,987		8,867
Total	119,999	117,319	2,680	116,720
Tax listing and supervisor:				
Salaries and employee benefits		150,875		144,299
Other operating expenditures		24,191		17,995
Total	176,287	175,066	1,221	162,294
Tax collections:				
Salaries and employee benefits		97,839		95,727
Other operating expenditures		31,243		27,311
Total	133,072	129,082	3,990	123,038
Mapping/GIS:				
Salaries and employee benefits		55,489		79,680
Other operating expenditures		3,707		43,608
Total	59,630	59,196	434	123,288
Register of Deeds:				
Salaries and employee benefits		132,497		120,339
Other operating expenditures		63,402		66,386
Total	197,800	195,899	1,901	186,725

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA*General Fund**Statement of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual-**For the Fiscal Year Ended June 30, 2013**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)*

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Public Buildings:</i>				
<i>Salaries and employee benefits</i>		94,625		94,291
<i>Other operating expenditures</i>		313,090		276,148
<i>Total</i>	<u>416,616</u>	<u>407,715</u>	<u>8,901</u>	<u>370,439</u>
<i>Legal and auditing:</i>				
<i>Contracted services</i>	<u>75,068</u>	<u>75,018</u>	<u>50</u>	<u>79,649</u>
<i>Facilities fees:</i>				
<i>Other operating expenditures</i>	<u>41,479</u>	<u>41,479</u>	<u>-</u>	<u>38,374</u>
<i>Total general government</i>	<u>2,050,180</u>	<u>2,024,835</u>	<u>25,345</u>	<u>1,901,494</u>
<i>Public safety -</i>				
<i>Sheriff's Department:</i>				
<i>Salaries and employee benefits</i>		904,083		859,230
<i>Other operating expenditures</i>		192,536		166,179
<i>Capital outlay</i>		91,988		54,463
<i>Total</i>	<u>1,201,858</u>	<u>1,188,607</u>	<u>13,251</u>	<u>1,079,872</u>
<i>Jail:</i>				
<i>Contracted services</i>		473,596		418,767
<i>Other operating expenditures</i>		43,016		18,623
<i>Total</i>	<u>545,000</u>	<u>516,612</u>	<u>28,388</u>	<u>437,390</u>
<i>Fire protection:</i>				
<i>Contracted services</i>		51,438		55,535
<i>Total</i>	<u>57,385</u>	<u>51,438</u>	<u>5,947</u>	<u>55,535</u>
<i>Building inspection:</i>				
<i>Salaries and employee benefits</i>		132,282		95,841
<i>Other operating expenditures</i>		23,484		20,461
<i>Total</i>	<u>159,130</u>	<u>155,766</u>	<u>3,364</u>	<u>116,302</u>
<i>Emergency management:</i>				
<i>Salaries and employee benefits</i>		62,056		59,265
<i>Other operating expenditures</i>		166,186		247,136
<i>Capital outlay</i>		-		-
<i>Total</i>	<u>231,399</u>	<u>228,242</u>	<u>3,157</u>	<u>306,401</u>
<i>Animal Rescue:</i>				
<i>Operating expenditures</i>	<u>98,624</u>	<u>98,624</u>	<u>-</u>	<u>93,624</u>
<i>Emergency communications:</i>				
<i>Salaries and employee benefits</i>		326,701		311,004
<i>Other operating expenditures</i>		30,225		21,045
<i>Total</i>	<u>362,328</u>	<u>356,926</u>	<u>5,402</u>	<u>332,049</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA**General Fund****Statement of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual-
For the Fiscal Year Ended June 30, 2013***(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)*

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Medical Examiner:</i>				
Professional services	20,000	19,900	100	10,300
<i>Emergency medical services:</i>				
Operating expenditures	782,478	782,478	-	751,752
<i>Protective service agencies:</i>				
Other operating expenditures	8,954	8,954	-	22,070
<i>Total public safety</i>	<u>3,467,156</u>	<u>3,407,547</u>	<u>59,609</u>	<u>3,205,295</u>
<i>Public transportation:</i>				
<i>Streets and highways:</i>				
Salaries and employee benefits		418,973		388,501
Other operating expenditures		153,931		147,493
Capital outlay		74,263		161,419
<i>Total public transportation</i>	<u>657,322</u>	<u>647,167</u>	<u>10,155</u>	<u>697,413</u>
<i>Environmental protection -</i>				
<i>Sanitation:</i>				
Salaries and employee benefits		254,640		252,757
Contracted services		741,835		849,357
Tire disposal		66,706		42,399
Other operating expenditures		135,454		172,784
Capital outlay		28,813		154,724
Total	<u>1,238,526</u>	<u>1,227,448</u>	<u>11,078</u>	<u>1,472,021</u>
<i>Soil conservation service:</i>				
Contracted services	<u>70,215</u>	<u>70,215</u>	-	<u>68,593</u>
<i>Total environmental protection</i>	<u>1,308,741</u>	<u>1,297,663</u>	<u>11,078</u>	<u>1,540,614</u>
<i>Economic and physical development -</i>				
<i>Agricultural extension agent:</i>				
Salaries and employee benefits		500		500
Other operating expenditures		128,806		125,787
Total	<u>130,968</u>	<u>129,306</u>	<u>1,662</u>	<u>126,287</u>
<i>Regional economic development:</i>				
Salaries and employee benefits		25,190		25,205
Other operating expenditures		6,555		53,518
Development council dues and fees		44,128		27,828
Occupancy tax distribution		50,832		52,403
Total	<u>132,689</u>	<u>126,705</u>	<u>5,984</u>	<u>158,954</u>
<i>Community Based Alternatives</i>				
Operating expenditures	<u>49,589</u>	<u>49,589</u>	-	<u>44,402</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA*General Fund**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual-**For the Fiscal Year Ended June 30, 2013**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)*

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Economic Development Commission:</i>				
<i>Contracted services</i>		50,000		50,000
<i>Other operating expenditures</i>		49,065		44,265
<i>Total</i>	99,089	99,065	24	94,265
<i>Total economic and physical development</i>	412,335	404,665	7,670	423,908
<i>Human services -</i>				
<i>Public Health:</i>				
<i>Contracted services</i>		301,891		290,715
<i>Capital outlay</i>		14,167		17,044
<i>Total</i>	316,543	316,058	485	307,759
<i>Veteran's Service Officer -</i>				
<i>Salaries and employee benefits</i>		8,219		29,028
<i>Other operating expenditures</i>		269		509
<i>Total</i>	8,985	8,488	497	29,537
<i>Social Services:</i>				
<i>Salaries and employee benefits</i>		2,657,429		2,593,975
<i>Other operating expenditures</i>		399,169		442,230
<i>Total</i>	3,127,349	3,056,598	70,751	3,036,205
<i>County participation:</i>				
<i>Special assistance</i>		120,179		127,919
<i>Foster care</i>		620,857		258,705
<i>JOBS program</i>		30,958		61,487
<i>Crisis intervention</i>		96,760		137,192
<i>Adoption assistance</i>		56,187		57,321
<i>Other</i>		125,002		125,928
<i>Total</i>	1,072,105	1,049,943	22,162	768,552
<i>Senior Citizens:</i>				
<i>Salaries and employee benefits</i>		232,151		216,932
<i>Other operating expenditures</i>		182,118		195,159
<i>Total</i>	418,722	414,269	4,453	412,091
<i>Day Care and Child Development:</i>				
<i>Contracted services</i>	590,000	593,368	(3,368)	593,759
<i>Total human services</i>	5,533,704	5,438,724	94,980	5,147,903
<i>Cultural and recreational -</i>				
<i>Community service:</i>				
<i>Agency assistance</i>	1,500	1,500	-	1,500

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual-
For the Fiscal Year Ended June 30, 2013

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

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Library:</i>				
<i>Contracted services</i>	63,908	63,908	-	56,603
<i>Recreation:</i>				
<i>Salaries and employee benefits</i>		49,961		47,889
<i>Other operating expenditures</i>		73,583		77,419
<i>Total</i>	124,393	123,544	849	125,308
<i>Total cultural and recreational</i>	189,801	188,952	849	183,411
<i>Education -</i>				
<i>Public schools - current expense</i>		2,242,186		2,094,829
<i>Public schools - capital outlay</i>		455,499		448,299
<i>Community College - current expense</i>		303,000		262,980
<i>Community College - capital outlay</i>		11,100		32,136
<i>Total education</i>	3,070,896	3,011,785	59,111	2,838,244
<i>Debt service -</i>				
<i>Principal retirement</i>	142,857	142,857		142,857
<i>Total debt service</i>	142,857	142,857	-	142,857
<i>Total expenditures</i>	16,832,992	16,564,195	268,797	16,081,139
<i>Revenue over (under) expenditures</i>	(265,337)	(327,430)	(62,093)	427,987
<i>Other financing sources (uses):</i>				
<i>Appropriated Fund Balance</i>	361,214	-	(361,214)	-
<i>Transfers in (out):</i>				
<i>Revaluation Fund</i>	(100,000)	(100,000)	-	-
<i>Capital Projects fund</i>	4,123	4,123	-	-
<i>Total other financing sources (uses)</i>	265,337	(95,877)	(361,214)	-
<i>Excess of revenues and other sources over (under) expenditures and other uses</i>	\$ -	(423,307)	\$ (423,307)	427,987
<i>Fund balances - beginning of year</i>		7,833,566		7,405,579
<i>Fund balances - end of year</i>		\$ 7,410,259		\$ 7,833,566

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

Center's continued existence depends on the participating governments' continued funding. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$18,000 to the Center to supplement its activities.

IV. 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 \$7,765 to the Council during the fiscal year ending June 30, 2013.

V. BENEFIT PAYMENTS ISSUED BY THE STATE

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. 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	\$ 15,908,261	\$ 9,027,220
Temporary Assistance for Needy Families	17,237	-
Title IV-E Foster Care Assistance	208,733	59,686
Title IV-E Adoption Assistance	93,523	24,679
Special Children Adoption	55,200	-
CWS Adoption Subsidy and Vendor	-	59,703
SC/SA Domiciliary Care Payment	-	117,947
State Foster Home	-	117,382

VI. SUMMARY DISCLOSURE OF SIGNIFICANT 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.

VII. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

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

MITCHELL COUNTY, NORTH CAROLINA**Revaluation Fund****Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--****For the Fiscal Year Ended June 30, 2013****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)**

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>Investment earnings</i>	\$ 487	285		429
<i>Total revenues</i>	<u>487</u>	<u>285</u>	(202)	<u>429</u>
<i>Expenditures:</i>				
<i>Tax Listing:</i>				
<i>Contracted services</i>		265,503		-
	<u>407,459</u>	<u>265,503</u>	141,956	<u>-</u>
<i>Total expenditures</i>	<u>407,459</u>	<u>265,503</u>	141,956	<u>-</u>
<i>Revenues over (under) expenditures</i>	(406,972)	(265,218)	141,754	429
<i>Other financing sources (uses):</i>				
<i>Appropriated fund balance</i>	306,972		306,972	
<i>Operating transfer in (out) from General Fund</i>	<u>100,000</u>	<u>100,000</u>	-	<u>50,000</u>
<i>Total other financing sources (uses)</i>	<u>406,972</u>	<u>100,000</u>	306,972	<u>50,000</u>
<i>Excess of revenues and other sources over (under) expenditures</i>	\$ <u>-</u>	(165,218)	\$ <u>(165,218)</u>	50,429
<i>Fund balances - beginning of year</i>		<u>306,985</u>		<u>256,556</u>
<i>Fund balances - end of year</i>	\$	<u><u>141,767</u></u>	\$	<u><u>306,985</u></u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
 Combining Balance Sheet
 Non-major Governmental Funds
 June 30, 2013

	<u>Fire District Fund</u>	<u>Emergency Telephone System Fund</u>	<u>Total Non-major Special Revenue Funds</u>
<i>Assets</i>			
<i>Current assets:</i>			
Cash and investments	\$ 3,334	\$ 746,518	\$ 749,852
Taxes receivable - net	126,105	-	126,105
Due from other governments	-	47,090	47,090
<i>Total assets</i>	<u>\$ 129,439</u>	<u>\$ 793,608</u>	<u>\$ 923,047</u>
<i>Liabilities and Fund Balances</i>			
<i>Liabilities:</i>			
Accounts payable and accrued liabilities	\$ 3,334	-	\$ 3,334
Deferred revenue	126,105	-	126,105
<i>Total liabilities</i>	<u>129,439</u>	<u>-</u>	<u>129,439</u>
<i>Fund balances:</i>			
<i>Restricted</i>		47,090	47,090
<i>Stabilization by State statute</i>			
<i>Committed:</i>			
Emergency Telephone System	-	746,518	746,518
	-	793,608	793,608
<i>Total liabilities and fund balances</i>	<u>\$ 129,439</u>	<u>\$ 793,608</u>	<u>\$ 923,047</u>

MITCHELL COUNTY, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-major Governmental Funds

For the Fiscal Year Ended June 30, 2013

	<i>Fire District Fund</i>	<i>Emergency Telephone System Fund</i>	<i>Grant Project Fund</i>	<i>Total Non-major Governmental Funds</i>	<i>Non Major Capital Projects Fund - Water Project</i>	<i>Total Non-major Governmental Funds</i>
<i>Revenues:</i>						
<i>Ad valorem taxes (net)</i>	\$ 883,327	\$ -	\$ -	\$ 883,327	\$ -	\$ 883,327
<i>Restricted intergovernmental</i>	-	279,355	92,044	371,399	287,115	658,514
<i>Investment earnings</i>	-	35	-	35	-	35
<i>Total revenues</i>	<u>883,327</u>	<u>279,390</u>	<u>92,044</u>	<u>1,254,761</u>	<u>287,115</u>	<u>1,541,876</u>
<i>Expenditures:</i>						
<i>Public safety</i>	883,327	72,269	-	955,596	-	955,596
<i>Economic and physical development</i>	-	-	92,044	92,044	-	92,044
<i>Capital outlay</i>	-	25,214	-	25,214	283,083	308,297
	<u>883,327</u>	<u>97,483</u>	<u>92,044</u>	<u>1,072,854</u>	<u>283,083</u>	<u>1,355,937</u>
<i>Total expenditures</i>	<u>883,327</u>	<u>97,483</u>	<u>92,044</u>	<u>1,072,854</u>	<u>283,083</u>	<u>1,355,937</u>
<i>Revenues over (under) expenditures</i>	-	181,907	-	181,907	4,032	185,939
<i>Other financing sources (uses):</i>						
<i>Operating transfer in (out) General Fund</i>	-	-	-	-	(4,123)	(4,123)
<i>Total other financing sources</i>	-	-	-	-	(4,123)	(4,123)
<i>Excess of revenues and other sources over expenditures</i>	-	181,907	-	181,907	(91)	181,816
<i>Fund balances - beginning of year</i>	-	611,701	-	611,701	91	611,792
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ 793,608</u>	<u>\$ -</u>	<u>\$ 793,608</u>	<u>\$ -</u>	<u>\$ 793,608</u>

See the accompanying Independent Auditor's Report.

MITCHELL 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, 2013****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)**

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Revenues:</i>				
<i>Ad valorem taxes:</i>				
Current and prior years	\$ 912,026	\$ 883,327	\$ (28,699)	\$ 870,793
Total revenues	<u>912,026</u>	<u>883,327</u>	<u>(28,699)</u>	<u>870,793</u>
<i>Expenditures:</i>				
<i>Public safety:</i>				
Bakersville Fire District		111,487		111,940
Ledger Fire District		116,672		97,149
Parkway Fire District		262,369		253,001
Buladean Fire District		66,305		64,908
Fork Mountain Fire District		71,599		75,286
Bradshaw Fire District		101,087		93,703
Spruce Pine Fire District		153,808		174,806
Total expenditures	<u>912,026</u>	<u>883,327</u>	<u>28,699</u>	<u>870,793</u>
<i>Excess of revenues and other sources over (under) expenditures and other uses</i>	\$ <u>-</u>	-	\$ <u>-</u>	-
<i>Fund balances - beginning of year</i>		-		-
<i>Fund balances - end of year</i>		\$ <u>-</u>		\$ <u>-</u>

See the accompanying Independent Auditor's Report.

MITCHELL 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, 2013****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2012)**

	2013		Variance Favorable (Unfavorable)	2012
	Budget	Actual		Actual
<i>Revenues:</i>				
NC PSAP payment	\$ 279,355	\$ 279,355	\$	\$ 267,344
Investment earnings	40	35		43
Total revenues	<u>279,395</u>	<u>279,390</u>	(5)	<u>267,387</u>
<i>Expenditures:</i>				
Public safety:				
Contracted services		13,844		9,531
Other operating expense		58,425		70,659
Capital outlay		25,214		313,964
	<u>279,395</u>	<u>97,483</u>	<u>181,912</u>	<u>394,154</u>
Total expenditures	<u>279,395</u>	<u>97,483</u>	<u>181,912</u>	<u>394,154</u>
Excess of revenues and other sources over (under) expenditures	\$ <u>-</u>	<u>181,907</u>	\$ <u>181,907</u>	<u>(126,767)</u>
Fund balances - beginning of year		<u>611,701</u>		<u>738,468</u>
Fund balances - end of year		\$ <u>793,608</u>		\$ <u>611,701</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Grant Project Fund - CDBG Grant 10-C-2169
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>					
<i>Restricted intergovernmental revenues:</i>					
CDBG Grant	\$ 400,000	\$ 293,288	\$ 92,044	\$ 385,332	\$ (14,668)
<i>Expenditures - Economic and physical development:</i>					
Relocation Assistance	360,000	233,822	74,701	308,523	51,477
Rehabilitation		18,016	14,906	14,906	(14,906)
Administration	40,000	41,450	2,437	43,887	(3,887)
Total expenditures	<u>400,000</u>	<u>293,288</u>	<u>92,044</u>	<u>367,316</u>	<u>32,684</u>
Revenues and other sources over (under) expenditures	\$ -	\$ -	-	\$ 18,016	\$ 18,016
<i>Fund balance:</i>					
Beginning of year			-		
End of year			<u>\$ -</u>		

See the accompanying Independent Auditor's Report.

Mitchell County, North Carolina
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
Social Services -				
<i>Assets:</i>				
Cash and investments	\$ 13,596	\$ 242,282	\$ (221,723)	\$ 34,155
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 13,596	\$ 242,282	\$ (221,723)	\$ 34,155
Motor Vehicle Tax -				
<i>Assets:</i>				
Taxes receivable	\$ 72,673	\$ 55,737	\$ (95,696)	\$ 32,714
<i>Liabilities:</i>				
Intergovernmental payables	\$ 72,673	\$ 55,737	\$ (95,696)	\$ 32,714
Fines and Forfeitures -				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 67,498	\$ 67,498	\$ -
<i>Liabilities:</i>				
Intergovernmental payables - Board of Education	\$ -	\$ 60,944	\$ 60,944	\$ -
Intergovernmental payables - State DMV	-	6,554	6,554	-
Total intergovernmental payables	\$ -	\$ 67,498	\$ 67,498	\$ -
Deed of Trust Fee Fund-				
<i>Assets:</i>				
Cash and investments	\$ -	\$ 2,788	\$ 2,788	\$ -
<i>Liabilities:</i>				
Intergovernmental payable - State of North Carolina	\$ -	\$ 2,788	\$ 2,788	\$ -
Totals - All Agency Funds				
<i>Assets:</i>				
Cash and investments	\$ 13,596	\$ 312,568	\$ (151,437)	\$ 34,155
Taxes receivable	72,673	55,737	(95,696)	32,714
Total assets	\$ 86,269	\$ 368,305	\$ (247,133)	\$ 66,869
<i>Liabilities:</i>				
Miscellaneous liabilities	\$ 13,596	\$ 242,282	\$ (221,723)	\$ 34,155
Intergovernmental payables - Town Motor Vehicles	72,673	55,737	(95,696)	32,714
Intergovernmental payables - Board of Education	-	60,944	60,944	-
Intergovernmental payables - State of North Carolina	-	9,342	9,342	-
Total liabilities	\$ 86,269	\$ 368,305	\$ (247,133)	\$ 66,869

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA
Capital Project Fund - Sewer Project
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>					
<i>Restricted intergovernmental revenues:</i>					
NC CWMT	752,842	547,174	149,772		
Rural Center	348,288	241,865	78,905		
Golden Leaf	328,227	246,618	58,438		
Total restricted revenues	\$ 1,429,357	\$ 1,035,657	\$ 287,115	\$ 1,322,772	\$ (106,585)
<i>Expenditures - Economic and physical development:</i>					
CW Administration	62,437	62,437	-	62,437	-
CW Legal	7,900	6,548	-	6,548	1,352
CW Engineering	2,633	-	-	-	2,633
CW Construction Administration	46,579	40,456	3,607	44,063	2,516
CW Construction	589,110	437,370	146,569	583,939	5,171
RC Administration	7,100	3,273	1,196	4,469	2,631
RC Legal	1,317	-	-	-	1,317
RC Construction Administration	23,285	20,224	-	20,224	3,061
RC Construction	294,499	218,643	73,271	291,914	2,585
GL Engineering	56,105	56,105	-	56,105	-
GL Legal	1,050	-	-	-	1,050
GL Construction Administration	18,572	16,130	3,065	19,195	(623)
GL Construction	234,883	174,380	55,375	229,755	5,128
Contingency	83,887	-	-	-	83,887
Total expenditures	1,429,357	1,035,566	283,083	1,318,649	110,708
Revenues and other sources over (under) expenditures	\$ -	\$ 91	4,032	\$ 4,123	\$ 4,123
<i>Other financing sources (uses):</i>					
<i>Transfers in (out):</i>					
<i>General Fund</i>					
Total other financing sources (uses)			(4,123)	(4,123)	
<i>Excess of revenues and other sources over (under) expenditures and other uses</i>					
			(91)		
<i>Fund balance:</i>					
Beginning of year		-	91		
End of year	\$	91	\$	-	

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA*General Fund**Schedule of Ad Valorem Taxes Receivable**June 30, 2013*

	<i>Uncollected Balance June 30, 2012</i>	<i>Additions</i>	<i>Collections and Credits</i>	<i>Uncollected Balance June 30, 2013</i>
2012 - 2013	\$ -	\$ 7,815,294	\$ 7,365,544	\$ 449,750
2011 - 2012	410,362		204,271	206,091
2010 - 2011	246,639	-	125,577	121,062
2009 - 2010	246,951	-	150,966	95,985
2008 - 2009	283,229	-	137,109	146,120
2007 - 2008	276,207	-	155,691	120,516
2006 - 2007	159,391	-	139,127	20,264
2005 - 2006	39,304	-	25,680	13,624
2004 - 2005	34,501	-	25,005	9,496
2003 - 2004	37,850	-	27,070	10,780
2002 - 2003	(386,401)		(386,401)	-
	<u>\$ 1,348,033</u>	<u>\$ 7,815,294</u>	<u>\$ 7,969,639</u>	1,193,688
<i>Less: allowance for uncollectible accounts:</i>				
<i>General Fund</i>				<u>150,000</u>
<i>Ad valorem taxes receivable - net</i>				
<i>General Fund</i>			\$	<u>1,043,688</u>
<i>Reconciliation with revenues:</i>				
<i>Ad valorem taxes - General Fund</i>			\$	7,573,144
<i>Reconciling items:</i>				
<i>Taxes written off</i>				<u>396,495</u>
<i>Total reconciling items</i>				<u>396,495</u>
<i>Total collections and credits</i>			\$	<u>7,969,639</u>

See the accompanying Independent Auditor's Report.

MITCHELL COUNTY, NORTH CAROLINA**Analysis of Current Tax Levy****County-Wide Levy****For the Fiscal Year Ended June 30, 2013**

	<u>County-wide</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<i>Original levy:</i>					
<i>Property taxed at current year's rate</i>	\$ 1,920,135,328	.40	\$ 7,680,541	\$ 7,143,104	\$ 537,437
<i>Total</i>	<u>1,920,135,328</u>		<u>7,680,541</u>	<u>7,143,104</u>	<u>537,437</u>
<i>Discoveries:</i>					
<i>Current year taxes</i>	<u>17,599,352</u>		<u>134,753</u>	<u>134,753</u>	<u>-</u>
<i>Total</i>	<u>17,599,352</u>		<u>134,753</u>	<u>134,753</u>	<u>-</u>
<i>Total property valuations</i>	\$ <u>1,937,734,680</u>				
<i>Net levy</i>			7,815,294	7,277,857	537,437
<i>Uncollected taxes at June 30, 2013</i>			<u>449,750</u>	<u>311,328</u>	<u>138,422</u>
<i>Current year's taxes collected</i>			\$ <u>7,365,544</u>	\$ <u>6,966,529</u>	\$ <u>399,015</u>
<i>Current year's collection percentage</i>			<u>94.25%</u>	<u>95.72%</u>	<u>74.24%</u>

See the accompanying Independent Auditor's Report.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
County of Mitchell
Spruce Pine, North Carolina

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell County, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Mitchell County, North Carolina's basic financial statements, and have issued our report thereon dated September 18, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 13-1 and 13-2 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and no to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Young, Miller & Gillespie, P.A.
Spruce Pine, North Carolina
September 18, 2013

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
County of Mitchell
Bakersville, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the County of Mitchell, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the County of Mitchell's major federal programs for the year ended June 30, 2013. The County of Mitchell's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Mitchell's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Mitchell's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the County of Mitchell is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Mitchell's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe

than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Young, Miller & Gillespie, P.A.

Young, Miller & Gillespie, P.A.
Spruce Pine, North Carolina
September 18, 2013

MITCHELL COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2013****I. Summary of Auditor's Results**

- A. An unqualified opinion was issued on the financial statements of Mitchell County, North Carolina.
- B. Our audit of the financial statements disclosed two significant deficiencies in the internal controls. These significant deficiencies were not determined to be material weaknesses.
- C. Our audit of the financial statements disclosed no instance of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that is 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 Mitchell County's compliance with the types of compliance requirements applicable to its major federal program.
- F. There were no audit findings relative to the major federal and State award programs for Mitchell County.
- G. Major federal programs for Mitchell County for the fiscal year ended June 30, 2013 are:

<u>Program Name</u>	<u>CFDA #</u>
Title XIX – Medicaid	93.778

- H. There were no major State programs for Mitchell County for the fiscal year ended June 30, 2013.
- I. The threshold for determining Type A programs for Mitchell County is \$550,158.
- J. Mitchell County qualified as a low risk auditee under Section .530 of Circular No. A-133.

II. Findings related to the Audit of the Financial Statements of Mitchell County, North Carolina**Finding 13-1**Internal Control/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 separated as much as possible and alternative controls should be used to compensate for lack of separation. The Board of Commissioners should provide some of these controls.

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

Corrective Action Plan

Contact person: Charles Vines, County Manager

MITCHELL COUNTY, NORTH CAROLINA**Schedule of Findings and Questioned Costs, Corrective Action Plan, and Prior Year Audit Findings
For the Year Ended June 30, 2013**

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

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

Finding 13-2Internal Control/Financial Statement Preparation

Criteria: Financial statements for year end should be converted to full accrual basis in accordance with generally accepted accounting procedures.

Condition: Management's lack of experience with GAAP accounting has necessitated preparation of cash basis financial statements.

Effect: Financial statements could be misstated.

Cause: Management's expertise is limited in the area of financial statement preparation in accordance with generally accepted accounting principles, specifically with full accrual basis statements now required by GASB 34.

Recommendation: The County's governing board should review the draft financial statements for material errors and reasonableness in amounts.

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

Corrective Action Plan

Contact person: Charles Vines, County Manager

Corrective action: This is an ongoing deficiency for governmental units of comparable size to Mitchell County. The County's governing board feels that there are limited financial resources at this time for training the finance department staff in GAAP and that it is not cost beneficial to obtain additional assistance in this area. The County's governing board will review the draft financial statements for material errors and reasonableness in amounts.

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

Finding as noted in the prior year audit related to the same deficiency as discussed above under item 13 -1 in regard to lack of segregation of duties due to small staff size. It is likely that this significant deficiency will appear in future audits of Mitchell 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 noted in the prior year audit was the same significant deficiency as discussed under item 13-2 in regard to lack of experience of financial personnel. Again, the economic feasibility of hiring a professional to handle this reporting is not practical.

MITCHELL COUNTY, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2013

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Federal (Direct & Pass-Through) Expenditures	State Expenditures	Local Expenditures
Federal Grants:					
<i>Cash Programs:</i>					
U.S. Department of Health & Human Services					
<i>Passed-through Region D Council of Governments:</i>					
<i>Special Programs for the Aging-Title III B</i>					
<i>Grants for Supportive Services and</i>					
<i>Senior Centers</i>					
	93.044		\$ 49,729	8,775	\$ -
<i>Special Programs for the Aging-Title III C</i>					
<i>Nutrition Services</i>					
	93.045		110,627	19,522	-
<i>Family Caregiver</i>					
	93.052		1,924	128	-
<i>Passed through N.C. Dept. of Health & Human Services</i>					
<i>Division of Social Services:</i>					
<i>Administration:</i>					
<i>Work First Admin</i>					
	93.558		18,380	-	9,686
<i>Work First Service</i>					
	93.558		125,454	-	82,423
<i>IV-D Administration</i>					
	93.563		104,383	105	53,773
<i>Low-Income Energy Admin</i>					
	93.568		9,614	-	-
<i>Crisis Intervention Payments</i>					
	93.568		96,630	-	-
<i>Family Preservation</i>					
	93.556		2,343	-	-
<i>Permanency Planning-Spec</i>					
	93.645		9,575	637	3,404
<i>Title IV-E Foster Care - CPS</i>					
	93.658		34,327	10,001	24,325
<i>Title IV-E Foster Care - Training</i>					
	93.658		50,434	-	46,929
<i>Title IV-E Optional Adoption - Training</i>					
	93.659		9,919	-	9,919
<i>LINKS</i>					
	93.674		2,770	693	-
<i>Other Services and Training - Social Services Block Grant</i>					
	93.667		85,697	8,951	31,549
<i>In-Home Services</i>					
	93.667		85	-	12
<i>State Children's Insurance Program -NC Health Choice</i>					
	93.767		7,924	776	1,752
<i>Direct Benefit Payments:</i>					
<i>Low-Income Home Energy Assistance</i>					
	93.568		42,600	-	-
<i>Temporary Assistance for Needy Families-</i>					
<i>Payments and Penalties</i>					
	93.558		17,237	-	-
<i>Special Children Adoption</i>					
	93.558		55,200	-	-
<i>Title IV-E Foster Care Assistance</i>					
	93.658		208,733	59,687	59,922
<i>Independent Living Transitional</i>					
	93.674		1,134	-	-
<i>Title IV-E Adoption Subsidy & Vendor</i>					
	93.659		93,523	24,679	24,679
<i>Division of Medical Assistance:</i>					
<i>Administration:</i>					
<i>Medical Assistance</i>					
	93.778		203,167	-	203,167
<i>Title XIX - Medicaid Transportation</i>					
	93.778		45,922	24,286	-
<i>Medical Transportation Service</i>					
	93.778		35,934	-	35,934
<i>Medical Assistance Expansion</i>					
	93.778		7,462	7,462	-
<i>Adult Care Case Management</i>					
	93.778		3,247	1,575	1,671
<i>Direct Benefit Payments:</i>					
<i>Title XIX - Medicaid</i>					
	93.778		15,908,261	9,027,220	570
<i>Subsidized Child Care Cluster:</i>					
<i>Division of Social Services</i>					
<i>Child Care Development Fund - Adm.</i>					
	93.596		36,304	-	-
<i>Division of Child Development:</i>					
<i>Temporary Assistance For Needy Families-</i>					
<i>Child Care Development Fund Discretionary</i>					
	93.575		124,613	-	-
<i>Temporary Assistance For Needy Families Contingency</i>					
	93.575		2,468	-	-
<i>Child Care Development Fund-Mandatory</i>					
	93.596		54,660	-	-
<i>Child Care Development Fund -Match</i>					
	93.596		74,719	91,973	-
<i>Total Child Care Fund Cluster</i>					
			<u>292,764</u>	<u>91,973</u>	<u>-</u>
<i>Temporary Assistance for Needy Families Child Care</i>					
	93.558		66,550	-	-
<i>Social Services Block Grant</i>					
	93.667		3,341	-	-
<i>State Funding</i>					
			-	86,467	-
<i>IV E Foster Care</i>					
	93.658		2,262	-	-

MITCHELL COUNTY, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2013

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Federal (Direct & Pass-Through) Expenditures	State Expenditures	Local Expenditures
IV E Foster Care - Match			-	1,062	
Temporary Assistance for Needy Families Maintenance Effort			-	11,534	-
Smart Start Temporary Assistance for Needy Families- Maintenance of Effort			-	62,247	
Smart Start			-	11,188	-
Total Subsidized Child Care Cluster			364,917	264,471	-
Total U.S. Department of Health & Human Services			17,707,152	9,309,192	589,715
<u>U.S. Department of Agriculture</u>					
Passed through N.C. Dept. of Health & Human Services					
Special Programs for the Aging - Title III B					
Nutrition Program for the Elderly	10.570		16,693	-	-
Division of Social Services:					
Administration:					
Supplemental Nutrition Assistance Program Cluster:					
Supplemental Assistance Nutrition Program Workfare	10.561		113	-	113
State Administrative Matching Grants					
for the Supplemental Assistance Nutrition Program	10.561		135,927	-	135,927
Food and Nutrition Services Recovery	10.561		1,175	-	1,175
Total U.S. Department of Agriculture			153,908	-	137,215
<u>U.S. Department of Transportation</u>					
Passed through N.C. Dept. of Transportation					
Public Transportation Programs:					
Sec 5311 - Admin Exp & Employ Development	20.509		141,466	8,841	26,528
Sec 5311 - Capital	20.509		61,646	7,705	7,707
Total U.S. Department of Transportation			203,112	16,546	34,235
<u>U.S. Department of Homeland Security</u>					
Passed through N.C. Dept. of Crime					
Control and Public Safety:					
Homeland Security Grant	97.067		146,858	-	-
Emergency Management	97.042		35,503	-	-
Total U.S. Department of Justice			182,361	-	-
<u>U.S. Department of Housing and Urban Development</u>					
Passed through N.C. Dept. of Commerce:					
Community Development Block Grant					
CDBG		14.228	92,044	-	-
Total U.S. Department of Housing and Urban Development			92,044	-	-
Total federal cash assistance			18,338,577	9,325,738	761,165
STATE GRANTS					
Cash Programs:					
<u>N.C. Department of Health & Human Services</u>					
Passed-through Region D Council of Governments:					
Senior Center General Purpose			-	3,917	-
Division of Social Services:					
Direct Benefit Payment:					
CWS Adoption Subsidy & Vendor			-	59,704	19,901
SFFHF Maximization			-	71,467	71,467
State Foster Care Benefits Program			-	45,915	45,915
State/County Special Assistance for Adults			-	117,947	117,947
Total N.C. Department of Human Resources			-	298,950	255,230
<u>N.C. Department of Transportation:</u>					
Elderly & Disabled TAP		ROAP	-	46,568	-
Work First Employment Program		ROAP	-	5,823	-
Rural General Public Transportation		ROAP	-	49,005	-
Total N.C. Department of Transportation			-	101,396	-

MITCHELL COUNTY, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2013

<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>N.C. Department of Environmental and Natural Resources</u> Clean Water Management Trust Fund			-	149,772	-
<u>N.C. Department of Public Safety</u> Division of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention			-	67,832	-
<u>N.C. Rural Center</u> Clean Water		2009-374-40101-112	-	78,905	-
			-	78,905	-
<u>N.C. Department of Administration:</u> Veterans Service Office			-	1,452	-
Total State cash assistance			-	698,307	255,230
Total assistance			\$ 18,338,577	\$ 10,024,045	\$ 1,016,395

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

1 Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Mitchell 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.

2 Child Care Cluster

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