

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Of

POLK COUNTY,
NORTH CAROLINA

Columbus, North Carolina
For the Fiscal Year Ended June 30, 2011



Prepared by the Finance Department
Sandra Q. Hughes, Finance Director

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Ryan D. Whitson
County Manager
Michael Egan, J.D., M.A.
County Attorney
Beth Fehrmann
Clerk to the Board
Assistant to County Manager



Ray D. Gasperson
Chair
Renée McDermott
Vice-Chair
Ted B. Owens
Commissioner
Tom E. Pack
Commissioner
Cindy Walker
Commissioner

November 3, 2011

To the Board of County Commissioners, and the
Citizens of Polk County, North Carolina

Ladies and Gentlemen:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Polk County (the "County") for the fiscal year ended June 30, 2011. Laws of the State of North Carolina, along with policies and procedures of the North Carolina Local Government Commission, require that all local governments in the State publish a complete set of financial statements annually. The financial statements must be presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. The financial statements and supplemental schedules contained herein have been audited by the independent, Certified Public Accounting firm of Gould Killian CPA Group, P.A., and that firm's unqualified opinion is included in the financial section of this report. The report itself, however, is presented by the County, which is responsible for the accuracy of the data and for the completeness and fairness of its presentation, including all disclosures. We believe the data as presented is accurate in all material aspects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors. The goal of the independent audit was to provide reasonable assurance that the financial statements of Polk County for the fiscal year ended June 30, 2011, are free of material misstatements. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, there was a reasonable basis for rendering an unqualified opinion that Polk County's financial statements for the year ended June 30, 2011 are fairly presented in conformity with GAAP.

REPORTING ENTITY

The reporting entity is composed of the primary government (the County), component units and other organizations that are included to insure that the financial statements are not misleading. The County consists of all funds; departments, boards and agencies that are not legally separate from the County.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if it appoints a voting majority of the organizations' governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organizations' resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization. The County has no component units.

DESCRIPTION OF COUNTY

The County was established in 1855 and is located in the foothills of the Blue Ridge Mountains of North Carolina. It is one of 100 counties established in North Carolina under North Carolina General Statute 153A-10. The County is a desirable place to live and work. Two-hundred thirty-eight (238) square miles of mountains, rolling hills, streams, and waterfalls, plus gracious small town living, rural atmosphere, and close proximity to larger cities, all contribute to the excellent quality of life. The population of Polk County is approximately 20,000, with the Towns of Columbus, Tryon, and Saluda. The retirement community makes up a large part of the population base. Transportation options include two major highways. Interstate 26 and US 74 give direct routes to main cities, such as Charlotte, NC and Spartanburg, SC.

A five-member Board of County Commissioners governs Polk County. The County has a commissioner/manager form of government. Commissioners hold policy-making and legislative authority. They are also responsible for adopting the budget and appointing the county manager. The manager is the chief administrative officer and prepares and recommends the annual budget in addition to being responsible for implementing policies, managing daily operations, and appointing department heads.

The County provides its citizens with a wide range of services that include general government administration, economic and physical development, environmental protection, cultural and recreational activities, and others. However, public safety, human services and education represent the vast majority of the annual budget. The county also extends financial support to certain agencies such as Western Highlands Regional Mental Health and Rutherford-Polk Health Department.

The annual budget serves as the foundation for the County's financial planning and control. All agencies of the County are required to submit requests for appropriation to the County Manager. The Manager uses these requests as the starting point for developing a proposed budget to the Board. The Board is required to hold a public hearing on the proposed budget and then adopt a final budget by no later than June 30, the close of the County's fiscal year. The appropriated budget is prepared by fund and on the department level.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy - The labor force decreased approximately 4% from the previous year. The present unemployment rate is 7.7% (down from 8.1% the previous year) and lower than the State unemployment rate of 10.4%. The County had its' lowest 10 year unemployment rate of 2.8% in 2001 and its' highest of 8.8% in 2009. The County has slowly lost some industries. However, the agriculture and equine industries are growing. Per capita income is higher than the State average.

Long-term financial planning - The County develops and maintains a five-year financial forecast as well as a capital improvement plan (CIP). The CIP includes modernization of County facilities and a school capital building plan that includes school renovations and additions.

Relevant financial policies - Cash temporarily idle during the year was invested in investments authorized by North Carolina General Statute 159-30(c). Objectives of the County's investment policy are safety, liquidity, and yield. The County makes the best use of idle cash to ensure funds are available to meet cash flow requirements, yet earn a competitive yield. The County was considerably more conservative due to the instability of market conditions during the year.

Polk 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.

Major initiatives – Water is a key issue facing our County. The County purchased Lake Adger in fiscal year 2010. The County is slowly adding to the waterline infrastructure. It is expected to be the future water source for the County. The County began construction of a new Health and Human Service Building at a cost of approximately \$2M in fiscal year 2011. The county borrowed \$1.85M for the project and it is expected to be complete next fiscal year.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Polk County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This marks the fifteenth consecutive year that Polk County has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to conform to program requirements and we are submitting it to the GFOA once again.

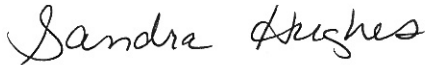
Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Polk County. We appreciate the cooperation of all the County departments in conducting financial activities, including the preparation of this report. We would also like to thank Gould Killian CPA Group for their technical assistance.

We thank the Board of County Commissioners for their leadership in making Polk County a fiscally sound, well-governed community.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ryan Whitson".

Ryan Whitson
County Manager

A handwritten signature in cursive script that reads "Sandra Hughes".

Sandra Hughes
Finance Director

POLK COUNTY, NORTH CAROLINA

List of Principal Officials

June 30, 2011

BOARD OF COUNTY COMMISSIONERS

Ray Gasperson, Chairman
Renee McDermott, Vice Chairman
Ted Owens
Tom Pack
Cindy Walker

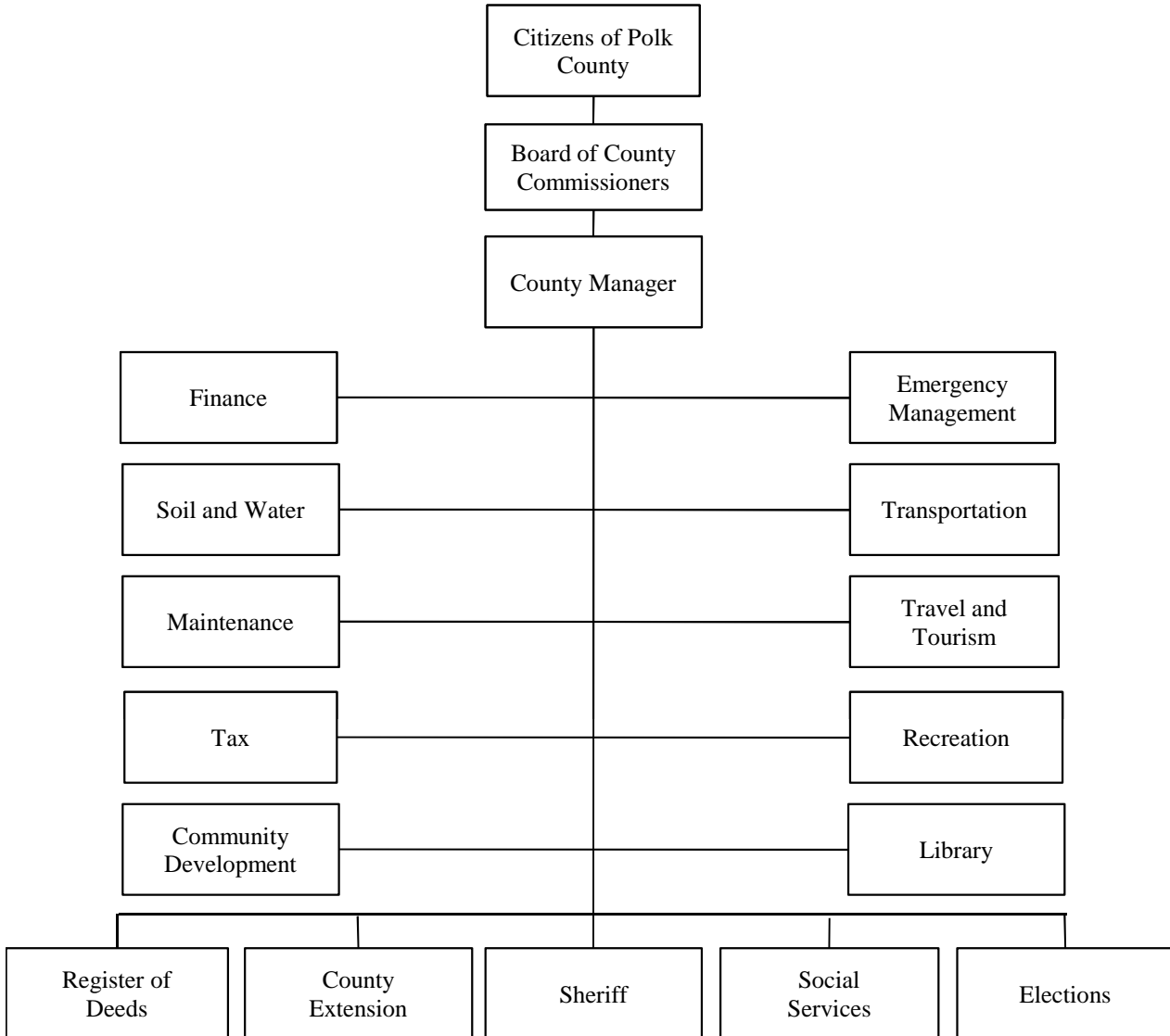
COUNTY OFFICIALS

Ryan Whitson	County Manager
Mike Eagan	County Attorney
Sue E. Rhodes	Social Services Director
Sandra Hughes	Finance Director
Shiela Whitmire	Register of Deeds
Donald Hill	Sheriff
Dale Edwards	Director, Election Board
Melissa Bowlin	Tax Collector
John Bridgers	Tax Assessor
Patty Aldred	Director, Parks and Recreation
Charlene Owens	Clerk of Court
Marche Pittman	MIS Director
Cathy Ruth	Planning
John Vining	Cooperative Extension
Daniel Laudermelt	Forest Ranger
Cindy Nanny	County Librarian
Darrell Moore	Veterans Service Officer
Sandra Halford	Emergency Preparedness/EMS Director
Steve Jones	Community Development Director
Jewell Carswell	Transportation Director
Melinda Young	Director of Tourism
Dianne Rickman	Communications Director
Mickey Edwards	Ground and Building Maintenance Director

POLK COUNTY, NORTH CAROLINA

Organization Chart

June 30, 2011



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Polk County
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emsw

Executive Director

Gould Killian CPA Group, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

To the Commissioners of Polk County
Polk County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Polk County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Polk County, North Carolina, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011, on our consideration of Polk 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management's Discussion and Analysis, the schedules of funding progress, employer contributions and the notes to the required scheduled for the Law Enforcement Officers' Special Separation Allowance are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Polk County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Polk County, North Carolina. The budgetary comparison schedules, other supplementary information, combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Donald Killian CPA Group, P.A.

Asheville, North Carolina

November 3, 2011

POLK COUNTY, NORTH CAROLINA

Management's Discussion and Analysis

June 30, 2011

As management of Polk County (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Polk County for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

Government-wide level:

- As of the end of the current fiscal year, the County's assets exceeded its liabilities by \$27,899,155 (net assets).
- The County's net assets increased \$4,988,902 this year. This is primarily driven by continued operating efficiencies and increased capital grants resulting primarily in increases in capital assets and decreases in long-term liabilities. See further discussion of specific capital activity on page 9.

Fund level:

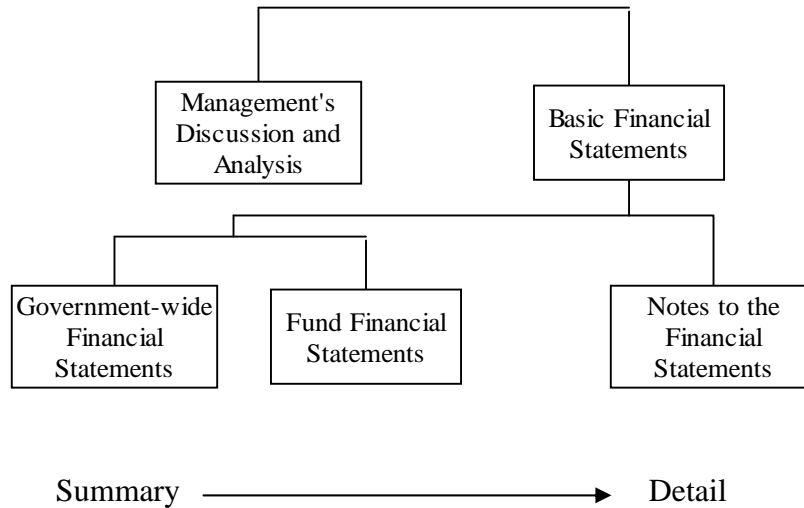
- As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$10,366,134; of which, \$3,359,835 is restricted, \$1,059,178 is committed, \$272,121 is assigned and \$5,675,000 is unassigned.
- The County's governmental funds ending fund balances increased \$552,112 this year as a result of loan proceeds for capital projects to be spent in future fiscal years.
- The County's main operating fund (General Fund) reported an ending fund balance of \$7,944,660; of which, \$1,137,887 is restricted, \$682,465 is committed, \$79,820 is assigned and \$6,044,488 is unassigned or available for appropriation. Unassigned fund balance, as a percentage of expenditures and transfers, is 27.1 percent.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Polk 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 Polk County.

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 9) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) 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 non-major governmental funds and internal service fund, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's Law Enforcement Officers' Special Separation Allowance.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Polk 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 Polk County can be divided into two categories: governmental funds and proprietary 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Polk County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - Polk County only has two different kinds of proprietary funds:

- *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Polk County uses enterprise funds to account for its solid waste transfer station operations and its water operations. These funds are the same as the separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.
- *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of Polk County. The County uses an internal service fund to account for one activity--its self insurance activities. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Polk County has four agency funds as detailed in the note on page 23.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on Page 22 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Polk County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on Page 42 of this report.

Government-Wide Financial Analysis

The following is a summary of the government-wide Statements of Net Assets:

Polk County's Net Assets
June 30, 2011 and 2010
Figure 2

	2011			2010		
	Govern- mental Activities	Business- type Activities	Total Government- wide	Govern- mental Activities	Business- type Activities	Total Government- wide
Assets:						
Current and other assets	\$ 12,680,241	\$ 857,003	\$ 13,537,244	\$ 12,175,434	\$ 409,564	\$ 12,584,998
Capital assets	21,924,145	9,218,434	31,142,579	19,780,624	9,139,753	28,920,377
Total assets	<u>34,604,386</u>	<u>10,075,437</u>	<u>44,679,823</u>	<u>31,956,058</u>	<u>9,549,317</u>	<u>41,505,375</u>
Liabilities:						
Long-term liabilities outstanding	15,507,822	190,661	15,698,483	17,257,285	194,720	17,451,575
Other liabilities	899,131	183,054	1,082,185	906,779	236,768	1,143,547
Total liabilities	<u>16,406,953</u>	<u>373,715</u>	<u>16,780,668</u>	<u>18,164,064</u>	<u>431,058</u>	<u>18,595,122</u>
Net assets:						
Invested in capital assets, net of related debt	16,076,619	9,027,773	25,104,392	19,242,095	8,945,463	28,187,558
Restricted for:						
Stabilization by State Statute	1,533,557	-	1,533,557	-	-	-
Emergency service	414,260	-	414,260	-	-	-
Construction of new buildings	775,150	-	775,150	-	-	-
Tourism	10,496	-	10,496	-	-	-
School debt service	626,372	-	626,372	514,929	-	514,929
Unassigned	<u>(1,239,021)</u>	<u>673,949</u>	<u>(565,072)</u>	<u>(5,965,030)</u>	<u>172,796</u>	<u>(5,792,234)</u>
Total net assets	<u>\$ 18,197,433</u>	<u>\$ 9,701,722</u>	<u>\$ 27,899,155</u>	<u>\$ 13,791,994</u>	<u>\$ 9,118,259</u>	<u>\$ 22,910,253</u>

As noted earlier, net assets may serve, over time as one useful indicator of a government's financial condition. The assets of Polk County exceeded liabilities by \$27,899,155 as of June 30, 2011. The County's net assets increased by \$4,988,902 for the fiscal year ended June 30, 2011, of which an increase of \$4,405,439 was for governmental activities and an increase of \$583,463 was for business-type activities. Net assets for governmental activities increased this year as a result of continued operating efficiencies and increased capital grants, resulting in early pay off of an installment loan of \$2.1 million and the completion of recreation and cultural capital assets. Income from solid waste activities and transfers resulting in the construction of new water lines was the primary driver of the increase in business-type activities.

The following is a summary of the government-wide statement of activities:

Polk County Changes in Net Assets
For the Years Ending June 30, 2011 and 2010
 Figure 3

	2011			2010		
	Govern- mental Activities	Business- type Activities	Total Government- wide	Govern- mental Activities	Business- type Activities	Total Government- wide
Revenues:						
Program revenues:						
Charges for services	\$ 2,170,878	\$ 1,380,893	\$ 3,551,771	\$ 1,961,950	\$ 1,422,373	\$ 3,384,323
Operating grants and contributions	3,210,156	-	3,210,156	3,250,918	-	3,250,918
Capital grants and contributions	1,395,348	267,995	1,663,343	25,000	21,667	46,667
General revenues:						
Property taxes	15,293,427	-	15,293,427	15,371,932	-	15,371,932
Other taxes	2,344,622	-	2,344,622	2,505,328	-	2,505,328
Other	194,487	-	194,487	320,838	-	320,838
Total revenues	24,608,918	1,648,888	26,257,806	23,435,966	1,444,040	24,880,006
Expenses:						
Governmental activities:						
General government	2,564,394	-	2,564,394	2,597,039	-	2,597,039
Public safety	5,400,531	-	5,400,531	5,130,053	-	5,130,053
Economic and physical development	919,265	-	919,265	1,016,720	-	1,016,720
Human services	4,366,981	-	4,366,981	4,259,428	-	4,259,428
Cultural and recreation	1,414,145	-	1,414,145	922,727	-	922,727
Education	4,759,096	-	4,759,096	4,663,770	-	4,663,770
Interest on long-term debt	526,997	-	526,997	653,337	-	653,337
Business-type activities:						
Solid waste	-	1,172,556	1,172,556	-	1,194,725	1,194,725
Water	-	144,939	144,939	-	211,710	211,710
Total expenses	19,951,409	1,317,495	21,268,904	19,253,499	1,406,435	20,659,934
Change in net assets before transfers	4,657,509	331,393	4,988,902	4,182,467	37,605	4,220,072
Transfers	(252,070)	252,070	-	(624,369)	624,369	-
Change in net assets	4,405,439	583,463	4,988,902	3,558,098	661,974	4,220,072
Net assets, July 1	13,791,994	9,118,259	22,910,253	10,233,896	8,456,285	18,690,181
Net assets, June 30	\$ 18,197,433	\$ 9,701,722	\$ 27,899,155	\$ 13,791,994	\$ 9,118,259	\$ 22,910,253

Governmental Activities - Property tax revenue is the County's largest source of revenue, accounting for 62.1 percent of total revenue. Current year property tax base was approximately \$2.7 billion at a rate of .52 per \$100. While the tax rate remained the same, property tax revenue decreased approximately 1/2 percent due to the decrease of the tax valuations for motor vehicles and utility companies. The County collected approximately 96.7 percent of this year's levy. The revenues in the governmental activities have increased 5.0 percent from the prior year. Charges for services are up 10.6 percent. Other taxes, which include sales taxes, are down 6.4 percent due the final phase of the Medicaid swap and to the economic slow-down. The County received State Grants of \$791,705 to fund the purchase of property which will be used as a park in the future. In prior years, the County incurred higher levels of capital spending for the senior center and library projects.

Business-type Activities - Net assets increased primarily due to the construction of water lines. Transfers from governmental activities to business-type activities were for waterline construction and related assets.

Financial Analysis of the County's Funds

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

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

As of the close of the current fiscal year, Polk County's governmental funds reported a combined ending fund balances of \$10,366,134, an increase of \$552,112 in comparison with the prior year. The increase in total fund balance is due to a reduction in capital expenditures as the library and senior center renovations were completed early in the fiscal year.

The general fund is the chief operating fund of Polk County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,044,488 while total fund balance reached \$7,944,660. The County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, this year and, as a result, fund balance is classified as "restricted", "committed", "assigned" or "unassigned". We believe that this gives the reader a better picture of the components of fund balance.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by \$365,076, or 2 percent of the original budget. The increase in the final budgeted revenues is primarily due to grants received and the sale of assets. Other financing sources and, appropriation of fund balance, increased \$2,088,952 in order to retire debt early.

Capital Asset and Debt Administration

Capital Assets - Polk County's capital assets for its governmental type activities as of June 30, 2011, totals \$21,924,145 (net of accumulated depreciation), an increase of \$2,143,531 as compared to the previous year. The following major capital projects were completed at June 30, 2011:

- Land Purchase – Alexander's Ford to become a park
- General building repair projects
- Began construction on new Department of Social Services Building

Polk County's capital assets for its business-type activities as of June 30, 2011, totals \$9,218,434 (net of accumulated depreciation), an increase of \$78,681 as compared to the previous year.

Polk County's Capital Assets
June 30, 2011 and 2010

Figure 4

	2011			2010		
	Governmental Activities	Business-type Activities	Total Government-wide	Governmental Activities	Business-type Activities	Total Government-wide
Land and easements	\$ 4,858,879	\$ 2,155,122	\$ 7,014,001	\$ 3,587,193	\$ 2,317,174	\$ 5,904,367
Construction in progress	1,695,638	-	1,695,638	758,498	62,900	821,398
Buildings and improvements	12,431,349	1,195,996	13,627,345	12,653,936	1,227,359	13,881,295
Waterlines and related assets	-	5,654,614	5,654,614	-	5,449,565	5,449,565
Equipment	1,924,856	207,609	2,132,465	1,938,690	200,446	2,139,136
Vehicles and motor equipment	1,013,433	5,093	1,018,526	842,307	44,361	886,668
Total	\$ 21,924,155	\$ 9,218,434	\$ 31,142,579	\$ 19,780,624	\$ 9,139,753	\$ 28,920,377

Additional information regarding Polk County's capital assets can be found in the notes to the financial statements on Pages 26, 30 and 31.

Long-Term Debt - As of June 30, 2011, Polk County's outstanding balance on installment purchase contracts was \$14,694,000. The County's total debt decreased \$1,693,627 due to the scheduled debt payments and the early retirement of debt.

Polk County's Long-Term Debt
June 30, 2011 and 2010

Figure 5

	2011			2010		
	Governmental Activities	Business-type Activities	Total Government-wide	Governmental Activities	Business-type Activities	Total Government-wide
Installment purchase contracts	\$ 14,694,000	\$ 190,661	\$ 14,884,661	\$ 16,383,998	\$ 194,290	\$ 16,578,288
Total	\$ 14,694,000	\$ 190,661	\$ 14,884,661	\$ 16,383,998	\$ 194,290	\$ 16,578,288

Polk County received an upgrade to an "A+" from an "A" rating from Standard and Poor's Corporation based on the fiscal year ended June 30, 2008. This bond rating is an indication of the sound financial condition of a county the size of Polk County.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Polk County is \$204,941,447.

Additional information regarding Polk County's long-term debt can be found in the notes to the financial statements on pages 36 - 37 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County.

- The County has a lower unemployment rate of 7.7 percent than the state average of 10.4 percent;
- Overall revenues and expenditures remain relatively constant;
- The property revenue decreased approximately 1/2% due to lower valuations of vehicles and utility companies. The same trend is expected next year.
- Water is a key issue facing our County as we have struggled with drought. The County signed a contract to buy Lake Adger in fiscal year 2008 and appropriated fund balance of \$1.44 million in fiscal year 2009 to complete the purchase of Lake Adger for \$1.6 million. The County closed on the purchase of the lake in fiscal year 2010 and continues to put money aside for dam repairs. The County continues to slowly build the infrastructure that will support the future water sources.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities - Property taxes are budgeted with no tax rate increase. Revenues from permits and fees as well as sales taxes are expected to increase slightly based on economic projections. Property tax revenue and intergovernmental revenues are budgeted 1.4 and 7.4 percent respectively lower than 2011 due to unusually high grant revenue coupled with reduced State funding. Overall, total budgeted revenue is expected to decrease approximately 2.5 percent based without the consideration of appropriated fund balance. Fund balance was not used to balance the fiscal year 2012 budget.

The County's largest expenditures are for salaries which are budgeted with no increase. Overall, budgeted expenditures in the General Fund are expected to decrease approximately 2.5 percent consistent with the decrease in expected revenues. The county borrowed \$1.85M for the construction of a new Department of Social Services building to be complete and occupied by the end of 2011 calendar year.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Polk County, P.O. Box 308, Columbus, NC 28722.

BASIC FINANCIAL STATEMENTS

POLK COUNTY, NORTH CAROLINA

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 9,417,200	\$ 495,562	\$ 9,912,762
Cash - restricted	1,160,898	-	1,160,898
Receivables (net)	2,056,076	389,155	2,445,231
Internal balances	27,714	(27,714)	-
Accrued interest receivable	18,353	-	18,353
Capital assets:			
Land and construction in progress	6,554,527	2,155,122	8,709,649
Other capital assets, net of depreciation	15,369,618	7,063,312	22,432,930
Total capital assets	<u>21,924,145</u>	<u>9,218,434</u>	<u>31,142,579</u>
Total assets	<u>34,604,386</u>	<u>10,075,437</u>	<u>44,679,823</u>
Liabilities:			
Accounts payable and accrued expenses	792,616	171,108	963,724
Accrued interest payable	70,255	-	70,255
Unearned revenue	36,260	11,946	48,206
Long-term liabilities:			
Due within one year	1,898,742	4,105	1,902,847
Due in more than one year	13,609,080	186,556	13,795,636
Total liabilities	<u>16,406,953</u>	<u>373,715</u>	<u>16,780,668</u>
Net assets:			
Invested in capital assets, net of related debt	16,076,619	9,027,773	25,104,392
Restricted for:			
Stabilization by State Statute	1,533,557	-	1,533,557
Emergency communication services	414,260	-	414,260
Construction of new buildings	775,150	-	775,150
Tourism	10,496	-	10,496
School debt service	626,372	-	626,372
Unassigned	(1,239,021)	673,949	(565,072)
Total net assets	<u>\$ 18,197,433</u>	<u>\$ 9,701,722</u>	<u>\$ 27,899,155</u>

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

POLK COUNTY, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 2,564,394	\$ 1,180,459	\$ -	\$ -
Public safety	5,400,531	655,485	29,697	-
Economic and physical development	919,265	-	17,766	163,137
Human services	4,366,981	230,731	2,872,895	1,232,211
Cultural and recreational	1,414,145	104,203	103,093	-
Education	4,759,096	-	186,705	-
Interest on long-term debt	526,997	-	-	-
Total governmental activities	19,951,409	2,170,878	3,210,156	1,395,348
Business-type activities:				
Solid waste	1,172,556	1,185,595	-	267,995
Water	144,939	195,298	-	-
Total business-type activities	1,317,495	1,380,893	-	267,995
Total government-wide	\$ 21,268,904	\$ 3,551,771	\$ 3,210,156	\$ 1,663,343

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Investment earnings, unrestricted

Miscellaneous, unrestricted

Transfers

Total general revenues and transfers

Changes in net assets

Net assets--beginning

Net assets--ending

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Total</u>	<u>Total</u>	
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,383,935)	\$ -	\$ (1,383,935)
(4,715,349)	-	(4,715,349)
(738,362)	-	(738,362)
(31,144)	-	(31,144)
(1,206,849)	-	(1,206,849)
(4,572,391)	-	(4,572,391)
(526,997)	-	(526,997)
<u>(13,175,027)</u>	<u>-</u>	<u>(13,175,027)</u>
-	281,034	281,034
-	50,359	50,359
<u>-</u>	<u>331,393</u>	<u>331,393</u>
<u>(13,175,027)</u>	<u>331,393</u>	<u>(12,843,634)</u>
15,293,427	-	15,293,427
2,050,123	-	2,050,123
294,499	-	294,499
42,466	-	42,466
152,021	-	152,021
(252,070)	252,070	-
<u>17,580,466</u>	<u>252,070</u>	<u>17,832,536</u>
<u>4,405,439</u>	<u>583,463</u>	<u>4,988,902</u>
<u>13,791,994</u>	<u>9,118,259</u>	<u>22,910,253</u>
<u>\$ 18,197,433</u>	<u>\$ 9,701,722</u>	<u>\$ 27,899,155</u>

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

POLK COUNTY, NORTH CAROLINA

*Balance Sheet
Governmental Funds*

June 30, 2011

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Grant Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 6,990,328	\$ 1,441,141	\$ -	\$ 441,460	\$ 8,872,929
Cash - restricted	534,526	-	-	626,372	1,160,898
Receivables, net	1,513,759	-	369,488	82,781	1,966,028
Internal balances	395,591	-	(367,877)	-	27,714
Total assets	<u>\$ 9,434,204</u>	<u>\$ 1,441,141</u>	<u>\$ 1,611</u>	<u>\$ 1,150,613</u>	<u>\$ 12,027,569</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable and other current liabilities	\$ 684,504	\$ 83,918	\$ 1,611	\$ 27,080	\$ 797,113
Unearned revenue	33,577	-	-	2,683	36,260
Deferred revenue	771,463	-	-	56,599	828,062
Total liabilities	<u>1,489,544</u>	<u>83,918</u>	<u>1,611</u>	<u>86,362</u>	<u>1,661,435</u>
Fund balances:					
Restricted:					
Stabilization by State Statute	1,137,887	-	369,488	26,182	1,533,557
Emergency communications	-	13,059	-	401,201	414,260
Construction of new buildings	-	775,150	-	-	775,150
Tourism	-	-	-	10,496	10,496
School debt service	-	-	-	626,372	626,372
Committed:					
Tax Revaluation	682,465	-	-	-	682,465
Dam repair	-	210,000	-	-	210,000
Vehicles	-	54,000	-	-	54,000
Communications	-	112,713	-	-	112,713
Assigned:					
Subsequent year's expenditures	79,820	192,301	-	-	272,121
Unassigned	6,044,488	-	(369,488)	-	5,675,000
Total fund balances	<u>7,944,660</u>	<u>1,357,223</u>	<u>-</u>	<u>1,064,251</u>	<u>10,366,134</u>
Total liabilities and fund balances	<u>\$ 9,434,204</u>	<u>\$ 1,441,141</u>	<u>\$ 1,611</u>	<u>\$ 1,150,613</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (total capital assets on government-wide statement in governmental activities column)	31,394,486
Less accumulated depreciation	<u>(9,470,341)</u>
Net capital assets	21,924,145
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	18,353
Liabilities for the revenue deferred but earned and therefore reported in the fund statements but not the government-wide	828,062
Allocation of the permanent accounts of the internal service fund to the government-wide statement of net assets	638,816
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Installment financing and capital leases	(14,809,961)
Compensated absences and pension obligation	(697,861)
Accrued interest payable	<u>(70,255)</u>
Net assets of governmental activities	<u>\$ 18,197,433</u>

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

POLK COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2011

	General	Capital Projects	Grant Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 14,257,243	\$ -	\$ -	\$ 1,135,619	\$ 15,392,862
Local option sales taxes	2,050,123	-	-	-	2,050,123
Other taxes	-	-	-	294,499	294,499
Unrestricted intergovernmental	821,630	-	-	-	821,630
Restricted intergovernmental	3,210,157	-	1,395,347	-	4,605,504
Permits and fees	248,561	-	-	-	248,561
Sales and services	1,100,687	-	-	-	1,100,687
Investment earnings	24,627	1,059	-	16,780	42,466
Miscellaneous	97,649	54,372	-	-	152,021
Total revenues	<u>21,810,677</u>	<u>55,431</u>	<u>1,395,347</u>	<u>1,446,898</u>	<u>24,708,353</u>
EXPENDITURES					
Current:					
General government	2,307,926	-	-	-	2,307,926
Public safety	4,017,057	-	-	1,396,336	5,413,393
Economic and physical development	640,284	-	163,137	116,550	919,971
Human services	4,599,715	-	-	-	4,599,715
Cultural and recreational	1,242,870	-	1,232,210	-	2,475,080
Intergovernmental:					
Education	4,759,096	-	-	-	4,759,096
Capital outlay	-	1,209,750	-	-	1,209,750
Debt service:					
Principal	3,540,000	-	-	-	3,540,000
Interest and fees	529,240	-	-	-	529,240
Total expenditures	<u>21,636,188</u>	<u>1,209,750</u>	<u>1,395,347</u>	<u>1,512,886</u>	<u>25,754,171</u>
Revenues over (under) expenditures	<u>174,489</u>	<u>(1,154,319)</u>	<u>-</u>	<u>(65,988)</u>	<u>(1,045,818)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	110,583	254,000	-	149,611	514,194
Transfers to other funds	(655,681)	(110,583)	-	-	(766,264)
Installment purchase obligations issued	-	1,850,000	-	-	1,850,000
Total other financing sources (uses)	<u>(545,098)</u>	<u>1,993,417</u>	<u>-</u>	<u>149,611</u>	<u>1,597,930</u>
Net changes in fund balances	(370,609)	839,098	-	83,623	552,112
Fund balances, beginning of year	<u>8,315,269</u>	<u>518,125</u>	<u>-</u>	<u>980,628</u>	<u>9,814,022</u>
Fund balances, end of year	<u>\$ 7,944,660</u>	<u>\$ 1,357,223</u>	<u>\$ -</u>	<u>\$ 1,064,251</u>	<u>\$ 10,366,134</u>

(continued)

POLK COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2011

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

Net change in fund balances--total governmental funds	\$ 552,112
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	3,082,281
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	(864,521)
Cost of disposed capital assets not recorded in fund statements	(74,238)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net assets in the government-wide statements	3,599,463
New debt issuance is recorded as other proceeds on the fund statements but affect only the statement of net assets in the government-wide statements	(1,850,000)
Allocation of internal service fund profit	50,859
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:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	8,918
Change in compensated absences that are accrued in the government-wide statements but not in the fund statements because they do not use current resources	12,474
Change in pension benefit obligations that are accrued in the government wide statements but not in the fund statements because they do not use current resources	(12,360)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Recording of tax receipts deferred in the fund statements as of 6/30/11	828,062
Increase in accrued taxes receivable for year ended 6/30/11	(2,660)
Reversal of deferred tax revenue recorded at 7/1/10	(924,951)
Change in net assets, governmental activities	<u>\$ 4,405,439</u>

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

POLK COUNTY, NORTH CAROLINA

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

For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES:				
Ad valorem taxes	\$ 14,099,225	\$ 14,099,225	\$ 14,257,243	\$ 158,018
Local option sales taxes	1,836,938	1,836,938	2,050,123	213,185
Unrestricted intergovernmental	296,086	296,086	821,630	525,544
Restricted intergovernmental	3,331,046	3,686,187	3,210,157	(476,030)
Permits and fees	265,900	265,900	248,561	(17,339)
Sales and services	1,019,232	1,021,332	1,100,687	79,355
Investment earnings	53,800	53,800	24,627	(29,173)
Miscellaneous	93,635	101,470	97,649	(3,821)
Total revenues	20,995,862	21,360,938	21,810,677	449,739
EXPENDITURES:				
Current:				
General government	2,690,643	2,636,354	2,307,926	328,428
Public safety	4,324,163	4,348,705	4,017,057	331,648
Economic and physical development	679,284	721,819	640,284	81,535
Human services	4,699,407	5,111,503	4,599,715	511,788
Cultural and recreational	1,343,766	1,324,897	1,242,870	82,027
Intergovernmental:				
Education	4,679,610	4,770,610	4,759,096	11,514
Debt service:				
Principal retirement	1,540,002	3,540,002	3,540,000	2
Interest and other charges	572,228	529,241	529,240	1
Total expenditures	20,529,103	22,983,131	21,636,188	1,346,943
Revenues over (under) expenditures	466,759	(1,622,193)	174,489	1,796,682
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	1,306,682	1,420,665	110,583	(1,310,082)
Transfers to other funds	(1,773,441)	(1,967,555)	(655,681)	1,311,874
Appropriated fund balance	-	2,169,083	-	(2,169,083)
Total other financing sources (uses)	(466,759)	1,622,193	(545,098)	(2,167,291)
Net change in fund balance	\$ -	\$ -	(370,609)	\$ (370,609)
Fund balance, beginning of year			8,315,269	
Fund balance, end of year			\$ 7,944,660	

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

POLK COUNTY, NORTH CAROLINA

Statement of Net Assets Proprietary Funds

June 30, 2011

	Enterprise Funds			Internal Service Fund
	Solid Waste Fund	Water Fund	Total	Self- Insurance Fund
Assets:				
Current assets:				
Cash and cash equivalents	\$ 423,505	\$ 72,057	\$ 495,562	\$ 544,270
Receivables (net)	157,662	231,493	389,155	108,156
Total current assets	<u>581,167</u>	<u>303,550</u>	<u>884,717</u>	<u>652,426</u>
Capital assets:				
Land and construction in progress	399,580	1,755,542	2,155,122	-
Other capital assets, net of depreciation	1,408,698	5,654,614	7,063,312	-
Total capital assets	<u>1,808,278</u>	<u>7,410,156</u>	<u>9,218,434</u>	<u>-</u>
Total assets	<u>2,389,445</u>	<u>7,713,706</u>	<u>10,103,151</u>	<u>652,426</u>
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	51,653	119,455	171,108	13,610
Unearned revenue	11,946	-	11,946	-
Internal balances	-	27,714	27,714	-
Long term debt, current portion	4,105	-	4,105	-
Total current liabilities	<u>67,704</u>	<u>147,169</u>	<u>214,873</u>	<u>13,610</u>
Noncurrent liabilities:				
Long-term debt, net of current portion	186,556	-	186,556	-
Total liabilities	<u>254,260</u>	<u>147,169</u>	<u>401,429</u>	<u>13,610</u>
Net assets:				
Invested in capital assets, net of related debt	1,617,617	7,410,156	9,027,773	-
Unrestricted	517,568	156,381	673,949	638,816
Total net assets	<u>\$ 2,135,185</u>	<u>\$ 7,566,537</u>	<u>\$ 9,701,722</u>	<u>\$ 638,816</u>

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

POLK COUNTY, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Funds

For the Year Ended June 30, 2011

	Enterprise Funds			Internal Service Fund
	Solid Waste Fund	Water Fund	Total	Self - Insurance Fund
Operating Revenues:				
Charges for services	\$ 1,185,595	\$ 37,878	\$ 1,223,473	\$ -
Water taps	-	135,753	135,753	-
Restricted intergovernmental	267,995	-	267,995	-
Miscellaneous	-	21,667	21,667	-
Employee contributions	-	-	-	1,070,205
Total operating revenues	<u>1,453,590</u>	<u>195,298</u>	<u>1,648,888</u>	<u>1,070,205</u>
Operating Expenses:				
Claims expense	-	-	-	932,391
Administration fees	187,521	32,978	220,499	86,955
Transfer station operations	849,927	-	849,927	-
Closure and postclosure care	47,968	-	47,968	-
Depreciation	75,577	111,961	187,538	-
Total operating expenses	<u>1,160,993</u>	<u>144,939</u>	<u>1,305,932</u>	<u>1,019,346</u>
Operating income (loss)	<u>292,597</u>	<u>50,359</u>	<u>342,956</u>	<u>50,859</u>
Non-operating expenses:				
Interest expense	<u>(11,563)</u>	<u>-</u>	<u>(11,563)</u>	<u>-</u>
Income (loss) before transfers	281,034	50,359	331,393	50,859
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	-	252,070	252,070	-
Total other financing sources (uses)	<u>-</u>	<u>252,070</u>	<u>252,070</u>	<u>-</u>
Change in net assets	281,034	302,429	583,463	50,859
Net assets, beginning of year	<u>1,854,151</u>	<u>7,264,108</u>	<u>9,118,259</u>	<u>587,957</u>
Net assets, end of year	<u>\$ 2,135,185</u>	<u>\$ 7,566,537</u>	<u>\$ 9,701,722</u>	<u>\$ 638,816</u>

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

POLK COUNTY, NORTH CAROLINA

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2011

	Enterprise Funds			Internal Service Fund
	Solid Waste Fund	Water Fund	Total	Self- Insurance Fund
Cash flows from operating activities:				
Cash received from customers	\$ 1,416,930	\$ 70,144	\$ 1,487,074	\$ 981,925
Cash paid for goods and services	(1,121,240)	(23,153)	(1,144,393)	(1,001,242)
Net cash provided (used) by operating activities	<u>295,690</u>	<u>46,991</u>	<u>342,681</u>	<u>(19,317)</u>
Cash flows from non-capital financing activities:				
Transfers from other funds	-	252,070	252,070	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(12,109)	(254,110)	(266,219)	-
Principal paid on debt	(3,629)	-	(3,629)	-
Interest paid on debt	(11,563)	-	(11,563)	-
Net cash used by capital and related financing activities	<u>(27,301)</u>	<u>(254,110)</u>	<u>(281,411)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	268,389	44,951	313,340	(19,317)
Cash and cash equivalents, beginning	<u>155,116</u>	<u>27,106</u>	<u>182,222</u>	<u>563,587</u>
Cash and cash equivalents, ending	<u>\$ 423,505</u>	<u>\$ 72,057</u>	<u>\$ 495,562</u>	<u>\$ 544,270</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 292,597	\$ 50,359	\$ 342,956	\$ 50,859
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation	75,577	111,961	187,538	-
Changes in assets and liabilities:				
Decrease (increase) in receivables	(36,660)	(125,154)	(161,814)	(88,280)
Increase (decrease) in accounts payable and accrued expenses	(35,824)	9,825	(25,999)	18,104
Net cash provided (used) by operating activities	<u>\$ 295,690</u>	<u>\$ 46,991</u>	<u>\$ 342,681</u>	<u>\$ (19,317)</u>

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

POLK COUNTY, NORTH CAROLINA

Statement of Fiduciary Net Assets

June 30, 2011

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 155,521
LIABILITIES	
Due to others	141,312
Due to other governments	13,527
Due to State of North Carolina	682
	\$ 155,521

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

POLK COUNTY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Polk County conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

(A) Reporting Entity

The County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. The County had no component units as of June 30, 2011.

(B) Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus - Basis of Accounting

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

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 Tax Revaluation Fund is a legally budgeted fund under North Carolina General Statutes; however, for statement presentation in accordance with GASB Statement No. 54, it is consolidated in the General Fund.

Capital Projects Fund. The Capital Projects Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds). The County has one Capital Projects Fund.

Grant Projects Fund. The Grant Projects Fund accounts for the expenditure of grant funds related to community projects. The County has one Grant Projects Fund.

The County reports the following major enterprise funds:

Solid Waste Fund. This fund accounts for the solid waste collection and disposal operations and is financed with user fees.

Water Fund. This fund accounts for waterlines and related assets, as well as user fees and expenses associated with County water service.

The County also reports the following fund types:

Internal Service Fund. The self-insurance fund is used to account for the accumulation and allocation of costs associated with employees' health care.

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 moneys 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 Polk County Board of Education and the three percent interest on the first month of delinquent vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles; and the Property Tax Fund, which accounts for property taxes that are billed and collected by the County for various municipalities and special districts within the County; the Deed of Trust Fund, which accounts for the deed of trust fee collected by the County for the State; and another fund for various individual and private organizations.

Nonmajor Funds. The County maintains five legally budgeted funds. The Fire District Fund, the Tourism Development Fund, and the Emergency Telephone System Fund, are reported as nonmajor special revenue funds. The Debt Service Fund is reported as a debt service fund. The Capital Reserve Fund is consolidated in the Capital Projects 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, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The agency funds have no measurement focus. The government-wide and proprietary 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Polk County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements.

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.

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

(C) **Budgetary Data**

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Solid Waste Fund, and the Water Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund, the Water Capital Projects Fund, which is consolidated with the Water Fund for reporting purposes, and the Solid Waste Capital Projects Fund, which is consolidated with the Solid Waste Operating Fund for reporting purposes.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for multi-year budgets. Board approval is required for all amendments exceeding \$5,000 within any department and \$5,000 between departments. During the year, several amendments to the original budget were necessary to adjust for federal and State grants received. 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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

(2) Cash and Cash Equivalents

The County pools money from several funds to facilitate disbursement and investment and maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

(3) Restricted Assets

Unexpended debt proceeds in the County's Capital Projects Fund are classified as restricted assets within governmental activities because their use is restricted to the purpose for which the debt was issued. Money in the Tax Revaluation Fund is also 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; however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009. As allowed by State law, the County has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the County's General Fund, ad valorem tax revenues are reported net of such discounts.

(5) Allowances 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 cost is \$500. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

	<u>Years</u>
Buildings	50
Infrastructure	40
Improvements	20
Furniture and equipment	5-10
Vehicles	8

(7) **Long-Term Obligations**

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

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

(8) **Compensated Absences**

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

The sick leave policies of the County provide 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 none of the entities have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County.

(9) **Net Assets/Fund Balances**

Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or b) 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.

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 Emergency Communications - portion of fund balance that is restricted by revenue source for emergency communications.

Restricted for Construction of New Buildings - portion of fund balance that can only be used for new building expenditures.

Restricted for Tourism - portion of fund balance that is restricted by revenue source for tourism expenditures.

Restricted for School Debt Service - portion of fund balance that is restricted by revenue source for school debt service.

Committed Fund Balance- Portion of fund balance that can only be used for specific purpose imposed by majority vote of Polk 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.

Committed for Dam Repair – portion of fund balance that can only be used for dam repairs.

Committed for Vehicles – portion of fund balance that can only be used for vehicle purchases.

Committed for Communications – portion of fund balance that can only be used for communication related expenses.

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

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$5,000.

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

Note 2 – Assets

(A) 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 agents in those units' names. 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 their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or 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 under-collateralization, 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 does not have a policy regarding custodial credit risk for deposits.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The County relies on the State Treasurer to monitor those financial institutions. 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 designation official depositories and verifying that deposits are properly secured.

At June 30, 2011, the County's deposits had a carrying amount of \$1,748,135 and a bank balance of \$1,896,983. Of the bank balance, \$1,620,070 was covered by federal depository insurance, and \$276,913 in interest bearing deposits were covered by collateral held under the Pooling Method.

The County also had petty cash on hand at June 30, 2011 of \$1,050.

(B) **Investments**

At June 30, 2011, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than Six Months</u>
NC Capital Management Trust- Cash Portfolio	\$ 8,853,626	\$ 8,853,626
Commercial paper	<u>626,370</u>	<u>626,370</u>
Total	<u>\$ 9,479,996</u>	<u>\$ 9,479,996</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County is required to build an investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby reducing the need to sell securities on the open market prior to maturity. The investment policy also limits the County to investing funds primarily in shorter-term securities.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (INRSROs). In order to mitigate against credit risk, the County's investment policy states that investments are limited to the safest type of securities, the portfolio should be diversified in order to minimize losses on individual securities, and business is done only with a few selected financial institutions. As of June 30, 2011, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings and A1 by Moody's Investors Service. The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2011.

Concentration of Credit Risk. The County places no limit on the amount that the County may invest in any one issuer.

(C) **Property Tax-Use-Value Assessment on Certain Lands**

In accordance with the general statutes, agriculture, horticulture and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year Levied	Tax	Interest	Total
2008	\$ 408,763	\$ 167,593	\$ 576,356
2009	444,602	136,715	581,317
2010	881,521	180,711	1,062,233
2011	<u>1,014,652</u>	<u>104,002</u>	<u>1,118,654</u>
Total	<u>\$ 2,749,538</u>	<u>\$ 589,021</u>	<u>\$ 3,338,560</u>

(D) **Receivables** – Receivables at the fund and government-wide level at June 30, 2011 were as follows:

	<u>Governmental Funds</u>					Business- Type Activities	
	General	Capital Projects	Grant Projects	Other	Accrual Adjustment		Governmental Activities
Receivables							
Accounts	\$1,067,794	\$ -	\$ 369,488	\$ 26,182	\$ -	\$ 1,463,464	\$ 389,452
Taxes	767,194	-	-	56,599	90,048	913,841	-
Less: Allowance	<u>(321,229)</u>	-	-	-	-	<u>(321,229)</u>	<u>(297)</u>
Total receivables (net)	<u>\$1,513,759</u>	<u>\$ -</u>	<u>\$ 369,488</u>	<u>\$ 82,781</u>	<u>\$ 90,048</u>	<u>\$ 2,056,076</u>	<u>\$ 389,155</u>

(E) **Capital Assets**

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

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,587,193	\$ 1,281,486	\$ (9,800)	\$ 4,858,879
Construction in progress	758,498	1,050,051	(112,601)	1,695,648
Total capital assets not being depreciated	<u>4,345,691</u>	<u>2,331,537</u>	<u>(122,401)</u>	<u>6,554,527</u>
Capital assets being depreciated:				
Buildings and improvements	18,913,876	188,453	-	19,102,329
Equipment	3,566,568	265,244	(86,756)	3,745,056
Vehicles and motor equipment	1,735,692	409,947	(153,065)	1,992,574
Total capital assets being depreciated	<u>24,216,136</u>	<u>863,644</u>	<u>(239,821)</u>	<u>24,839,959</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,259,940)	(411,040)	-	(6,670,980)
Equipment	(1,627,878)	(269,530)	77,208	(1,820,200)
Vehicles and motor equipment	(893,385)	(183,951)	98,175	(979,161)
Total accumulated depreciation	<u>(8,781,203)</u>	<u>(864,521)</u>	<u>175,383</u>	<u>(9,470,341)</u>
Total capital assets being depreciated, net	<u>15,434,943</u>			<u>15,369,618</u>
Governmental activities capital assets, net	<u>\$ 19,780,624</u>			<u>\$ 21,924,145</u>

Depreciation expense was charged to functions/programs as follows:

General Government	\$ 304,862
Public Safety	240,587
Economic and physical development	5,319
Human services	106,620
Cultural and recreational	<u>207,133</u>
Total depreciation expense	<u>\$ 864,521</u>

Business-type activities, solid waste:

Capital assets not being depreciated:

Land	\$ 399,580	\$ -	\$ -	\$ 399,580
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Capital assets being depreciated:

Buildings and improvements	1,379,716	388	-	1,380,104
Equipment	350,022	11,721	-	361,743
Vehicles and motor equipment	48,341	-	-	48,341
Total capital assets being depreciated	<u>1,778,079</u>	<u>12,109</u>	<u>-</u>	<u>1,790,188</u>

Less accumulated depreciation for:

Buildings and improvements	(152,357)	(31,751)	-	(184,108)
Equipment	(149,576)	(4,558)	-	(154,134)
Vehicles and motor equipment	(3,980)	(39,268)	-	(43,248)
Total accumulated depreciation	<u>(305,913)</u>	<u>(75,577)</u>	<u>-</u>	<u>(381,490)</u>

Total capital assets being depreciated, net	<u>1,472,166</u>			<u>1,408,698</u>
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Solid waste capital assets, net	<u>\$ 1,871,746</u>			<u>\$ 1,808,278</u>
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Business-type activities, water:

Capital assets not being depreciated:

Land and easements	\$ 1,755,542	\$ -	\$ -	\$ 1,755,542
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Construction in progress	<u>62,900</u>	<u>254,110</u>	<u>(317,010)</u>	<u>-</u>
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Total capital assets being depreciated	<u>1,818,442</u>	<u>254,110</u>	<u>(317,010)</u>	<u>1,755,542</u>
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Capital assets being depreciated:

Water lines and related assets	<u>5,708,033</u>	<u>317,010</u>	<u>-</u>	<u>6,025,043</u>
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Less accumulated depreciation for:

Water lines and easements	<u>258,468</u>	<u>(111,961)</u>	<u>-</u>	<u>(370,429)</u>
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Total capital assets being depreciated, net	<u>5,449,565</u>			<u>5,654,614</u>
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Water capital assets, net	<u>\$ 7,268,007</u>			<u>\$ 7,410,156</u>
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The government has an active construction project as of June 30, 2011. At year-end, the government's commitments with contractors are approximately \$684,300 for governmental activities.

Note 3 – Liabilities**(A) Payables**

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

	<u>Governmental Funds</u>				Accrual Adjustment	Governmental Activities	Business- Type Activities
	General	Capital Projects	Grant Projects	Other			
Accounts payable	\$ 681,266	\$ 83,918	\$ 1,611	\$ 27,167	\$ (4,497)	\$ 789,465	\$ 171,108
Accrued wages	3,235	-	-	(87)	-	3,148	-
Claims payable	-	-	-	-	3	3	-
Total payables	<u>\$ 684,504</u>	<u>\$ 83,918</u>	<u>\$ 1,611</u>	<u>\$ 27,080</u>	<u>\$ (4,494)</u>	<u>\$ 792,616</u>	<u>\$ 171,108</u>

(B) **Claims Payable**

Claims incurred include an estimate for health claims incurred but not reported (IBNR), which is based on claims data provided by the third-party administrator. The following is a summary of changes in claims payable:

	Beginning Balance	Increases	Decreases	Ending Balance
6/30/10	\$ 60,024	\$ 951,313	\$ 997,724	\$ 13,613
6/30/11	13,613	932,388	932,391	13,610

(C) **Pension Plan Obligations***North Carolina Local Governmental Employees' Retirement System*

Plan Description: The County contributes to the statewide Local Governmental Employees' 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 Employees' 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 6.48% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the 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, 2011, 2010, and 2009 were \$344,780, \$236,121, and \$269,419 respectively.

Law Enforcement Officers Special Separation Allowance

Plan Description: The 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. A separate audit is not performed.

All full-time law enforcement officers of the County are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>21</u>
Total	<u><u>22</u></u>

Summary of Significant Accounting Policies:

- a. *Basis of Accounting:* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.
- b. *Method Used to Value Investments:* Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

Contributions: The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 5.00% investment rate of return (net of administrative expenses); and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using 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, 2010 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	\$ 17,638
Interest on net pension obligation	7,608
Adjustment to annual required contribution	<u>(8,146)</u>
Annual pension cost	17,100
Employer contribution made	<u>4,740</u>
Increase (decrease) in net pension obligation	12,360
Net pension obligation beginning of year	<u>152,161</u>
Net pension obligation end of year	<u><u>\$ 164,521</u></u>

Three Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	\$ 15,681	34.13%	\$ 142,090
6/30/10	14,811	32.00	152,161
6/30/11	17,100	27.72	164,521

Funded Status and Funding Progress: As of December 31, 2010, the most recent actuarial valuation date, the plan was 100% unfunded. The actuarial accrued liability for benefits was \$79,650 and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UUAL) of \$79,650. The covered payroll (annual payroll of active employees covered by the plan) was \$648,816, and the ratio of UAAL to the covered payroll was 12.28%.

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 the healthcare cost trend. 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 information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description: The County contributes to the Supplemental Retirement Income Plan (the 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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401k plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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: 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 vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$98,872, which consisted of \$39,555 from the County and \$59,317 from the law enforcement officer.

Registers of Deeds' Supplemental Pension Fund

Plan Description: The County also contributes to the Registers of Deeds' Supplemental Pension Fund (Fund), which is a non-contributory defined contribution plan administered by the North Carolina Department of the State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter – 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Registers of Deeds' Supplemental Pension Fund 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 the Registers of Deeds' Supplemental Pension Fund. 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: On a monthly basis, the County remits to the 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 year ended June 30, 2011, the County's required and actual contributions were \$1,805.

(D) **Deferred / Unearned Revenues**

The balance in deferred revenue on the fund statements and unearned revenues on the government-wide statements at year-end is composed of the following elements:

	<u>Governmental Funds</u>			<u>Government- Wide</u>
	<u>General</u>	<u>Other</u>	<u>Accrual Adjustment</u>	
Taxes receivable	\$ 771,463	\$ 56,599	\$ (828,062)	\$ -
Prepaid taxes	33,577	2,683	-	36,260
Deferred/unearned revenue	<u>\$ 805,040</u>	<u>\$ 59,282</u>	<u>\$ (828,062)</u>	<u>\$ 36,260</u>

(E) **Risk Management**

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk financing pools administered by the Risk Management Agency of 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 of \$125.5 million for any one occurrence, general, auto, and professional and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, and worker's compensation coverage up to statutory limits. 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 up to \$2 million limit for general liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation.

The County is self-insured for health but carries stop-loss insurance coverage to protect itself from catastrophic claims. Cover provisions provide for a specific stop-loss of \$35,000 per employee and \$1,143,597 in aggregate.

No county property is located in the 100-year Flood Zone as designated by the Federal Emergency Management Agency and is covered for flood and earthquake up to \$25,000 per occurrence.

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Sheriff is bonded for \$50,000, the Register of Deeds for \$50,000, and the Tax Collector and Director of Finance for \$50,000. The Director of Soil and Water, department employees, and Directors are bonded under a blanket bond for \$40,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

The County carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Note 4 – Long-Term Obligations**(A) Capital Leases**

The County has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following leases are included in Long-Term Debt:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Governmental Activities</u>				
<u>Serviced by the General Fund:</u>				
Equipment lease purchase agreement, monthly payments of \$5,502, including interest at 2.68% through May, 2013	\$ 175,310	\$ -	\$ 59,349	\$ 115,961

For Polk County, future minimum payments as of June 30, 2011, including interest are:

<u>Year</u> <u>Ending</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	62,076	3,948
2013	53,885	1,118
Total	<u>\$ 115,961</u>	<u>\$ 5,066</u>

(B) Installment Purchase

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County financed various property acquisitions, construction and improvements for use by Polk County, Polk County Board of Education, Isothermal Community College and DSS during the fiscal year ended June 30, 2011 by installment purchase.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Governmental activities:</u>				
2003 \$4.00 million installment purchase contract for county building projects, 30 semi-annual payments ranging from \$133,333 to \$213,933, including interest at 4.03% through December 2018.	\$ 2,266,667	\$ -	\$ 2,266,667	\$ -
2004 \$7.40 million installment purchase contract for county building projects, 30 semi-annual payments ranging from \$340,050 to \$534,833, including interest at 4.03% through March 2019.	4,686,666	-	493,333	4,193,333
2004 \$10.00 million installment purchase contract for middle school construction, 30 semi-annual payments ranging from \$251,736 to \$402,480 including interest at 4.41% through November 2019.	6,000,000	-	666,667	5,333,333
2009 \$1.70 million installment purchase contract for senior recreation center, 30 semi-annual payments ranging from \$57,775 to \$89,902 including interest at 3.91% through February 2024.	1,586,667	-	113,333	1,473,334

2005 \$1.84 million QZAB, non-interest bearing installment financing agreement for school renovations, 15 annual payments of \$95,705 into escrow with a balloon payment in June 2020.	1,844,000	-	-	1,844,000
2010 \$1.85 million installment purchase contract for the construction of a DSS Building, 15 annual payments ranging from \$189,193 to \$127,724, including interest at 3.56% through December 2025.	-	<u>1,850,000</u>	-	<u>1,850,000</u>
Total governmental activities	<u>\$ 16,384,000</u>	<u>\$ 1,850,000</u>	<u>\$ 3,540,000</u>	<u>\$ 14,694,000</u>
Business-type activities:				
Installment purchase contract, 360 monthly payments of \$1,286, including interest at 6% through January 2034.	<u>\$ 194,290</u>	<u>\$ -</u>	<u>\$ 3,629</u>	<u>\$ 190,661</u>

For Polk County, the future minimum payments as of June 30, 2011, including interest are:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,396,666	\$ 484,409	\$ 4,105	\$ 11,325
2013	1,396,666	428,455	4,359	11,072
2014	1,396,666	372,491	4,627	10,803
2015-2019	6,983,332	1,022,983	27,787	49,366
2020-2024	3,273,998	175,768	37,480	39,671
2025-2029	246,672	13,172	50,555	26,600
2030-2034	-	-	61,748	9,025
Total	<u>\$ 14,694,000</u>	<u>\$ 2,497,278</u>	<u>\$ 190,661</u>	<u>\$ 157,862</u>

(C) Long-Term Obligation Activity

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2011:

	<u>Long-Term Debt</u>			<u>Long-Term Debt</u>	<u>Current Portion of Balance</u>
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>	
Governmental Activities					
By type of debt:					
Installment purchase contracts	\$ 16,384,000	\$ 1,850,000	\$ 3,540,000	\$ 14,694,000	\$ 1,396,666
Capital leases	175,310	-	59,349	115,961	62,076
Compensated absences	545,814	455,309	467,783	533,340	440,000
Pension benefit obligations	<u>152,160</u>	<u>12,360</u>	<u>-</u>	<u>164,520</u>	<u>-</u>
Total governmental activities	<u>\$ 17,257,284</u>	<u>\$ 2,317,669</u>	<u>\$ 4,067,132</u>	<u>\$ 15,507,821</u>	<u>\$ 1,898,742</u>
Business-type activities					
Installment purchase contracts	<u>\$ 194,290</u>	<u>\$ -</u>	<u>\$ 3,629</u>	<u>\$ 190,661</u>	<u>\$ 4,105</u>

Compensated absences of \$533,340 are for governmental activities and typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

The pension benefit obligations have historically been liquidated from the General Fund.

Note 5 – Net Assets

The portion of net assets invested in capital assets, net of related debt, consists of the following:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Capital assets, net of depreciation	\$ 21,924,145	\$ 9,218,434
Less:		
Installment purchase contracts	14,694,000	190,661
Capital leases	115,961	-
Adjustments:		
School related debt	8,225,666	-
Solid waste debt	<u>736,769</u>	<u>-</u>
Invested in capital assets, net of related debt	<u>\$16,076,619</u>	<u>\$ 9,027,773</u>

Note 6 – Interfund Activities

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfers to General Fund from:	
County Capital Projects Fund	<u>\$ 110,583</u>
Transfers to Capital Projects Fund from:	
General Fund	<u>\$ 254,000</u>
Transfers to Non-major Governmental Funds from:	
General Fund	<u>\$ 149,611</u>
Transfers to Water Fund from:	
General Fund	<u>\$ 252,070</u>

Transfers are used to (1) move revenues from the fund that budget requires to collect them to them to the fund that budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 – Fund Balance

Polk County has a revenue spending guideline for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, Federal funds, State funds, local 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 may 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:

Total Fund Balance - General Fund	\$ 7,944,660
Less:	
Stabilization of State Statute	1,137,887
Tax Revaluation	682,465
Appropriated Fund Balance in 2012 Budget	79,820
Remaining Fund Balance	\$ 6,044,488

Note 8 – Related Organization

The County's governing board is responsible for appointing two members to the board of the Harmon Field Commission, a local recreation facility. The Town of Tryon also is responsible for appointing two additional members, and one additional appointee is alternated between the County and the Town each year. Currently, the County has three appointees to the Harmon Field board. The County collects taxes on behalf of this organization, but does not have the authority to set the tax rates. The County's accountability for this organization does not extend beyond making the annual board appointments. The Harmon Field Commission is reported as a component unit of the Town.

Note 9 – Joint Ventures

(A) Mental Health

The eight counties participating in the Western Highlands LME are represented by either the county manager, assistant county manager or county commissioner and one at large position that fits certain criteria as outlined in the Reform Bill. Within available resources, the County has an ongoing financial responsibility for the LME because it is legally obligated to provide mental health services either directly or jointly with other counties. None of the participating counties has any equity interest in the LME, so no equity interest has been reflected in the financial statements at June 30, 2011. The County contributed \$74,991 to the LME to fund operations during fiscal year June 30, 2011. Complete financial statements for the LME may be obtained from the LME's offices at 356 Biltmore Avenue, Asheville, NC 28801.

(B) Public Health

The County, in conjunction with Rutherford and McDowell Counties, established the Public Health District (District). The District was established to allocate the cost and coordinate the public health services between the counties. Each County appoints one member to the District Governing board. These commissioner-members then appoint the other fifteen members jointly with six of these members being from Rutherford County, five being from McDowell County and four being from Polk County. All commissioner-members must agree on the appointments for the appointments to occur. None of the participating counties have any equity interest in the District, so no equity interest has been reflected in the financial statements at June 30, 2011. The County paid operating appropriations of \$113,471 to the District during fiscal year June 30, 2011. The County also paid the District \$117,196 for administration of the transfer station out of the Solid Waste Fund. Complete financial statements for the District may be obtained from the District's offices at 203 Koone Rd., Spindale, NC 28160.

(C) Community College

The County, in conjunction with the State of North Carolina and the Polk County Board of Education, participates in a joint venture to operate the Isothermal Community College. Each of the three participants appoints four members of the thirteen-member board of trustees of the community college. The President of the community college's student government serves as an ex officio non-voting member of the community college's Board of Trustees. The community college is included as a component unit of the State. The County has the basic responsibility for providing funding for the facilities of the community college and also provides some financial support for the community college's operations. The County has an ongoing financial responsibility for the community college because of the statutory responsibilities to provide funding for the community college's facilities. The County contributed \$111,516 to the community college for operating purposes and \$9,526 for capital expenditures during the fiscal year ended June 30, 2011. The County has no obligation that would create a financial burden, nor is it entitled to a future financial benefit from the community college. The participating governments do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2011. Complete financial statements for the community college may be obtained from the community college's administrative offices at Highway 108 East, Columbus, North Carolina, 28722.

(D) Jointly Governed Organizations

The County, in conjunction with four other counties and twenty-two municipalities, established the Isothermal Planning and Development Commission (Commission). The participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Commission's governing board. The County paid membership fees of \$4,377 to the Commission during the fiscal year ended June 30, 2011.

(E) 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, which cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Temporary assistance to needy families	\$ 115,426	\$ -
Medicaid –Title XIX	14,971,095	6,030,389
State/County Special Assistance for Adults	-	176,606
Foster Care	20,569	4,486
Adoption Assistance	196,459	41,927
CWS Adoption Subsidy and vendor	-	110,489
Food Stamp Program	3,787,853	
Adult Daycare	7,322	1,880
Links Independent Living	<u>8,506</u>	<u>2,002</u>
Total	<u>\$ 19,107,230</u>	<u>\$ 6,367,779</u>

The Supplemental Nutrition Assistance Program (SNAP), formerly Food Stamp Program, has not been included. Although the County is involved in eligibility determinations, this program does not qualify as a federal award at the county level according to the awarding agency, the USDA, due to the method by which the assistance payments are delivered to recipients by the State.

Note 10 – 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.

Note 11 – Contingent Liabilities

At June 30, 2011, the County was a defendant to various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance:

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
 - Schedule of Employer Contributions for the Enforcement Officers' Special Separation Allowance
 - Notes to the Required Schedules for the Enforcement Officers' Special Separation Allowance
-

POLK COUNTY, NORTH CAROLINA

*Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information -- Schedule of Funding Progress*

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2004	-	\$ 111,076	\$ 111,076	0%	\$ 767,090	14%
12/31/2005	-	103,326	103,326	0%	852,244	12%
12/31/2006	-	137,237	137,237	0%	984,981	14%
12/31/2007	-	91,515	91,515	0%	745,145	12%
12/31/2008	-	77,684	77,684	0%	758,188	10%
12/31/2009	-	97,333	97,333	0%	807,286	12%
12/31/2010	-	79,650	79,650	0%	648,816	12%

POLK COUNTY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance Schedule of Employer Contributions

June 30, 2011

Year Ending June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 18,677	2.39%
2006	17,489	1.98%
2007	20,910	2.05%
2008	14,455	1.94%
2009	13,460	1.78%
2010	17,638	2.19%
2011	14,961	2.30%

Notes to the Required Schedules:

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

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.5 - 12.3%
Cost of living adjustments	N/A
<i>*Includes inflation at</i>	<i>3.75%</i>

GENERAL FUND

The General Fund is the main operating fund of the County. It accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 14,132,002	
Penalties and interest		125,241	
Total	\$ 14,099,225	14,257,243	\$ 158,018
Other Taxes:			
Local Option Sales Taxes	1,836,938	2,050,123	213,185
Unrestricted Intergovernmental:			
Payment in lieu of taxes, outside sources	296,086	821,630	525,544
Restricted Intergovernmental:			
Lottery revenue		186,705	
Federal grants		2,626,995	
State grants		367,532	
Local grants		28,925	
Total	3,686,187	3,210,157	(476,030)
Licenses and Permits:			
Register of Deeds fees		162,760	
Building, other permit, inspection fees		85,801	
Total	265,900	248,561	(17,339)
Sales and Services:			
Rents, concessions, and fees		53,227	
Jail fees		280	
EMS fees		637,069	
Transportation fees		230,731	
Recreation department		93,119	
Court costs, fees, and charges		57,041	
Other charges for services		29,220	
Total	1,021,332	1,100,687	79,355

(continued)

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Investment Earnings	\$ 53,800	\$ 24,627	\$ (29,173)
Miscellaneous	101,470	97,649	(3,821)
Total revenues	21,360,938	21,810,677	449,739
Expenditures:			
General Government:			
Governing Body		108,835	
Manager		206,791	
Board of elections		145,775	
Personnel		17,247	
Finance		237,243	
Tax collections		201,626	
Tax assessor		234,946	
Legal		35,729	
Register of Deeds		164,944	
Public buildings		518,215	
Court facilities		11,011	
Non-departmental		425,564	
Total general government	2,636,354	2,307,926	328,428
Public Safety:			
Sheriff's department		1,579,374	
Jail		574,421	
Emergency medical services		981,743	
Emergency management		46,918	
Rescue squad		44,500	
Communications		436,145	
Building inspections		182,568	
Animal Control		171,388	
Total public safety	4,348,705	4,017,057	331,648

(continued)

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Expenditures, continued:			
Economic and physical development:			
Cooperative extension		\$ 130,643	
Planning and zoning		148,702	
Soil and water conservation		115,041	
Agriculture		171,422	
Forestry		45,166	
Economic development		29,310	
Total economic and physical development	\$ 721,819	640,284	\$ 81,535
Human Services:			
Health		113,471	
Mental health		188,683	
Veteran's administration		38,875	
Social services administration		1,665,274	
Social services programs		1,623,867	
Public transportation		893,732	
Community based alternatives		75,813	
Total human services	5,111,503	4,599,715	511,788
Cultural and recreational:			
Recreation		398,526	
Library		504,459	
Senior centers		338,885	
Other		1,000	
Total cultural and recreational	1,324,897	1,242,870	82,027
Education:			
Public schools--current		4,385,054	
Public schools--capital outlay		162,000	
Public schools--special appropriation		91,000	
Community colleges--current		111,516	
Community colleges--capital outlay		9,526	
Total education	4,770,610	4,759,096	11,514

(continued)

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Expenditures, continued:			
Debt Service:			
Principal retirement		\$ 3,540,000	
Interest and fees		529,240	
Total debt service	\$ 4,069,243	4,069,240	\$ 3
Total expenditures	22,983,131	21,636,188	1,346,943
Revenues over (under) expenditures	(1,622,193)	174,489	1,796,682
Other financing sources (uses):			
Appropriated fund balance	2,169,083	-	(2,169,083)
Transfers to other funds	(1,967,555)	(655,681)	1,311,874
Transfers from other funds	1,420,665	110,583	(1,310,082)
Total other financing sources (uses)	1,622,193	(545,098)	(2,167,291)
Net change in fund balance	\$ -	(370,609)	\$ (370,609)
Fund balance - Beginning of year		8,315,269	
Fund balance - End of year		\$ 7,944,660	

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities of the County.

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Capital Projects Fund

From Inception and For the Year Ended June 30, 2011

	<u>Project Authorization</u>	<u>Reported In Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Variance Positive (Negative)</u>
Revenues					
Restricted intergovernmental:					
Grant revenue	\$ 100,000	\$ 125,000	\$ -	\$ 125,000	\$ 25,000
Investment earnings	-	-	1,059	1,059	1,059
Other revenue	137,367	84,661	54,372	139,033	1,666
Closed projects	21,901,500	21,901,500	-	21,901,500	-
Total revenues	<u>22,138,867</u>	<u>22,111,161</u>	<u>55,431</u>	<u>22,166,592</u>	<u>27,725</u>
Expenditures					
Public safety:					
Communications	190,000	39,314	37,973	77,287	112,713
Cultural and recreational:					
Recreation	1,970,267	1,848,877	106,997	1,955,874	14,393
Human services:					
DSS building	2,000,000	10,070	1,064,780	1,074,850	925,150
Closed projects	21,901,500	21,394,775	-	21,394,775	506,725
Total expenditures	<u>26,061,767</u>	<u>23,293,036</u>	<u>1,209,750</u>	<u>24,502,786</u>	<u>1,558,981</u>
Revenues over (under) expenditures	<u>(3,922,900)</u>	<u>(1,181,875)</u>	<u>(1,154,319)</u>	<u>(2,336,194)</u>	<u>1,586,706</u>
Other financing sources (uses):					
Transfers from other funds	222,900	-	254,000	254,000	31,100
Transfers to other funds	-	-	(110,583)	(110,583)	(110,583)
Installment purchase obligations issued	3,700,000	1,700,000	1,850,000	3,550,000	(150,000)
Total other financing sources	<u>3,922,900</u>	<u>1,700,000</u>	<u>1,993,417</u>	<u>3,693,417</u>	<u>(229,483)</u>
Revenues and other sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 518,125</u>	<u>839,098</u>	<u>\$ 1,357,223</u>	<u>\$ 1,357,223</u>
Fund balance, beginning of year			<u>518,125</u>		
Fund balance, end of year			<u>\$ 1,357,223</u>		

GRANTS PROJECTS FUND

The Grants Projects Fund is established to account for the expenditure of grant funds related to community projects.

POLK COUNTY, NORTH CAROLINA

*Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Grant Projects Fund*

From Inception and for the Year Ended June 30, 2011

	<u>Project Authorization</u>	<u>Reported in Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Variance Positive (Negative)</u>
REVENUES:					
Restricted intergovernmental:					
Community development grant	\$ 800,000	\$ 623,862	\$ 163,137	\$ 786,999	\$ 13,001
Clean water management trust	274,000	-	245,439	245,439	28,561
North Carolina natural heritage trust	200,000	7,000	180,000	187,000	13,000
Parks and recreation trust	500,000	-	367,877	367,877	132,123
Other restricted intergovernmental	21,237	-	-	-	21,237
Private grants	68,000	-	61,394	61,394	6,606
Donated land value	377,500	-	377,500	377,500	-
Total revenues	<u>2,240,737</u>	<u>630,862</u>	<u>1,395,347</u>	<u>2,026,209</u>	<u>214,528</u>
EXPENDITURES:					
Economic and physical development:					
Scattered Sites	821,237	623,862	163,137	786,999	34,238
Cultural and recreational:					
Alexander's Ford project	1,419,500	7,000	1,232,210	1,239,210	180,290
Total expenditures	<u>2,240,737</u>	<u>630,862</u>	<u>1,395,347</u>	<u>2,026,209</u>	<u>214,528</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			-		
Fund balance, end of year			<u>\$ -</u>		

MAJOR PROPRIETARY FUNDS ENTERPRISE FUNDS

Enterprise funds are used to account for revenues resulting primarily from charges for services provided to the general public and the related costs of such services. The County maintains the following enterprise fund:

Major Enterprise Funds

- Solid Waste Fund – This fund accounts for the revenues and expenses associated with operating the County’s solid waste transfer station.
 - Water Fund – This fund accounts for waterlines and related assets, as well as user fees and expenses associated with County water service.
-

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Solid Waste Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Charges for services		\$ 1,185,595	
Restricted intergovernmental:			
State grant		267,995	
Local grant		-	
Total revenues	\$ 1,328,211	1,453,590	\$ 174,101
 EXPENDITURES:			
Administration		186,902	
Transfer station operations		849,927	
Closure and postclosure care		47,968	
Capital outlay		12,728	
Principal payments on debt		3,629	
Interest		11,563	
Total expenditures	1,328,211	1,112,717	215,494
 Revenues under expenditures	\$ -	340,873	\$ 340,873
 Reconciliation from modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(75,577)	
Principal payment on debt		3,629	
Capital outlay		12,109	
Change in net assets		\$ 281,034	

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Water Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Charges for services		\$ 37,878	
Water taps		135,753	
Miscellaneous		21,667	
	\$ 32,000	195,298	\$ 27,545
EXPENDITURES:			
Administration		32,978	
Capital outlay		254,110	
Total expenditures	32,000	287,088	(978)
Revenues under expenditures	-	(91,790)	(91,790)
OTHER FINANCING SOURCES (USES):			
Transfers from other funds		252,070	
Transfers to other funds		-	
Total other financing sources	-	252,070	252,070
Revenues and other sources over expenditures	\$ -	160,280	\$ 160,280
Reconciliation from modified accrual to full accrual basis:			
Capital outlay		254,110	
Depreciation		(111,961)	
Change in net assets		\$ 302,429	

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

- Fire District Fund – This fund is established to account for the ad valorem tax levies of the six fire districts in Polk County.
- Tourism Development Fund – This fund is established to account for the occupancy taxes collected from motels in the County.
- Emergency Telephone System Fund – This fund is established to account for the accumulation of funds used to operate the 911 Emergency Service operations.

Debt Service Fund

- Debt Service Fund – This fund is established to set aside resources to pay principal on the “Qualified Zone Academy Bond” (QZAB) agreement.

Internal Service Fund

- Self Insurance Fund – This fund is used to account for the accumulation and allocation of costs associated with employees’ health care.
-

POLK COUNTY, NORTH CAROLINA

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2011

	Special Revenue Funds					
	Fire District Fund	Tourism Development Fund	Emergency Telephone System Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 17,566	\$ 21,492	\$ 402,402	\$ 441,460	\$ -	\$ 441,460
Cash with fiscal agent	-	-	-	-	626,372	626,372
Taxes receivable, net	56,599	-	-	56,599	-	56,599
Accounts receivable	-	6,861	19,321	26,182	-	26,182
Total assets	\$ 74,165	\$ 28,353	\$ 421,723	\$ 524,241	\$ 626,372	\$ 1,150,613
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 14,883	\$ 10,996	\$ 1,201	\$ 27,080	\$ -	\$ 27,080
Unearned revenues	2,683	-	-	2,683	-	2,683
Deferred revenues	56,599	-	-	56,599	-	56,599
Total liabilities	74,165	10,996	1,201	86,362	-	86,362
Fund Balances:						
Restricted:						
Stabilization by State Statute	-	6,861	19,321	26,182	-	26,182
Tourism	-	10,496	-	10,496	-	10,496
School debt service	-	-	-	-	626,372	626,372
Emergency Communication	-	-	401,201	401,201	-	401,201
Total fund balances	-	17,357	420,522	437,879	626,372	1,064,251
Total liabilities and fund balances	\$ 74,165	\$ 28,353	\$ 421,723	\$ 524,241	\$ 626,372	\$ 1,150,613

POLK COUNTY, NORTH CAROLINA

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds*

For the Year Ended June 30, 2011

	Special Revenue Funds					
	Fire District Fund	Tourism Development Fund	Emergency Telephone System Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:						
Ad valorem taxes	\$ 1,135,619	\$ -	\$ -	\$ 1,135,619	\$ -	\$ 1,135,619
Other taxes	-	62,645	231,854	294,499	-	294,499
Investment earnings	-	-	1,043	1,043	15,737	16,780
Total revenues	1,135,619	62,645	232,897	1,431,161	15,737	1,446,898
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	1,135,619	-	260,717	1,396,336	-	1,396,336
Economic and physical developmer	-	116,550	-	116,550	-	116,550
Total expenditures	1,135,619	116,550	260,717	1,512,886	-	1,512,886
Revenues over (under) expenditures	-	(53,905)	(27,820)	(81,725)	15,737	(65,988)
OTHER FINANCING SOURCES (USES):						
Transfers from other fund	-	53,905	-	53,905	95,706	149,611
Transfers to other fund:	-	-	-	-	-	-
Total other financing sources (uses)	-	53,905	-	53,905	95,706	149,611
Net change in fund balance	-	-	(27,820)	(27,820)	111,443	83,623
Fund balances, beginning of year	-	17,357	448,342	465,699	514,929	980,628
Fund balances, end of year	\$ -	\$ 17,357	\$ 420,522	\$ 437,879	\$ 626,372	\$ 1,064,251

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Fire District Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Ad valorem taxes:			
Taxes		\$ 1,128,063	
Penalties and interest		7,556	
Total revenues	\$ 1,137,264	1,135,619	\$ (1,645)
EXPENDITURES:			
Public safety:			
Sunny View Fire Department		288,441	
Green Creek Fire Department		180,646	
Tryon Fire Department		137,300	
Saluda Fire Department		113,108	
Mill Springs Fire Department		160,346	
Columbus Fire Department		255,778	
Total expenditures	1,137,264	1,135,619	1,645
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		-	
Fund balance, end of year		\$ -	

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Tourism Development Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Occupancy tax	\$ 64,000	\$ 62,645	\$ (1,355)
EXPENDITURES:			
Current:			
Economic and physical development:			
Travel		2,400	
Contracted services		3,539	
Administration		110,611	
Total expenditures	119,697	116,550	3,147
Revenues under expenditures	(55,697)	(53,905)	1,792
OTHER FINANCING SOURCES:			
Transfers from other funds	55,697	53,905	(1,792)
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning of year		17,357	
Fund balance, end of year		\$ 17,357	

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Emergency Telephone System Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Other taxes	\$ 211,500	\$ 231,854	\$ 20,354
Investment earnings	-	1,043	1,043
	211,500	232,897	21,397
EXPENDITURES:			
Current:			
Public safety	277,700	260,717	16,983
Revenues under expenditures	(66,200)	(27,820)	38,380
OTHER FINANCING SOURCES (USES):			
Appropriated fund balance	66,200	-	(66,200)
Designated Fund Balance	-	-	-
Transfer to other funds	-	-	-
Total other financing sources (uses)	66,200	-	(66,200)
Net change in fund balance	\$ -	(27,820)	\$ (27,820)
Fund balance, beginning of year		448,342	
Fund balance, end of year		\$ 420,522	

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Debt Service Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ -	\$ 15,737	\$ 15,737
EXPENDITURES:			
Debt Service - principal	95,706	-	95,706
Revenues over (under) expenditures	(95,706)	15,737	111,443
OTHER FINANCING SOURCES:			
Transfers from other funds	95,706	95,706	-
Net change in fund balance	\$ -	111,443	\$ 111,443
Fund balance, beginning of year		514,929	
Fund balance, end of year		\$ 626,372	

POLK COUNTY, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Self-Insurance Fund

For the Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
REVENUES:			
Employee contributions	\$ 1,096,092	\$ 1,070,205	\$ (25,887)
EXPENDITURES:			
Claims		932,391	57,679
Administration fees		86,955	198,200
Total expenditures	1,275,225	1,019,346	255,879
Revenues over (under) expenditures	(179,133)	50,859	229,992
OTHER FINANCING SOURCES:			
Appropriated fund balance	179,133	-	(179,133)
Revenues and other sources over expenditures	\$ -	\$ 50,859	\$ 50,859

AGENCY FUNDS

Agency Funds are used to account for the assets held by the County as an agent for individuals, private organizations, and/or other governmental entities. The County's Agency Funds are used to account for funds deposited with the Social Services Fund, the Property Tax Fund, the Fines and Forfeitures Fund and Other Agency Funds.

POLK COUNTY, NORTH CAROLINA

Combining Statement of Changes in Fiduciary Assets and Liabilities Agency Funds

For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
Social Services Fund:				
Cash and cash equivalents	\$ 62,302	\$ 131,114	\$ 135,570	\$ 57,846
Due to others	\$ 62,302	\$ 131,114	\$ 135,570	\$ 57,846
Property Tax Fund:				
Cash and cash equivalents	\$ 13,263	\$ 936,386	\$ 936,122	\$ 13,527
Due to other governments	\$ 13,263	\$ 936,386	\$ 936,122	\$ 13,527
Fines and Forfeitures Fund:				
Cash and cash equivalents	\$ 664	\$ 139,960	\$ 139,942	\$ 682
Due to Polk County Schools	-	129,961	129,961	-
Due to the State of North Carolina	664	9,999	9,981	682
	\$ 664	\$ 139,960	\$ 139,942	\$ 682
Other Agency Funds:				
Cash and cash equivalents	\$ 41,858	\$ 174,506	\$ 132,898	\$ 83,466
Due to others	\$ 41,858	\$ 174,506	\$ 132,898	\$ 83,466
Total:				
Cash and cash equivalents	\$ 118,087	\$ 1,381,966	\$ 1,344,532	\$ 155,521
Due to others	\$ 104,160	\$ 305,620	\$ 268,468	\$ 141,312
Due to other governments	13,263	936,386	936,122	13,527
Due to Polk County Schools	-	129,961	129,961	-
Due to the State of North Carolina	664	9,999	9,981	682
	\$ 118,087	\$ 1,381,966	\$ 1,344,532	\$ 155,521

OTHER SUPPLEMENTARY INFORMATION

The other supplementary information section is used to present various other data not included in other sections of the comprehensive annual financial report.

POLK COUNTY, NORTH CAROLINA

Schedule of Ad Valorem Taxes Receivable General Fund

June 30, 2011

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections and Credits	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 14,234,123	\$ 13,759,104	\$ 475,019
2009-2010	524,717	-	330,086	194,631
2008-2009	195,963	-	153,164	42,799
2007-2008	37,726	-	18,542	19,184
2006-2007	25,788	-	14,268	11,520
2005-2006	20,461	-	12,316	8,145
2004-2005	19,412	-	11,666	7,746
2003-2004	5,369	-	835	4,534
2002-2003	1,625	-	-	1,625
2001-2002	1,992	-	-	1,992
2000-2001	3,252	-	3,252	-
Total	<u>\$ 836,305</u>	<u>\$ 14,234,123</u>	<u>\$ 14,303,233</u>	767,195
Less allowance for uncollectible ad valorem taxes receivable				(80,000)
Ad valorem taxes receivable, net				\$ 687,195
Reconciliation with Revenues:				
Taxes - Ad valorem - General Fund				\$ 14,257,243
Reconciling items:				
Discounts allowed				(149,750)
Penalties and interest				125,241
Taxes written off				(3,252)
Fees collected				19,121
Other adjustments				54,630
Total reconciling items				45,990
Total collections and credits				\$ 14,303,233

POLK COUNTY, NORTH CAROLINA

Analysis of Current Year County-Wide Tax Levy

For the Year Ended June 30, 2011

	County Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxes at current year's rate	\$ 2,682,588,892	\$ 0.52	\$ 13,949,462	\$ 13,138,669	\$ 810,793
Utilities at current year's rate	64,303,714	0.52	334,379	334,379	-
Total	2,746,892,606		14,283,841	13,473,048	810,793
Discoveries:					
Current year taxes	39,685,748	0.52	162,851	160,511	2,340
Abatements	(51,072,377)		(212,569)	(193,244)	(19,325)
Net Levy	\$ 2,735,505,977		14,234,123	13,440,315	793,808
Uncollected Taxes at 6/30/11			475,019	382,069	92,950
Current Year's Taxes Collected			\$ 13,759,104	\$ 13,058,246	\$ 700,858
Current Levy Collection %			96.66%	97.16%	88.29%

STATISTICAL SECTION

This part of Polk County's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information say about the County's overall financial condition. The schedules included in this section can be categorized as follows:

Financial Trends

These schedules contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the County's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the County's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the County's financial report relates to the services the County provides and the activities it performs.

POLK COUNTY, NORTH CAROLINA

Net Assets by Category

Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u> ⁽¹⁾	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u> ⁽²⁾	<u>2010</u>	<u>2011</u>
Governmental activities:									
Invested in capital assets, net of related debt	\$ 4,193,542	\$ 6,199,283	\$ 7,596,271	\$ 9,968,179	\$ 11,205,743	\$ 14,896,379	\$ 12,807,648	\$ 19,242,095	\$ 16,076,619
Restricted	37,534	-	-	96,740	196,009	299,847	897,428	514,929	3,359,835
Unrestricted	641,126	1,981,866	(4,615,492)	(7,266,125)	(5,003,910)	(3,436,761)	(3,471,180)	(5,965,030)	-
Unassigned ⁽³⁾									(1,239,021)
Total governmental activities net assets	4,872,202	8,181,149	2,980,779	2,798,794	6,397,842	11,759,465	10,233,896	13,791,994	18,197,433
Business-type activities:									
Invested in capital assets, net of related debt	-	-	918,876	1,537,093	1,648,808	1,694,826	7,035,005	8,945,463	9,027,773
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	249,109	330,790	470,646	352,413	1,421,280	172,796	-
Unassigned	-	-	-	-	-	-	-	-	673,949
Total business-type activities net assets	-	-	1,167,985	1,867,883	2,119,454	2,047,239	8,456,285	9,118,259	9,701,722
Primary government:									
Invested in capital assets, net of related debt	4,193,542	6,199,283	8,515,147	11,505,272	12,854,551	16,591,205	19,842,653	28,187,558	25,104,392
Restricted	37,534	-	-	96,740	196,009	299,847	897,428	514,929	3,359,835
Unrestricted	641,126	1,981,866	(4,366,383)	(6,935,335)	(4,533,264)	(3,084,348)	(2,049,900)	(5,792,234)	-
Unassigned									(565,072)
Total primary government net assets	\$ 4,872,202	\$ 8,181,149	\$ 4,148,764	\$ 4,666,677	\$ 8,517,296	\$ 13,806,704	\$ 18,690,181	\$ 22,910,253	\$ 27,899,155

NOTE Polk County began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003. Data is not available prior to that date.

NOTE Business-type activities increased in 2005 as it was the first year of operation for the solid waste activities, and in 2009 as it was the first year for water activities.

⁽¹⁾ Decrease in governmental activities net assets caused by various construction projects for the benefit of other organizations

⁽²⁾ Increase in business type activities net assets due to the investment in county-owned water lines.

⁽³⁾ Polk County began to report these classifications of net assets when it implemented GASB Statement 54 in fiscal year 2011.

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Revenues, expenses, and changes in net assets

Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities									
Program revenues:									
Charges for services:									
General government ⁽²⁾	\$ 282,180	\$ 376,841	\$ 357,700	\$ 453,077	\$ 462,656	\$ 1,356,198	\$ 864,488	\$ 832,957	\$ 1,180,459
Public safety	1,580,358	792,620	923,886	994,257	1,286,115	695,145	763,734	746,571	655,485
Economic and physical development	93,460	59,317	52,906	88,532	76,016	25,292	9,194	-	-
Environmental protection	356,276	408,729	-	-	-	-	-	-	-
Human services	272,943	453,050	458,062	491,807	517,592	243,765	255,638	250,656	230,731
Cultural and recreational	50,699	96,561	96,101	106,933	133,995	92,965	92,667	131,766	104,203
Education	-	-	-	-	-	-	-	-	-
Operating grants and contributions ⁽¹⁾	4,873,803	3,904,284	3,177,132	7,069,648	2,814,944	2,888,791	3,029,342	3,250,918	3,210,156
Capital grants and contributions	214,857	715,000	1,033,332	176,460	538,727	71,008	956,449	25,000	1,395,348
<i>Total program revenues</i>	<u>7,724,576</u>	<u>6,806,402</u>	<u>6,099,119</u>	<u>9,380,714</u>	<u>5,830,045</u>	<u>5,373,164</u>	<u>5,971,512</u>	<u>5,237,868</u>	<u>6,776,382</u>
Expenses:									
General government	1,725,494	2,211,282	9,950,237	6,009,088	2,532,464	2,603,109	2,897,048	2,597,039	2,564,394
Public safety	3,558,116	3,932,861	4,525,259	4,768,308	4,926,153	4,703,673	5,000,699	5,130,053	5,400,531
Economic and physical development ⁽³⁾	553,997	994,463	569,652	3,024,079	785,382	669,407	733,884	1,016,720	919,265
Environmental protection	531,290	410,687	-	-	-	-	-	-	-
Human services	3,525,963	3,919,443	4,371,574	5,134,463	5,108,467	4,772,975	4,687,695	4,259,428	4,366,981
Cultural and recreational	875,958	977,001	1,057,652	1,190,696	1,531,015	1,395,294	1,712,737	922,727	1,414,145
Education	5,647,619	6,704,858	4,455,323	5,326,731	5,733,765	4,933,837	7,957,032	4,663,770	4,759,096
Interest on long-term debt	391,105	505,891	1,014,287	1,036,483	940,279	839,020	754,146	663,762	526,997
<i>Total program expenses</i>	<u>16,809,542</u>	<u>19,656,486</u>	<u>25,943,984</u>	<u>26,489,848</u>	<u>21,557,525</u>	<u>19,917,315</u>	<u>23,743,241</u>	<u>19,253,499</u>	<u>19,951,409</u>
<i>Net (expense)/revenue</i>	<u>\$ (9,084,966)</u>	<u>\$ (12,850,084)</u>	<u>\$ (19,844,865)</u>	<u>\$ (17,109,134)</u>	<u>\$ (15,727,480)</u>	<u>\$ (14,544,151)</u>	<u>\$ (17,771,729)</u>	<u>\$ (14,015,631)</u>	<u>\$ (13,175,027)</u>
General revenues and other changes in net assets:									
Taxes									
Property taxes	\$ 8,639,115	\$ 10,543,238	\$ 10,719,927	\$ 12,678,758	\$ 13,568,221	\$ 14,110,976	\$ 14,799,647	\$ 15,371,932	\$ 15,293,427
Local option sales tax	1,736,133	2,901,385	3,305,911	3,348,117	3,644,492	3,811,698	3,064,046	2,207,319	2,050,123
Other taxes	251,041	1,011,308	1,123,127	997,535	913,449	297,863	306,828	298,009	294,499
Investment earnings, unrestricted	94,477	108,699	383,640	576,181	705,771	690,768	287,194	56,921	42,466
Miscellaneous, unrestricted	22,290	68,672	51,780	183,230	661,264	809,899	434,348	263,917	152,021
Loss on sale of assets	-	-	-	(337,731)	-	-	-	-	-
Appropriated fund balance	-	-	-	-	-	-	-	-	-
Transfers	-	-	(939,890)	(518,941)	(166,669)	(15,430)	(2,645,903)	(624,369)	(252,070)
<i>Total general revenues</i>	<u>10,743,056</u>	<u>14,633,302</u>	<u>14,644,495</u>	<u>16,927,149</u>	<u>19,326,528</u>	<u>19,705,774</u>	<u>16,246,160</u>	<u>17,573,729</u>	<u>17,580,466</u>
<i>Change in net assets</i>	<u>\$ 1,658,090</u>	<u>\$ 1,783,218</u>	<u>\$ (5,200,370)</u>	<u>\$ (181,985)</u>	<u>\$ 3,599,048</u>	<u>\$ 5,161,623</u>	<u>\$ (1,525,569)</u>	<u>\$ 3,558,098</u>	<u>\$ 4,405,439</u>

continued on next page

POLK COUNTY, NORTH CAROLINA

Revenues, expenses, and changes in net assets (continued)

Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Business-type activities									
Program revenues:									
Charges for services:									
Solid waste	N/A	N/A	\$ 813,396	\$ 1,069,770	\$ 1,246,368	\$ 1,307,658	\$ 1,185,218	\$ 1,166,548	\$ 1,185,595
Water	N/A	N/A	N/A	N/A	N/A	N/A	19,200	255,825	59,545
Water capital projects	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	135,753
Capital grants and contributions	N/A	N/A	N/A	N/A	N/A	N/A	4,030,000	21,667	267,995
<i>Total program revenues</i>	N/A	N/A	813,396	1,069,770	1,246,368	1,307,658	5,234,418	1,444,040	1,648,888
Expenses:									
Solid waste	N/A	N/A	585,301	888,813	1,161,466	1,395,303	1,367,129	1,194,725	1,172,556
Water	N/A	N/A	N/A	N/A	N/A	N/A	104,146	211,710	144,939
<i>Total program expenses</i>	N/A	N/A	585,301	888,813	1,161,466	1,395,303	1,471,275	1,406,435	1,317,495
Net (expense)/revenue	N/A	N/A	228,095	180,957	84,902	(87,645)	3,763,143	37,605	331,393
Transfers	N/A	N/A	939,890	518,941	166,669	15,430	2,645,903	624,369	252,070
Change in net assets	N/A	N/A	1,167,985	699,898	251,571	(72,215)	6,409,046	661,974	583,463
Primary government									
Program revenues	7,724,576	6,806,402	6,912,515	10,450,484	7,076,413	6,680,822	11,205,930	6,681,908	8,425,270
Expenses	16,809,542	19,656,486	26,529,285	27,378,661	22,718,991	21,312,618	25,214,516	20,659,934	21,268,904
Net (expense)/revenue	(9,084,966)	(12,850,084)	(19,616,770)	(16,928,177)	(15,642,578)	(14,631,796)	(14,008,586)	(13,978,026)	(12,843,634)
General revenues and other changes in net assets	10,743,056	14,633,302	15,584,385	17,446,090	19,493,197	19,721,204	18,892,063	18,198,098	17,832,536
Change in net assets	\$ 1,658,090	\$ 1,783,218	\$ (4,032,385)	\$ 517,913	\$ 3,850,619	\$ 5,089,408	\$ 4,883,477	\$ 4,220,072	\$ 4,988,902

NOTE Polk County began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003. Data is not available prior to that date.

NOTE 2005 was the first year of operation for the solid waste activities, and 2009 was the first year for water activities.

- (1) 2006 increase in operating grants and contributions due to Emergency Watershet Protection Grant Project
- (2) Increases in 2005 and 2006 due to construction activity on the Community Campus project.
- (3) 2006 increase in operating grants and contributions due to Emergency Watershet Protection Grant Project
- (4) The decrease in change in net assets in 2005 is a result of various construction projects for the benefit of other organizations.

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Fund Balances - Governmental Funds

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General fund:										
Reserved	\$ 1,067,851	\$ 1,174,845	\$ 895,840	\$ 941,597	\$ 1,022,204	\$ 995,302	\$ 1,010,102	\$ 947,259	\$ 727,136	N/A
Restricted:										
Stabilization by State Statute	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 1,137,887
Tax Revaluation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	682,465
Subsequent year's expenditure	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	79,820
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6,044,488
Unreserved	2,997,824	4,283,142	4,755,017	5,558,675	6,244,808	7,276,793	7,679,650	6,107,233	7,058,899	-
Total General Fund	\$ 4,065,675	\$ 5,457,987	\$ 5,650,857	\$ 6,500,272	\$ 7,267,012	\$ 8,272,095	\$ 8,689,752	\$ 7,054,492	\$ 7,786,035	\$ 7,944,660
Other governmental funds:										
Reserved	\$ 31,563	\$ 31,290	\$ 23,339	\$ 29,849	\$ 142,344	\$ 248,692	\$ 344,628	\$ 433,505	\$ 548,126	N/A
Unreserved, reported in:										
Special revenue funds	673,945	421,895	1,577,507	1,005,369	1,264,791	1,151,573	865,333	1,000,878	1,148,062	N/A
Capital projects fund	-	-	11,362,943	9,525,666	1,377,977	975,451	1,156,247	914,602	331,799	N/A
Restricted:										
Stabilization by State Statute	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 395,670
Emergency communication services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	414,260
Construction of new buildings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	775,150
Tourism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,496
School debt service	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	626,372
Committed:										
Tax revaluation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	682,465
Dam repair	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	210,000
Vehicles	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	54,000
Communications	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	112,713
Assigned:										
Subsequent year's expenditures	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	192,301
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(182,800)
Total other funds	\$ 705,508	\$ 453,185	\$ 12,963,789	\$ 10,560,884	\$ 2,785,112	\$ 2,375,716	\$ 2,366,208	\$ 2,348,985	\$ 2,027,987	\$ 3,290,627

Note: GASB Statement # 54 established new fund balance classifications, effective for 2011.

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues:										
Property taxes	\$ 9,167,629	\$ 9,279,261	\$ 10,707,374	\$ 10,711,057	\$ 12,724,098	\$ 13,594,600	\$ 13,957,504	\$ 14,882,777	\$ 15,124,648	\$ 15,392,862
Local option sales taxes							3,811,698	3,064,046	2,207,319	2,050,123
Other taxes	3,544,366	2,734,103	3,167,330	3,581,773	3,643,853	3,943,952	297,863	306,828	298,009	294,499
Unrestricted intergovernmental	-	-	589,788	742,918	385,050	362,634	687,581	415,750	458,065	821,630
Restricted intergovernmental	2,217,229	4,161,345	4,414,605	3,223,590	5,834,283	3,174,901	2,959,799	3,985,792	3,275,917	4,605,504
Permits and fees	461,119	614,234	584,426	747,943	681,463	705,528	529,134	321,011	275,786	248,561
Sales and services	1,069,049	1,151,927	1,125,112	720,685	846,101	1,101,903	1,196,650	1,248,960	1,228,099	1,100,687
Investment earnings	135,176	94,477	82,895	383,640	576,181	705,771	690,768	287,194	56,921	42,466
Miscellaneous ⁽¹⁾	1,112	309,163	257,258	487,222	1,781,877	904,674	809,899	434,348	263,917	152,021
Total revenues	16,595,680	18,344,510	20,928,788	20,598,828	26,472,906	24,493,963	24,940,896	24,946,706	23,188,681	24,708,353
Expenditures:										
General government	1,648,347	1,539,137	1,870,111	2,317,990	2,270,502	2,238,115	2,448,377	2,408,644	2,322,946	2,307,926
Public safety	3,093,151	3,353,499	3,921,187	4,256,003	4,464,257	4,892,700	4,807,317	5,043,502	5,021,443	5,413,393
Economic and physical development	336,867	549,220	1,019,284	492,543	3,144,470	739,736	675,773	738,915	1,026,375	919,971
Environmental protection	491,537	523,249	491,569	-	-	-	-	-	-	-
Human services	3,766,044	3,458,189	3,819,693	4,341,356	4,870,201	4,804,274	4,701,856	4,766,281	4,098,286	4,599,715
Cultural and recreational	501,472	845,256	992,450	1,875,547	1,078,858	1,333,518	1,530,732	1,566,221	1,256,085	2,475,080
Education	3,735,895	5,647,619	5,318,027	4,455,323	4,074,431	4,214,508	4,933,837	6,052,088	4,736,505	4,759,096
Capital projects	-	51,642	3,408,014	9,551,954	9,681,846	2,136,091	2,347,900	1,687,648	576,650	1,209,750
Debt service:										
Principal	1,407,796	1,408,913	1,575,494	2,217,000	3,378,432	2,419,773	2,222,443	2,633,357	2,945,425	3,540,000
Interest	-	-	-	1,002,543	-	952,892	849,082	756,632	663,610	529,240
Total Expenditures	14,981,109	17,376,724	22,415,829	30,510,259	32,962,997	23,731,607	24,517,317	25,653,288	22,647,325	25,754,171
Other financing sources (uses):										
Transfers from other funds	353,864	349,162	1,695,410	1,101,519	655,774	1,310,811	4,594,492	729,117	410,261	514,194
Transfers to other funds	(612,106)	(547,162)	(1,695,410)	(1,987,578)	(1,174,715)	(1,477,480)	(4,609,922)	(3,375,020)	(541,074)	(766,264)
Debt issuance	116,484	87,687	14,190,515	9,244,000	-	-	-	1,700,000	-	1,850,000
Total other financing sources (uses)	(141,758)	(110,313)	14,190,515	8,357,941	(518,941)	(166,669)	(15,430)	(945,903)	(130,813)	1,597,930
Net change in fund balances	\$ 1,472,813	\$ 857,473	\$ 12,703,474	\$ (1,553,490)	\$ (7,009,032)	\$ 595,687	\$ 408,149	\$ (1,652,485)	\$ 410,543	\$ 552,112
Debt service as a percentage of expenditures	10.4%	8.9%	9.0%	18.1%	17.0%	18.5%	16.1%	16.5%	19.5%	19.9%

⁽¹⁾ Increase in 2006 due to contributions received in the Capital Projects Fund for the library construction project

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years
(in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Real property	\$ 1,049,501	\$ 1,525,241	\$ 1,588,160	\$ 1,611,091	\$ 1,667,509	\$ 1,700,426	\$ 1,740,118	\$ 1,931,780	\$ 2,691,983	\$ 2,731,694
Personal property	199,906	219,396	210,181	210,307	217,259	254,994	301,994	180,435	161,911	155,922
Public service companies	37,101	49,525	49,591	49,552	39,916	46,072	47,030	42,825	71,821	64,304
Less tax exempt property	-	(206,139)	(189,504)	(180,755)	(178,733)	(143,697)	(144,517)	(150,225)	(189,654)	(216,414)
Total taxable assessed value	\$ 1,286,508	\$ 1,588,023	\$ 1,658,428	\$ 1,690,195	\$ 1,745,951	\$ 1,857,795	\$ 1,944,625	\$ 2,004,815	\$ 2,736,061	\$ 2,735,506
Total direct tax rate	0.5376	0.5376	0.5876	0.5876	0.6800	0.6800	0.6800	0.6800	0.5200	0.5200

NOTE Assesseed valuations are established by the Board of County Comissioners at 100% of estimated market value. A revaluation of real property is required by the NC General Statutes at least every eight years. The last revaluation was completed in 2009. Tax rates are per \$100 of assessed value.

(2) Prior to 2003, the exempt values were netted against the real property values.

N/A Information not available

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years (rate per \$100 of assessed value)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
County direct rates:										
General	0.5376	0.5376	0.5876	0.5876	0.6800	0.6800	0.6800	0.6800	0.5200	0.5200
Harmon Field	0.0276	0.0276	0.0376	0.0376	0.0426	0.0426	0.0426	0.0426	0.0350	0.0350
City and town rates										
Saluda	0.5000	0.5000	0.5000	0.5000	0.5400	0.5400	0.6200	0.6200	0.5050	0.5050
Columbus	0.2800	0.3400	0.3500	0.4000	0.4500	0.4500	0.4500	0.4500	0.3900	0.3900
Tryon	0.5800	0.6375	0.6375	0.6275	0.6175	0.6175	0.6175	0.6175	0.5258	0.5258
Fire district rates										
Saluda	0.0700	0.0900	0.0900	0.0900	0.0900	0.0900	0.0900	0.0900	0.0650	0.0650
Sunnyview	0.0800	0.0800	0.0875	0.0875	0.0875	0.0875	0.0875	0.0875	0.0600	0.0600
Mill Spring	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0700	0.0700	0.0500	0.0500
Green Creek	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0410	0.0410
Tryon	0.0575	0.0575	0.0575	0.0575	0.0575	0.0575	0.0575	0.0575	0.0480	0.0480
Columbus	0.0400	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0400	0.0400
School district rates										
Saluda	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300	0.0300

Source: Polk County Tax Department

POLK COUNTY, NORTH CAROLINA

Principal Property Tax Payers

Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>2011</u>			<u>2002</u>		
	<u>Taxable assessed value</u>	<u>Rank</u>	<u>Percentage of total county taxable assessed value</u>	<u>Taxable assessed value</u>	<u>Rank</u>	<u>Percentage of total county taxable assessed value</u>
Bright's Creek Holdings	\$ 55,547,074	1	20.31%	\$ -		-
Adult Communities Total Services	49,036,758	2	17.93%	42,490,321	1	33.03%
Duke Power	22,211,522	3	8.12%	15,239,814	2	11.85%
Rutherford Electric Membership Corp.	17,070,593	4	6.24%	9,085,298	4	7.06%
Tryon Investment Properties	11,727,264	5	4.29%			
White Oak Development	11,341,634	6	4.15%			
Windstream NC Inc	10,334,978	7	3.78%			
Public Service Co. of NC	10,025,379	8	3.66%			
Byana LLC	9,328,861	9	3.41%			
Travis Oates LLC	7,574,566	10	2.77%			
Hatch Mill, Division of Milliken	-		-	8,675,397	5	6.74%
Alltel Carolina Inc	-		-	11,482,314	3	8.93%
Champion International	-		-	2,014,860	10	1.57%
White Oak Manor Inc.	-		-	5,578,980	7	4.34%
Home Realty and Insurance Co.	-		-	4,129,610	8	3.21%
Lake Adger Developers	-		-	6,283,022	6	4.88%
Story, Jack and Louise	-		-	2,906,034	9	2.26%
Total	<u>\$ 204,198,629</u>		<u>74.65%</u>	<u>\$ 107,885,650</u>		<u>83.86%</u>

Source: Polk County Tax Department

POLK COUNTY, NORTH CAROLINA

Property Tax Levies and Collections

Last Ten Fiscal Years
(In Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Taxes levied for the year	\$ 7,592	\$ 8,682	\$ 9,723	\$ 9,953	\$ 11,898	\$ 12,669	\$ 13,350	\$ 13,713	\$ 14,225	\$ 14,234
Collected within the fiscal year of the levy:										
Amount	\$ 7,344	\$ 8,196	\$ 9,332	\$ 9,512	\$ 11,514	\$ 12,376	\$ 12,999	\$ 13,284	\$ 13,700	\$ 13,759
Percentage	97%	94%	96%	96%	97%	98%	97%	97%	96%	97%
Current uncollected balance	\$ 2	\$ 2	\$ 5	\$ 8	\$ 8	\$ 12	\$ 19	\$ 43	\$ 195	\$ 475
Collection in subsequent years	\$ 246	\$ 484	\$ 386	\$ 433	\$ 376	\$ 281	\$ 332	\$ 386	\$ 330	\$ -
Total collections to date:										
Amount	\$ 7,590	\$ 8,680	\$ 9,718	\$ 9,945	\$ 11,890	\$ 12,657	\$ 13,331	\$ 13,670	\$ 14,030	\$ 13,759
Percentage	99.97%	99.98%	99.95%	99.92%	99.93%	99.91%	99.86%	99.69%	98.63%	96.66%

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities:										
General obligation bonds	\$ 6,610,000	\$ 5,835,000	\$ 5,070,000	\$ 4,315,000	\$ 3,570,000	\$ 2,835,000	\$ 2,110,000	\$ 1,395,000	\$ -	\$ -
Installment purchases	1,725,935	1,329,962	15,122,951	22,904,951	21,324,035	19,639,262	18,142,353	17,923,998	16,383,998	14,694,000
Capital leases	-	-	-	-	-	-	286,302	232,052	175,310	115,961
Total governmental activities	8,335,935	7,164,962	20,192,951	27,219,951	24,894,035	22,474,262	20,538,655	19,551,050	16,559,308	14,809,961
Business-type activities:										
Installment purchases	-	-	-	278,971	242,797	204,781	201,550	197,920	194,290	190,661
Total primary government	\$ 8,335,935	\$ 7,164,962	\$ 20,192,951	\$ 27,498,922	\$ 25,136,832	\$ 22,679,043	\$ 20,740,205	\$ 19,748,970	\$ 16,753,598	\$ 15,000,622
Total debt as a percent of personal income	1.42%	1.23%	3.30%	3.95%	3.50%	2.94%	2.72%	N/A	N/A	N/A
Total debt per capita	\$ 443	\$ 380	\$ 1,068	\$ 1,447	\$ 1,309	\$ 1,178	\$ 1,069	\$ 1,038	\$ 866	\$ 729
Percentage of bonded debt to estimated actual property value	0.51%	0.30%	0.26%	0.20%	0.16%	0.12%	0.09%	0.05%	0.00%	0.00%
Bonded debt per capita	\$ 351	\$ 309	\$ 268	\$ 227	\$ 186	\$ 147	\$ 109	\$ 73	\$ -	\$ -

N/A Information not available

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Legal Debt Margin Information

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt limit	\$102,920,889	\$128,550,843	\$131,265,520	\$135,215,628	\$139,676,069	\$148,623,578	\$155,569,990	\$160,385,230	\$ 218,884,896	\$ 219,751,408
Total debt applicable to limit	6,610,000	5,835,000	5,070,000	4,315,000	3,750,000	2,835,000	2,110,000	19,551,050	16,559,308	14,809,961
Legal debt margin	<u>\$ 96,310,889</u>	<u>\$122,715,843</u>	<u>\$126,195,520</u>	<u>\$130,900,628</u>	<u>\$135,926,069</u>	<u>\$145,788,578</u>	<u>\$153,459,990</u>	<u>\$140,834,180</u>	<u>\$ 202,325,588</u>	<u>\$ 204,941,447</u>
Total debt applicable to the limit as a percentage of debt limit	6.42%	4.54%	3.86%	3.19%	2.68%	1.91%	1.36%	12.19%	7.57%	6.74%

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed value	\$ 2,746,892,606
Debt limit (8% of assessed value)	219,751,408
Debt applicable to limit:	
Less:	
Installment purchase contracts	14,694,000
Capital leases	115,961
General obligation bonds	-
Legal debt margin	<u>\$ 204,941,447</u>

Source: Polk County Financial Statements

POLK COUNTY, NORTH CAROLINA

Demographic and Economic Statistics

Last Ten Fiscal Years

<u>Year</u>	<u>Population (1)</u>	<u>Personal income (2) (thousands of dollars)</u>	<u>Per Capita personal income (2)</u>	<u>Median Age (1)</u>	<u>School enrollment (3)</u>	<u>Unemployment rate (4)</u>
2002	18,832	\$ 585,942.0	\$ 31,151.0	44.70	2,430	3.9%
2003	18,865	581,398	30,955	45.20	2,366	3.5%
2004	18,905	612,421	32,309	45.39	2,392	3.3%
2005	19,006	696,299	35,063	45.58	2,431	4.2%
2006	19,207	717,878	37,873	45.80	2,472	3.5%
2007	19,247	760,535	39,740	46.03	2,425	3.8%
2008	19,402	771,759	41,124	46.23	2,477	4.5%
2009	19,018	763,637	39,659	45.22	2,444	8.8%
2010	19,355	N/A	N/A	47.08	2,385	8.1%
2011	20,588	N/A	N/A	47.17	2,355	7.7%

Source:

- (1) N.C. Office of State Budget Management
- (2) Bureau of Economic Analysis, U. S. Department of Commerce
- (3) N.C. Department of Public Instruction, First Month Average Daily Membership
- (4) N. C. Employment Security Commission, June
- N/A Information not yet available

POLK COUNTY, NORTH CAROLINA

Principal Employers

Current Year and Five Years Ago

<u>Employer</u>	<u>2011</u>			<u>2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of total County employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of total County employment</u>
Polk County Schools	450	1	4.85%	366	2	3.83%
St. Luke's Hospital	352	2	3.79%	398	1	4.16%
Tryon Estates	250	3	2.69%	250	3	2.61%
Polk County Government	225	4	2.42%	155	4	1.62%
White Oak Manor	135	5	1.45%	N/A	N/A	N/A
Autumn Care	103	6	1.11%	N/A	N/A	N/A
Laurel Hurst	60	7	0.65%	57	8	0.60%
Hatch Plant	60	8	0.65%	N/A	N/A	N/A
Carolina Yarn Processors	51	9	0.55%	67	7	0.70%
Timken Inc.	35	10	0.38%	50	9	0.52%
Wayne Wire Company	32	11	0.34%	43	10	0.45%
Kangaroo Products	26	12	0.28%	30	11	0.31%
Larkins Restaurant	24	13	0.26%	N/A	N/A	N/A
HomeTown Trust	20	14	0.22%	N/A	N/A	N/A
Quality Textiles	-		0.00%	105	5	1.10%
Woodland Mills	-		0.00%	100	6	1.05%
Totals	<u>1,823</u>		<u>14.80%</u>	<u>1,621</u>		<u>13.12%</u>

NOTE Employer data not available for 9 years prior. 2006 is the oldest available history.

NOTE Percentages based on work force of 9,280 for 2011 and 9,568 for 2006

N/A Information not available.

Source: Local Business Survey

POLK COUNTY, NORTH CAROLINA

Full-time Equivalent County Government Employees by Function/Program

Last Ten Fiscal Years

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>General Government</u>									
Administration - Co Mgr	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Finance	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Tax - Collections	5.6	6.0	6.0	6.5	7.5	7.5	8.0	8.3	7.3
Board of Elections	1.5	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Register of Deeds	2.0	2.2	2.7	2.9	2.9	2.9	2.9	2.9	2.9
Public Buildings	3.2	3.2	3.7	3.7	3.7	3.7	4.7	3.4	3.4
Management Info Systems	1.7	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<u>Public safety</u>									
Sheriff's department	20.0	22.8	25.0	26.4	28.3	28.0	24.4	22.5	23.5
Jail	6.0	7.5	7.4	7.4	8.0	10.0	10.5	10.5	10.0
Communications	7.5	8.3	9.0	10.0	7.3	9.5	9.5	9.5	9.5
Emergency Management	-	1.0	-	-	-	-	-	-	-
Animal Control	1.5	1.0	1.0	2.0	2.0	1.0	1.0	1.0	1.0
Community Development	3.0	3.2	5.0	5.0	4.0	5.0	4.0	3.0	3.0
Emergency Medical Services	13.3	13.0	12.7	15.7	16.0	18.5	18.5	18.5	17.0
<u>Economic and physical development</u>									
Planning and zoning	1.0	2.0	-	-	1.0	2.0	2.0	2.0	2.0
Cooperative extension	6.0	7.0	5.4	4.2	5.1	5.1	5.3	5.3	5.5
Soil and water conservation	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Economic and Development	-	-	-	1.0	1.0	1.0	2.0	2.0	1.0
<u>Human Services</u>									
Public transportation	10.0	10.5	12.6	12.6	13.5	14.5	15.5	15.0	15.0
Social service administration	24.0	24.0	26.0	26.0	26.5	29.5	31.5	31.5	32.0
Veteran's Administration	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.8
<u>Cultural and recreational</u>									
Senior Centers	6.4	5.7	4.7	5.7	5.7	5.7	5.7	5.7	5.7
Library	7.5	8.5	7.4	9.3	9.3	10.5	10.5	10.5	9.5
Recreation	2.0	2.0	2.0	2.0	4.3	4.0	4.0	4.0	5.0
Total	130.2	140.7	144.9	154.8	160.5	172.8	174.4	170.0	167.9

NOTE Information not available prior to 2003.

Source Various County Departments.

POLK COUNTY, NORTH CAROLINA

Operating Indicators by Function/Program

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>General Government</u>										
Percentage of registered voters participating in General Election	45%	N/A	69%	N/A	56%	N/A	71%	N/A	53%	N/A
<u>Public Safety</u>										
Number of inmates processed	N/A	N/A	N/A	640	648	N/A	561	761	761	715
Number of inmate days	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,602	7,397
Number of building permits issued	205	189	197	166	211	180	127	60	54	34
Number of EMS calls dispatched	1,882	1,933	2,071	2,062	2,329	2,404	2,661	2,783	2,917	2,639
<u>Human Services</u>										
Public transportation total route miles	N/A	232,213	301,100	317,213	352,996	335,044	386,082	394,279	403,153	410,156
Public transportation passengers	N/A	43,679	41,774	44,818	44,034	48,857	50,385	52,883	55,061	56,081
Number of Children in Foster Care	32	28	47	48	64	64	25	31	22	24
<u>Economic & Physical Development</u>										
Number of plats recorded	N/A	292	256	249	322	337	305	192	143	157
<u>Culture and Recreation - Library</u>										
Volumes in collection	N/A	57,277	61,037	60,592	62,497	59,355	55,761	59,800	60,233	60,509
Circulation	N/A	90,901	93,901	103,223	93,586	111,733	105,104	101,374	101,406	103,761
<u>Education</u>										
Current expense per ADM	\$ 1,381	\$ 1,447	\$ 1,488	\$ 1,483	\$ 1,520	\$ 1,611	\$ 1,639	\$ 1,733	\$ 1,866	\$ 1,862
<u>Enterprise Fund- Landfill</u>										
Tons of waste received	N/A	N/A	N/A	10,030	14,370	23,595	22,061	19,473	17,892	17,775

N/A Information not available

Source Various County Departments

POLK COUNTY, NORTH CAROLINA

Capital Asset Statistics by Function

Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Public Safety:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	N/A	34	34	39	36	39	35	31	31	31
Culture and Recreation:										
Libraries	2	2	2	2	2	2	2	2	2	2
Recreation acreage	N/A	14	128	145	145	145	140	140	140	140
Baseball/softball diamonds	1	1	3	3	3	3	6	6	5	5
Senior Centers	3	3	3	3	3	3	3	3	3	3
Human Services:										
Transit-Vans	14	13	13	14	13	11	11	13	11	14

Source: Various County Departments

COMPLIANCE SECTION

The compliance section contains results of audits of the major programs receiving federal and state funding.

Gould Killian CPA Group, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 County Commissioners
Polk County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of Polk County, North Carolina as of and for the year ended June 30, 2011, which collectively comprises Polk County's basic financial statements, and have issued our report thereon dated November 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency noted as 11-1 and described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Commissioners
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Polk County's financial statements are free of 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*.

We noted certain matters that we reported to management of Polk County in a separate letter dated November 3, 2011.

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

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 3, 2011

Gould Killian CPA Group, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of Commissioners
Polk County, North Carolina

Compliance

We have audited Polk County, North Carolina, compliance with the types of compliance requirements described 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 Polk County's major federal programs for the year ended June 30, 2011. Polk County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Polk County's management. Our responsibility is to express an opinion on Polk County's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Board of Commissioners
Page Two

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

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

This report is intended for the information and use of the audit committee, management, members of the Board of Commissioners, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 3, 2011

Gould Killian CPA Group, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of Commissioners
Polk County, North Carolina

Compliance

We have audited Polk County, North Carolina, compliance with the types of compliance requirements described in 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 its major State programs for the year ended June 30, 2011. Polk County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Polk County's management. Our responsibility is to express an opinion on Polk County's compliance based on our audit.

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

In our opinion, Polk County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Polk County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Polk County's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 State 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 State program will not be prevented, or detected and corrected, on a timely basis.

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

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 3, 2011

POLK COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses _____ X _____yes _____none reported

Noncompliance material to financial statements noted _____yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? _____yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 _____yes X no

Major federal programs for Polk County for the fiscal year ended June 30, 2011 are:

<u>Program Name</u>	<u>CFDA #</u>
Title XIX Medicaid	93.778
Adoption Assistance	93.659

The threshold for determining Federal Type A programs for Polk County is \$521,409.

Polk County does not qualify as a low risk auditee under Section .530 of Circular No. A-133.

POLK COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011

II. Financial Statement Findings

Finding 11-1

Criteria: The financial reporting process, including preparation of financial statements, is integral to an effective system of internal control.

Condition: The annual financial statements, footnotes, and other required disclosures are prepared by external auditors. In counties with smaller numbers of financial personnel, it may not be a logical economic decision to dedicate resources for training and preparation of the CAFR to the detriment of other activities that are vital to a strong control environment. And, we understand that the timely preparation and review of monthly financial statements is an overriding priority of the County's Finance Office, and is a key component of internal control. Further, the County believes that the requirements of preparing the CAFR would detract from the current controls and that the added oversight provided by the external auditors in this function is beneficial to the County.

Effect: The external auditors cannot be considered to be part of an entity's internal control. Therefore, the Auditor's participation in the preparation of certain sections of the Comprehensive Annual Financial Report (CAFR) technically constitutes a deficiency in their system of internal control.

Recommendation: The cost of an entity's internal control should not outweigh the benefit. While the County does prepare monthly financial statements for internal purposes and is competent in tracking expenditures and fund balances, it is not logical at this time for the County to dedicate the resources required for training and preparation of the year-end financial reporting. We recommend the County periodically evaluate the feasibility of dedicating personnel time to oversee and participate in the preparation of the Comprehensive Annual Financial Report.

Current Status / Corrective Action plan: The County continues to increase their participation in the year-end financial reporting process. The County will periodically evaluate the feasibility of increasing their participation in the financial reporting process to the point the external auditors are not a required part of the process.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs related to federal and state awards for the year ended June 30, 2011.

IV. State Award Findings and Questioned Costs

There were no findings or questioned costs related to federal and state awards for the year ended June 30, 2011.

POLK COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the year ended June 30, 2011

Finding 10-1

Status: The County still engages external auditors to prepare the annual financial statements, footnotes, and other required disclosures. It is still the position of the auditor that it is not feasible for the County to dedicate the resources required to perform all of the year-end financial reporting duties. See finding 11-1.

Finding 10-2

Status: The budgets in all tested files were correctly calculated.

POLK COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2011

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
<u>U.S. Dept. of Agriculture</u>					
<u>Food and Nutrition Service</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
State Administrative Matching Grants for					
the Supplemental Nutrition Assistance Program					
	10.561		\$ 138,400	\$ -	\$ 91,434
Total					
			138,400	-	91,434
<u>U.S. Dept. of Housing and Urban Development</u>					
Passed-through N.C. Department of Commerce:					
CDBG - State - Scattered Site Housing Project					
	14.228	08-C-1835	163,137	-	-
Total					
			163,137	-	-
<u>U.S. Dept. of Transportation</u>					
<u>Federal Transit Administration</u>					
Passed-through the N.C. Department of Transportation:					
Public Transportation for Nonurbanized Areas:					
Administration					
	20.509	36233.83.11.1	263,475	16,467	-
ARRA - Capital					
	20.509	36233.83.10.3	36,088	-	-
Total U.S. Dept. of Transportation					
			299,563	16,467	-
<u>U. S. Department of Homeland Security</u>					
Passed-through N.C. Dept. of Crime Control and Public Safety:					
Division of Emergency Management					
Emergency Management Assistance					
	97.006		29,697	-	-
Total U. S. Department of Homeland Security					
			29,697	-	-
<u>U.S. Dept. of Health & Human Services</u>					
<u>Administration on Aging</u>					
<u>Division of Aging and Adult Services</u>					
Passed-through Isothermal Planning and Development					
Special Programs for the Aging - Title III D					
Disease Prevention & Health Promotions Services					
	93.043		618	35	-
<u>Aging Cluster:</u> ²					
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers					
	93.044		47,380	6,787	-
Special Programs for the Aging - Title III C					
Nutrition Services					
	93.045		72,914	4,162	-
Nutrition Services Incentive Program					
	93.053		18,812	-	-
Total Aging Cluster					
			139,106	10,949	-
<u>Administration for Children and Families</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
<u>Foster Care and Adoption</u> ²					
Title IV-E Foster Care - Administration					
	93.658		138,982	8,102	126,684
Foster Care - Direct Benefit Payments					
	93.658		20,569	4,486	4,485
Adoption/Foster Care					
	93.658		33,725	-	706
Adoption Assistance - Direct Benefit Payments					
	93.659		196,459	41,927	45,852
Total Foster Care and Adoption					
			389,735	54,515	177,727
Family Preservation					
	93.556		2,241	-	-
Work First /Temporary Assistance for Needy					
Families (TANF)					
	93.558		28,698	-	30,198
Work First/TANF-Direct Benefit Payments					
	93.558		115,426	-	58,812
TANF Incentive/Program Integrity					
	93.558		128,440	407	-
ARRA - Emergency Contingency Fund - TANF					
	93.714		23,239	-	-
AFDC Incentive/Program Integrity					
	93.560		(336)	(92)	(92)
Child Support Enforcement Incentive Recovery					
	93.563		6,529	-	3,364
N. C. Child Support Enforcement Section					
	93.563		53,300	(2)	27,456

Continued on next page

**POLK COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

For the Year Ended June 30, 2011

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		10,579	-	-
Energy Assistance Payments- Direct Benefit Payments	93.568		168,971	-	-
Crisis Intervention Program	93.568		79,472	-	-
Child Welfare Services - State Grants					
- Permanency Planning - Families for Kids	93.645		5,090	-	1,717
Family Violence Prevention	93.671		1,344		
Independent Living Grant	93.674		8,506	2,002	-
Division of Aging and Adult Services:					
Division of Social Services:					
SSBG - State In Home Service Fund	93.667		1,888	-	270
SSBG - State Adult Day Care	93.667		7,322	1,880	1,315
Social Services Block Grant	93.667		66,246	6,690	23,664
Division of Child Development:					
Subsidized Child Care					
<u>Child Care Development Fund Cluster: ²</u>					
Division of Social Services:					
Child Care Development Fund-Administration	93.596		80,000	-	-
Division of Child Development:					
Child Care and Development Block Grant	93.575		138,904	-	-
Child Care and Development Fund -- Mandatory	93.596		62,494	-	-
Child Care and Development Fund -- Match	93.596		85,558	71,889	-
Total Child Care Development Fund Cluster			366,956	71,889	-
TANF	93.558		50,381	14,688	-
Smart Start			-	30,975	-
State Appropriations			-	83,866	-
Total Subsidized Child Care			417,337	201,418	-
<u>Centers for Medicare and Medicaid Services</u>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		14,971,095	6,030,389	1,418
Division of Social Services:					
Administration:					
Medical Assistance Program	93.778		271,005	9,591	260,996
State Children's Insurance Program - N.C. Health Choice	93.767		16,780	668	4,814
			16,912,631	6,318,450	591,659
Total U.S. Dept. of Health and Human Services			17,543,428	6,334,917	683,093
Total Federal awards					
<u>N.C. Dept. of Cultural Resources</u>					
Division of State Library					
Library Services			-	84,894	-
Total N.C. Dept. of Cultural Resources			-	84,894	-
<u>N.C. Department of Environment and Natural Resources</u>					
Clean Water Management Trust Fund			-	245,439	-
Natural Heritage Trust Fund			-	180,000	-
Division of Solid Waste					
Inactive Hazardous Sites			-	267,995	-
Division of Parks and Recreation:					
Parks and Recreation Trust Fund			-	367,877	-

Continued on next page

POLK COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2011

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
State Awards:					
Division of Soil and Water Conservation:					
Technical Assistance Payments			\$ -	\$ 15,766	\$ -
Total N.C. Dept. of Environmental and Natural Resources			-	1,077,077	-
<u>N.C. Dept. of Health and Human Services</u>					
Division of Social Services					
State/County Special Assistance for Adults - DBP			-	176,606	177,066
State Foster Care Benefits Program			-	127,527	120,938
CPS Expansion Program			-	70,905	-
State Adult Protective Service			-	22,788	-
State/County Special Assistance			-	-	4,663
CWS Adoption Subsidy & Vendor			-	110,489	32,185
Other County Funded Programs			-	-	378,324
Total Division of Social Services			-	508,315	713,176
Total N. C. Department of Health and Human Services			-	508,315	713,176
<u>Dept. of Juvenile Justice and Delinquency Prevention</u>					
Juvenile Crime Prevention Programs			-	64,349	-
<u>N.C. Dept. of Public Instruction</u>					
Public School Building Capital Fund:					
Lottery Proceeds			-	186,705	-
Total N.C. Dept. of Public Instruction			-	186,705	-
<u>N.C. Dept. of Administration</u>					
Division of Veterans:					
Veteran Affairs			-	2,000	-
<u>N.C. Dept. of Transportation</u>					
Rural Operating Assistance Program (ROAP)					
- ROAP Elderly and Disabled Transportation Assistance Program		DOT-16CL	-	64,252	-
- ROAP Rural General Public Program		DOT-16CL	-	63,059	-
- ROAP Work First Transitional - Employment Transportation Assistance Program		DOT-16CL	-	9,959	-
Total ROAP			-	137,270	-
<u>N.C. Dept. of Corrections</u>					
Criminal Justice Partnership Program			-	44,510	-
Total State awards			-	2,105,120	713,176
Total Federal and State awards			\$ 17,543,428	\$ 8,440,037	\$ 1,396,269

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 Polk 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the county's basic 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. 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, Foster Care and Adoption, Mental Health Services, Developmental Disability Waiting List Services, and Substance Abuse Services.