

Cherokee County, North Carolina

Financial Statements

June 30, 2012

Turner, Hatchett & Turner , CPA's, P.A.

31 Peachtree Street • Murphy, NC 28906 • Phone (828) 837-8188 • Fax (828) 837-5313

Cherokee County, North Carolina

Officials

June 30, 2012

COMMISSIONERS

Cal Stiles - Chairman

Lorraine Meltz - Vice-Chairman

Steve Jordan - Member

C.B. McKinnon - Member

David Wood - Member

SHERIFF

R. Keith Lovin

REGISTER OF DEEDS

Daphne Dockery

CLERK OF COURT

Roger Gibson

APPOINTED OFFICIALS

Randy Wiggins - County Manager

Candy M. Roberts, CPA - Finance Director

Will Roberts - Tax Administrator

Donna Crawford - Director of Social Services

Monica Holley - Interim Health Director

R. Scott Lindsay - County Attorney

Cherokee County, North Carolina

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FINANCIAL SECTION

Turner, Hatchett & Turner, CPA's, P.A.

31 Peachtree Street • Murphy, NC 28906 • Phone (828) 837-8188 • Fax (828) 837-5313

Independent Auditors' Report

Board of Commissioners
Cherokee County
Murphy, 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 the Cherokee County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cherokee 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 basic 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 Cherokee County, North Carolina, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of Cherokee 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 should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Other Postemployment Benefit and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages on pages 8 through 15 and 56 through 57, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County, North Carolina's statements as a whole. The introductory information, combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory information and the statistical section have not been subjected to the auditing procedures applied by us in the audit of basic financial statements, and accordingly, we express no opinion or provide any assurance on them.

Turner, Hatchett & Turner, C.P.A.'s, P.A.

TURNER, HATCHETT & TURNER, CPA's, P.A.

January 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee County, North Carolina
Management's Discussion and Analysis

June 30, 2012

As Management of Cherokee County, we offer readers of Cherokee County's financial statements this narrative overview and analysis of the financial activities of Cherokee County for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follows this narrative.

Financial Highlights

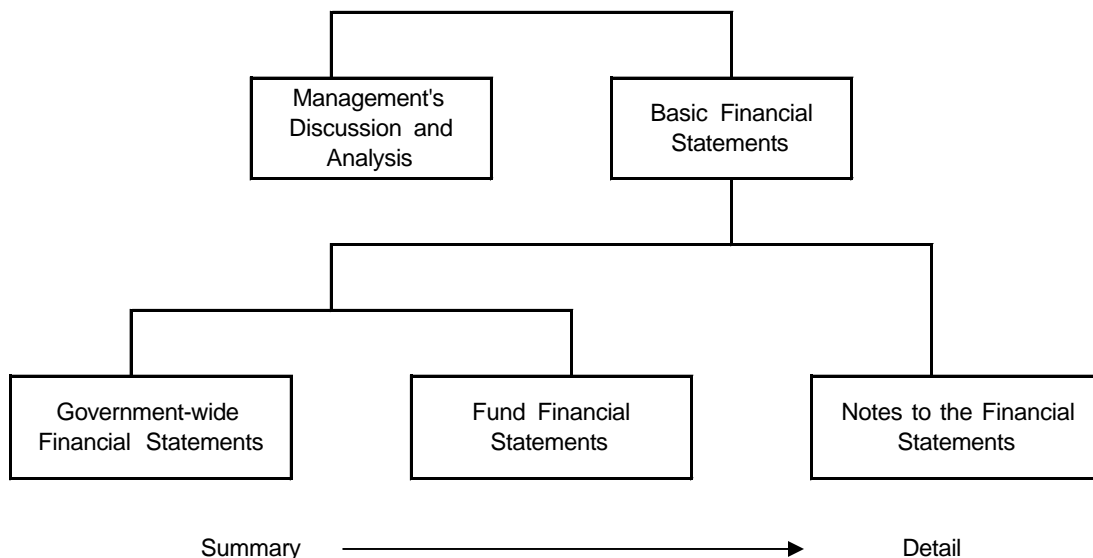
- The assets of Cherokee County exceeded its liabilities at the close of the fiscal year by \$29,074,670 (net assets).
- The government's total net assets increased by \$2,622,092, primarily due to increased net assets in the General Fund.
- As of the close of the current fiscal year, Cherokee County's governmental funds reported combined ending fund balances of \$17,869,349, a decrease of \$4,519,612 in comparison with the prior year. Approximately 55.28% percent of this total amount, or \$9,878,356, is restricted or non-spendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,107,051, or 23% percent of total general fund expenditures for the fiscal year.
- Cherokee County's debt decreased by \$2,352,529 (6.77% percent) during the current fiscal year. The key factor in this decrease were the principal payments on all debt. The Detention Center and the Sheriff's Office loans were refinanced into one loan with interest at 1.99%, resulting in savings to the County over \$400,000 in interest over the remaining life of the loans. The Courthouse loan was modified to reduce the interest rate from 3.27% to 2.39% and shorten the life of the loan from 15 years to 10 years. This results in an interest savings of over \$900,000 to the County.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Cherokee 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 Cherokee 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 7) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements of Cherokee County: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds and internal service funds, 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 information about the County's pension plan and other post employment benefits.

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.

Cherokee County's government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. 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. This includes the Pool and Wellness Center.

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. Cherokee 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 Cherokee County can be divided into two categories: governmental funds and fiduciary 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.

Cherokee 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.

Proprietary Funds – Cherokee County has one kind of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. This fund is used to account for the operation of the fitness and recreation center. These funds are the same as those separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds - Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Cherokee County, North Carolina has four fiduciary funds, of which two are trust funds and two are agency funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 29 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Cherokee County's progress in funding its obligations to provide pension benefits to its employees. Supplementary information can be found beginning on page 55 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Cherokee County exceeded liabilities by \$29,074,670 as of June 30, 2012. The County's net assets increased by \$2,622,092 for the fiscal year ended June 30, 2012. One of the largest portions \$24,679,459 (84.88%) reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Cherokee County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Cherokee County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of Cherokee County's net assets \$8,724,640 (30.01%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$4,329,429) is unrestricted. Unrestricted net assets are negative primarily because under North Carolina law, the County is responsible for providing capital funding for the school system. The County has chosen to meet its legal obligation to provide the school system capital funding by using debt financings. The assets, funded by the County, are titled to and utilized by the school system. Since the County, as the issuing government, acquires no assets, the County has incurred a liability without a corresponding increase in assets.

Cherokee County, North Carolina's Net Assets

Figure 2

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$23,445,825	\$27,744,322	\$ 68,766	\$ 46,888	\$ 23,514,591	\$ 27,791,210
Internal balances	4,229	108,482	(4,229)	(108,482)	-	-
Capital assets	39,105,123	34,194,287	2,986,512	3,079,737	42,091,635	37,274,024
Total assets	62,555,177	62,047,091	3,051,049	3,018,143	65,606,226	65,065,234
Liabilities						
Long-term liabilities outstanding	31,427,756	33,769,740	960,448	970,994	32,388,204	34,740,734
Other liabilities	4,059,157	3,730,692	84,195	93,632	4,143,352	3,824,324
Total liabilities	35,486,913	37,500,432	1,044,643	1,064,626	36,531,556	38,565,058

Net assets						
Invested in capital assets, net of related debt	22,649,467	21,288,855	2,029,992	2,111,679	24,679,459	23,400,534
Restricted	8,724,640	13,682,061	-	-	8,724,640	13,682,061
Unrestricted	(4,305,843)	(10,424,257)	(23,586)	(158,162)	(4,329,429)	(10,582,419)
Total net assets	<u>\$27,068,264</u>	<u>\$24,546,659</u>	<u>\$ 2,006,406</u>	<u>\$ 1,953,517</u>	<u>\$ 29,074,670</u>	<u>\$ 26,500,176</u>

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

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 94.38%.
- Slight increase in tax collections.

Cherokee County, North Carolina's Changes in Net Assets

Figure 3

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 4,798,560	\$ 4,524,886	\$ 359,409	\$ 368,035	\$ 5,157,969	\$ 4,892,921
Operating grants and contributions	8,122,290	7,567,159	-	-	8,122,290	7,567,159
Capital grants and contributions	2,126,708	1,667,269	18,747	-	2,145,455	1,667,269
General revenues:						
Property taxes	17,571,850	17,251,446	-	-	17,571,850	17,251,446
Other taxes	5,402,330	5,136,653	-	-	5,402,330	5,136,653
Grants and contributions not restricted to specific programs	1,240,121	1,223,117	-	-	1,240,121	1,223,117
Other	577,908	502,076	-	-	577,908	502,076
Total revenues	<u>39,839,767</u>	<u>37,872,606</u>	<u>378,156</u>	<u>368,035</u>	<u>40,217,923</u>	<u>38,240,641</u>
Expenses						
General government	3,919,517	3,602,105	-	-	3,919,517	3,602,105
Public safety	11,000,883	10,586,718	-	-	11,000,883	10,586,718
Transportation	1,438,372	1,379,679	-	-	1,438,372	1,379,679
Economic and physical development	1,551,626	1,590,526	-	-	1,551,626	1,590,526
Environmental protection	1,632,127	1,599,545	-	-	1,632,127	1,599,545
Human services	9,055,556	7,596,679	-	-	9,055,556	7,596,679
Cultural recreation	543,847	554,068	546,686	570,431	1,090,533	1,124,499
Education	7,238,761	6,817,238	-	-	7,238,761	6,817,238
Interest on long-term debt	668,456	626,700	-	-	668,456	626,700
Total expenses	<u>37,049,145</u>	<u>34,353,258</u>	<u>546,686</u>	<u>570,431</u>	<u>37,595,831</u>	<u>34,923,689</u>
Increase (decrease) in net assets before transfers	2,790,622	3,519,348	(168,530)	(202,396)	2,622,092	3,316,952
Transfers	(221,419)	-	221,419	-	-	-
Increase in net assets	2,569,203	3,519,348	52,889	(202,396)	2,622,092	3,316,952
Net assets, beginning as restated	24,499,061	21,027,311	1,953,517	2,155,913	26,452,578	23,183,224
Net assets, ending	<u>\$27,068,264</u>	<u>\$24,546,659</u>	<u>\$ 2,006,406</u>	<u>\$ 1,953,517</u>	<u>\$ 29,074,670</u>	<u>\$ 26,500,176</u>

Governmental activities. Governmental activities increased the County's net assets by \$2,569,203 thereby accounting for 97.98% of the total growth in the net assets of Cherokee County. Key elements of this increase are as follows:

- Slight increase in fees collected for services rendered.
- Solicitation of additional operating grants and contributions.
- Increase in local option sales tax collection.

Business-type Activities. Business-type activities increased the County's net assets by \$52,889. The increase is due to transfers from the General Fund net assets. Before transfers business-type activities resulted in a (\$168,530) decrease in net assets. This change was not unexpected during the first few years of operations for a new facility.

Financial Analysis of the County's Funds

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

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

The General Fund is the chief operating fund of Cherokee County. At the end of the current fiscal year, Cherokee County's fund balance available in the General Fund was \$9,197,303 while total fund balance reached \$12,806,638. The Governing Body of Cherokee County has determined that the county should maintain an available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the case flow needs of the County. The County currently has an available fund balance of 25.29% of general fund expenditures, while total fund balance represents 35.22% of the same amount.

At June 30, 2012, the governmental funds of Cherokee County reported a combined fund balance of \$17,869,349, a 20.19% decrease over last year.

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.

Proprietary Funds. Cherokee County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Pool and Wellness Center at the end of the fiscal year amounted to (\$23,586). The total increase in net assets for the Pool and Wellness Center was \$52,889. Other factors concerning the finances of these funds have already been addressed in the discussion of Cherokee County's business-type activities.

Capital Asset and Debt Administration

Capital Assets. Cherokee County, North Carolina's capital assets for its governmental and business-type activities as of June 30, 2012, totals \$42,091,635 (net of accumulated depreciation). These assets include land, construction in progress, buildings, equipment, and vehicles.

Major capital asset transactions during the year include the following:

Governmental Activities.

- Addition of construction in progress for the renovations to the County Courthouse
- Purchased computers and software
- Disposed of old vehicles and purchased new replacements.

Business-Type Activities.

- There were no significant additions, demolitions or disposals to capital assets during the fiscal year.

**Cherokee County, North Carolina's Capital Assets
(Net of Depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital Assets						
Land	\$ 6,700,183	\$ 6,700,183	\$ -	\$ -	\$ 6,700,183	\$ 6,700,183
Construction in progress	9,500,791	3,708,718	-	-	9,500,791	3,708,718
Land Improvements	28,120	-	-	-	28,120	-
Buildings	13,464,386	13,799,993	2,775,649	2,837,390	16,240,035	16,637,383
Other improvements	7,163,210	7,604,742	153,364	172,888	7,316,574	7,777,630
Equipment	703,659	714,243	57,499	69,459	761,158	783,702
Software	162,494	282,266	-	-	162,494	282,266
Computers and other electronic equipment	401,847	468,180	-	-	401,847	468,180
Vehicles and motorized equipment	980,433	915,961	-	-	980,433	915,961
Total capital assets	\$39,105,123	\$34,194,286	\$ 2,986,512	\$ 3,079,737	\$ 42,091,635	\$ 37,274,023

Additional information on the County's capital assets can be found in Note III.A.5 of the Basic Financial Statements.

Long-term Debt.

Cherokee County, North Carolina's Outstanding Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchases	\$26,896,467	\$29,565,601	\$ 956,520	\$ 968,057	\$ 27,852,987	\$ 30,533,658
Landfill closure obligations	3,113,717	2,950,656	-	-	3,113,717	2,950,656
Other post employment benefits	679,347	538,128	-	-	679,347	538,128
Compensated absences	564,442	565,621	3,928	2,936	568,370	568,557
Pension benefit obligation	173,783	149,734	-	-	173,783	149,734
Total	\$31,427,756	\$33,769,740	\$ 960,448	\$ 970,993	\$ 32,388,204	\$ 34,740,733

Cherokee County's debt decreased by \$2,352,529 (6.77% percent) during the current fiscal year. The key factor in this decrease were the principal payments on all debt. The Detention Center and the Sheriff's Office loans were refinanced into one loan with interest at 1.99%, resulting in savings to the County over \$400,000 in interest over the remaining life of the loans. The Courthouse loan was modified to reduce the interest rate from 3.27% to 2.39% and shorten the life of the loan from 15 years to 10 years. This results in an interest savings of over \$900,000 to the County.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Cherokee County is about \$331,070,232.

Additional information regarding Cherokee County, North Carolina's long-term debt can be found in Note III.B.7 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.

- Due to the economic slow-down sales tax collections that have been declining moderately are beginning to increase. However, this increase is slight and is expected to remain stagnant.
- Even with a struggling economy and high unemployment rate, the County has maintained a collection rate greater than 93% .
- The County has maintained stricter policies on spending and implemented cost savings measures to help alleviate the decreases in sales tax revenues.
- All of the factors were considered in preparing Cherokee County's budget for the 2012-2013 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: The County completed a revaluation of real property on January 1, 2012. The revaluation resulted in an overall decrease in property values of more than 25%. Per North Carolina General Statute 159-11(e), the neutral property tax rate was calculated at 52.5 cents and reported to the Board of Commissioners. In the 2012-2013 Board approved Budget, the Commissioners reduced the neutral property tax rate by .5 cents to 52 cents resulting in a reduction of current year property tax revenues budgeted of over \$200,000. Sales tax collections are expected to remain stagnant. The County will continue to fund current programs, and continue to look for ways to offer these services at a lower cost to the County.

Budgeted expenditures in the General Fund for 2013 are \$34,236,894. This is a \$711,474 increase from the prior year budget due to the addition of over \$1 million in Social Services expenditures for a state mandated change in distribution of program funds.

Business-Type Activities: The budgeted expenditures for the Pool and Wellness Center are \$410,470, which represents a 6% increase from the prior year. This increase is due to an expected increase in utility costs.

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, Cherokee County, 75 Peachtree Street, Murphy, NC 28906. You can also call (828) 837-2130, visit our website <http://www.cherokeecounty-nc.gov/> or send an email to candy.roberts@cherokeecounty-nc.gov for more information.

BASIC FINANCIAL STATEMENTS

Cherokee County, North Carolina

Statement of Net Assets

June 30, 2012

	Primary Government		
	Governmental Activities	Business -type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 12,371,810	\$ 66,293	\$ 12,438,103
Restricted cash	1,945,031	-	1,945,031
Investments	3,706,948	-	3,706,948
Receivables (net)	3,587,786	2,473	3,590,259
Due from other governments	1,725,837	-	1,725,837
Inventories	30,763	-	30,763
Internal Balances	4,229	(4,229)	-
Deferred charge - issuance costs	77,650	-	77,650
Capital assets:			
Land, improvements, and construction in progress	16,200,974	-	16,200,974
Other capital assets, net of depreciation	22,904,149	2,986,512	25,890,661
Total capital assets	39,105,123	2,986,512	42,091,635
Total assets	\$ 62,555,177	\$ 3,051,049	\$ 65,606,226
LIABILITIES			
Accounts payable and accrued expenses	\$ 3,704,393	\$ 17,377	\$ 3,721,770
Unearned revenue	134,308	34,692	169,000
Accrued interest payable	220,456	32,126	252,582
Long-term liabilities:			
Due within one year	2,862,075	12,014	2,874,089
Due in more than one year	28,565,681	948,434	29,514,115
Total liabilities	35,486,913	1,044,643	36,531,556
NET ASSETS			
Invested in capital assets, net of related debt	22,649,467	2,029,992	24,679,459
Restricted for:			
Capital Projects	1,222,614	-	1,222,614
Debt Service	3,515,011	-	3,515,011
Transportation	40,078	-	40,078
Public Safety	210,468	-	210,468
Economic Development	-	-	-
Cultural and Recreation	-	-	-
Education	-	-	-
Register of Deeds	-	-	-
Stabilization by State Statute	3,694,630	-	3,694,630
Human Services	41,839	-	41,839
Unrestricted (deficit)	(4,305,843)	(23,586)	(4,329,429)
Total net assets	\$ 27,068,264	\$ 2,006,406	\$ 29,074,670

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 3,919,517	\$ 553,921	\$ 460	\$ -
Public safety	11,000,883	2,735,261	526,223	-
Transportation	1,438,372	689,201	368,915	786,519
Economic and physical development	1,551,626	-	67,400	921,177
Environmental Protection	1,632,127	415,955	1,336,713	5,134
Human services	9,055,556	404,222	5,645,322	54,000
Cultural and recreation	543,847	-	-	-
Education	7,238,761	-	177,257	359,878
Interest on long-term debt	668,456	-	-	-
Total governmental activities	37,049,145	4,798,560	8,122,290	2,126,708
Business- type Activities				
Pool and Wellness Center	546,686	359,409	-	18,747
Total primary government	\$ 37,595,831	\$ 5,157,969	\$ 8,122,290	\$ 2,145,455

General revenues:

Taxes:

- Property taxes, levied for general purpose
- Local option sales tax
- Other taxes and licenses

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Miscellaneous, unrestricted

Total general revenues excluding transfers

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning as previously reported

Prior period adjustment

Net assets, beginning as restated

Net assets, ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business -type Activities	Total
\$ (3,365,136)	\$ -	\$ (3,365,136)
(7,739,399)	-	(7,739,399)
406,263	-	406,263
(563,049)	-	(563,049)
125,675	-	125,675
(2,952,012)	-	(2,952,012)
(543,847)	-	(543,847)
(6,701,626)	-	(6,701,626)
(668,456)	-	(668,456)
<u>(22,001,587)</u>	<u>-</u>	<u>(22,001,587)</u>
-	-	-
-	(168,530)	(168,530)
<u>(22,001,587)</u>	<u>(168,530)</u>	<u>(22,170,117)</u>
17,571,850	-	17,571,850
4,951,439	-	4,951,439
450,891	-	450,891
1,240,121	-	1,240,121
150,884	-	150,884
427,024	-	427,024
<u>24,792,209</u>	<u>-</u>	<u>24,792,209</u>
(221,419)	221,419	-
<u>24,570,790</u>	<u>221,419</u>	<u>24,792,209</u>
2,569,203	52,889	2,622,092
<u>24,546,659</u>	<u>1,953,517</u>	<u>26,500,176</u>
(47,598)	-	(47,598)
<u>24,499,061</u>	<u>1,953,517</u>	<u>26,452,578</u>
<u>\$ 27,068,264</u>	<u>\$ 2,006,406</u>	<u>\$ 29,074,670</u>

Cherokee County, North Carolina

Balance Sheet

Governmental Funds

June 30, 2012

	Major			Non-Major	Total Governmental Funds
	General	Debt Service	Courthouse Project Fund	Total Non-Major Funds	
ASSETS					
Cash and cash equivalents	\$ 11,986,809	\$ -	\$ -	\$ 385,001	\$ 12,371,810
Restricted Cash	262,917	1,031	1,606,542	74,541	1,945,031
Investments	192,968	3,513,980	-	-	3,706,948
Receivables, net					-
Taxes	1,410,259	-	-	159,114	1,569,373
Accounts	1,280,033	-	-	643,398	1,923,431
Due from other governments	1,725,837	-	-	-	1,725,837
Due from other funds	572,702	-	-	-	572,702
Inventories	30,763	-	-	-	30,763
Total assets	<u>\$ 17,462,288</u>	<u>\$ 3,515,011</u>	<u>\$ 1,606,542</u>	<u>\$ 1,262,054</u>	<u>\$ 23,845,895</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,111,083	\$ -	\$ 383,928	\$ 209,382	\$ 3,704,393
Due to other funds	-	-	-	568,472	568,472
Deferred revenue Taxes	1,410,259	-	-	159,114	1,569,373
Unearned revenue	134,308	-	-	-	134,308
Total liabilities	<u>4,655,650</u>	<u>-</u>	<u>383,928</u>	<u>936,968</u>	<u>5,976,546</u>
Fund balances:					
Nonspendable:					
Inventories	30,763	-	-	-	30,763
Restricted:					
Stabilization by State Statute	3,578,572	-	-	116,058	3,694,630
Public Safety	-	-	-	210,469	210,469
Transportation	-	-	-	40,078	40,078
Economic and Physical Development	-	-	-	-	-
Human Services	-	-	-	74,539	74,539
Debt Service	-	3,515,011	-	-	3,515,011
General Government / Capital Outlay	-	-	1,222,614	-	1,222,614
Committed:					
Tax Revaluation	232,642	-	-	-	232,642
School Capital Outlay	726,930	-	-	-	726,930
Law Enforcement	130,680	-	-	-	130,680
Assigned:					
Subsequent year's expenditures	-	-	-	-	-
Unassigned:					
Total fund balances	<u>12,806,638</u>	<u>3,515,011</u>	<u>1,222,614</u>	<u>(116,058)</u>	<u>17,869,349</u>
Total liabilities and fund balances	<u>\$ 17,462,288</u>	<u>\$ 3,515,011</u>	<u>\$ 1,606,542</u>	<u>\$ 1,262,054</u>	<u>\$ 23,845,895</u>

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina

Balance Sheet

Governmental Funds

June 30, 2012

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

Total Fund Balances for Governmental Funds	\$ 17,869,349
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,105,123
Deferred Costs of loans are not financial resources and therefore are not reported in the funds	77,650
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	94,981
Liabilities for earned but deferred revenues in fund statements.	1,569,373
Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(31,648,212)
Net assets of governmental activities	<u>\$ 27,068,264</u>

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Major			Non-Major	Total Governmental Funds
	General Fund	Debt Service	Courthouse Project Fund	Total Non-Major Funds	
REVENUES					
Ad valorem taxes	\$ 16,224,923	\$ -	\$ -	\$ 1,630,315	\$ 17,855,238
Local option sales tax	4,951,439	-	-	-	4,951,439
Other taxes and licenses	450,891	-	-	-	450,891
Unrestricted intergovernmental	1,240,121	-	-	-	1,240,121
Restricted intergovernmental	6,969,293	-	-	2,008,712	8,978,005
Permits and fees	1,845,132	-	-	-	1,845,132
Sales and services	4,224,421	-	-	-	4,224,421
Investment earnings	20,629	103,288	3,662	900	128,479
Miscellaneous	427,024	-	-	-	427,024
Total revenues	<u>36,353,873</u>	<u>103,288</u>	<u>3,662</u>	<u>3,639,927</u>	<u>40,100,750</u>
EXPENDITURES					
Current:					
General government	3,487,296	-	-	304,912	3,792,208
Public safety	8,839,294	-	-	1,907,566	10,746,860
Transportation	1,119,809	-	-	888,253	2,008,062
Environmental protection	1,295,623	-	-	-	1,295,623
Economic and physical development	556,560	-	-	964,377	1,520,937
Human services	8,927,558	-	-	46,300	8,973,858
Cultural and recreational	522,337	-	-	-	522,337
Intergovernmental:					
Education	6,713,191	-	-	525,570	7,238,761
Capital outlay	-	-	4,857,521	144,535	5,002,056
Debt service:					
Principal	2,744,451	-	-	-	2,744,451
Interest	773,642	-	-	-	773,642
Total expenditures	<u>34,979,761</u>	<u>-</u>	<u>4,857,521</u>	<u>4,636,978</u>	<u>44,474,260</u>
Excess (deficiency) of revenues over expenditures	<u>1,374,112</u>	<u>103,288</u>	<u>(4,853,859)</u>	<u>(997,051)</u>	<u>(4,373,510)</u>
OTHER FINANCING SOURCES (USES)					
Contingency	-	-	-	-	-
Transfers from other funds	-	383,561	631,209	144,535	1,159,305
Transfers to other funds	(1,380,724)	-	-	-	(1,380,724)
Proceeds from long-term debt	75,317	-	-	-	75,317
Total other financing sources (uses)	<u>(1,305,407)</u>	<u>383,561</u>	<u>631,209</u>	<u>144,535</u>	<u>(146,102)</u>
Net change in fund balance	68,705	486,849	(4,222,650)	(852,516)	(4,519,612)
Fund balance, beginning as previously reported	12,720,521	3,028,162	5,445,264	1,242,611	22,436,558
Prior period adjustment	17,412	-	-	(65,009)	(47,597)
Fund balance, beginning as restated	<u>12,737,933</u>	<u>3,028,162</u>	<u>5,445,264</u>	<u>1,177,602</u>	<u>22,388,961</u>
Fund balances, ending	<u>\$ 12,806,638</u>	<u>\$ 3,515,011</u>	<u>\$ 1,222,614</u>	<u>\$ 325,086</u>	<u>\$ 17,869,349</u>

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds \$ (4,519,612)

Change in fund balance due to change in reserve for inventory

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

Capital outlay	6,713,361
Depreciation	(1,802,524)

Cost of capital asset disposed of during the year, not recognized on modified accrual basis -

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

(Increase) Decrease in accrued taxes receivable	(25,841)
(Increase) Decrease in accrued investment earnings	22,405
Increase (Decrease) in deferred tax revenue	(257,547)
(Increase) Decrease in accrued interest payable	88,898

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

Proceeds from long-term debt	(75,317)
Debt service repayments	2,744,451
Decrease in deferred charges- loan issuance cost	(8,209)
Increase in loan issuance cost	16,288

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in compensated absences	1,179
Increase in accrued landfill closure costs	(163,061)
Increase in accrued other employment benefits	(141,219)
Increase in Accrued pension cost	(24,049)

Total changes in net assets of governmental activities \$ 2,569,203

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina

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

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 15,576,044	\$ 15,865,088	\$ 16,224,923	\$ 359,835
Local option sales tax	4,526,482	4,527,412	4,951,439	424,027
Other taxes and licenses	415,521	455,521	450,891	(4,630)
Unrestricted intergovernmental	1,189,680	1,189,680	1,240,121	50,441
Restricted intergovernmental	5,297,082	7,862,503	6,969,293	(893,210)
Permits and fees	1,765,174	1,851,262	1,845,132	(6,130)
Sales and services	3,755,282	3,988,229	4,224,421	236,192
Investment earnings	25,100	25,100	20,187	(4,913)
Miscellaneous	114,266	347,084	427,024	79,940
Total revenues	<u>32,664,631</u>	<u>36,111,879</u>	<u>36,353,431</u>	<u>241,552</u>
Expenditures				
Current:				
General government	3,176,853	3,548,308	3,364,058	184,250
Public safety	8,847,840	9,093,433	8,839,294	254,139
Transportation	1,007,579	1,215,836	1,119,809	96,027
Environmental protection	1,384,173	1,455,537	1,295,623	159,914
Economic and physical development	532,222	596,872	556,560	40,312
Human services	7,666,856	9,939,398	8,927,558	1,011,840
Cultural and recreational	546,662	546,962	522,337	24,625
Education	5,959,472	6,790,927	6,713,191	77,736
Debt service:				
Principal retirement	3,128,015	2,744,454	2,744,451	3
Interest and fees	801,068	801,068	773,642	27,426
Total expenditures	<u>33,050,740</u>	<u>36,732,795</u>	<u>34,856,523</u>	<u>1,876,272</u>
Revenues over (under) expenditures	<u>(386,109)</u>	<u>(620,916)</u>	<u>1,496,908</u>	<u>2,117,824</u>
Other financing sources (uses):				
Contingency	-	-	-	-
Transfers from other funds	860,789	460,574	-	(460,574)
Transfers to other funds	(474,680)	(1,455,725)	(1,455,724)	1
Proceeds from long term debt issue	-	-	-	-
Total other financing sources (uses)	<u>386,109</u>	<u>(995,151)</u>	<u>(1,455,724)</u>	<u>(460,573)</u>
Appropriated Fund Balance	-	1,616,067	-	(1,616,067)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	116,501	<u>\$ 41,184</u>
Fund balance, beginning as previously reported			12,440,083	
Prior period adjustment			17,412	
Fund balance, beginning as restated			<u>12,457,495</u>	
Fund balance, ending			<u>\$ 12,573,996</u>	
A legally budgeted Revaluation Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			442	
Transfer in from General Fund			75,000	
Expenditures			<u>(123,238)</u>	
Fund Balance, Beginning			<u>280,438</u>	
Fund Balance, Ending			<u>12,806,638</u>	

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina
Statement of Fund Net Assets
Pool and Wellness Center
Proprietary Fund
June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$	66,293
Receivables, net		2,473
Total current assets		68,766

Noncurrent assets:

Capital assets:

Other capital assets, net of depreciation		2,986,512
Total capital assets		2,986,512
Total noncurrent assets		2,986,512
Total assets	\$	3,055,278

LIABILITIES

Current liabilities:

Accounts payable	\$	6,608
Accrued wages		10,769
Due to other funds		4,229
Customer deposits		34,692
Accrued interest payable		32,126
Current portion of long term debt		12,014
Total current liabilities		100,438

Noncurrent liabilities:

Long term debt (less current portion)		944,506
Compensated absences		3,928
Total noncurrent liabilities		948,434
Total liabilities		1,048,872

NET ASSETS

Invested in capital assets, net of related debt		2,029,992
Unrestricted		(23,586)
Total net assets	\$	2,006,406

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Pool and Wellness Center
Proprietary Fund
For the Year Ended June 30, 2012

OPERATING REVENUES	
Membership & fees	\$ 359,409
Total operating revenues	<u>359,409</u>
OPERATING EXPENSES	
Salaries & employee benefits	228,449
Supplies	28,314
Travel	1,490
Utilities	95,174
Advertising	3,123
Maintenance	18,862
Other	31,808
Depreciation	99,932
Interest	39,534
Small non capitalized equipment	
Total operating expenses	<u>546,686</u>
Operating income (loss)	<u>(187,277)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	<u>-</u>
Total nonoperating expenses	<u>-</u>
Income (loss) before contributions and transfers	<u>(187,277)</u>
Capital contributions	18,747
Transfers from other funds	<u>221,419</u>
Change in net assets	52,889
Total net assets, beginning	<u>1,953,517</u>
Total net assets, ending	<u><u>\$ 2,006,406</u></u>

The notes to the financial statements are an integral part of this statement.

Cherokee County, North Carolina

Statement of Cash Flows

Pool and Wellness Center

Enterprise Fund

For The Fiscal Year Ended June 30, 2012

Cash flows from operating activities:	
Cash received from customers	\$ 359,409
Cash paid for goods and services	(231,186)
Cash paid to employees for services	(227,190)
Customer deposits received	906
Net cash used by operating activities	<u>(98,061)</u>
Cash flows from noncapital financing activities:	
Due to other funds	(104,253)
Transfers from other funds	221,419
Net cash provided (used) by noncapital financing activities	<u>117,166</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(6,707)
Principal paid on bond maturities and equipment contracts	(11,538)
Capital contributions	18,747
Net cash provided (used) by capital and related financing activities	<u>502</u>
Cash flows from investing activities:	
Interest and dividends received	-
Purchase of investments	-
Proceeds from the sale or maturity of investments	-
Net cash provided (used) by investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	19,607
Cash and cash equivalents, beginning	46,888
Cash and cash equivalents, ending	<u>\$ 66,495</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>\$ (187,277)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	99,932
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(2,473)
Increase (decrease) in accounts payable and accrued liabilities	(10,141)
Increase (decrease) in customer deposits	906
Increase (decrease) in compensated absences payable	992
Total adjustments	<u>89,216</u>
Net cash provided (used) by operating activities	<u>\$ (98,061)</u>

The notes to the financial statements are an integral part of this statement.

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

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 140,428
LIABILITIES AND NET ASSETS	
Liabilities:	
Miscellaneous liabilities	136,598
Intergovernmental payables - State of North Carolina	3,830
Total liabilities	140,428
Net Assets:	\$ -

The notes to the financial statements are an integral part of this statement.

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

I. Summary of Significant Accounting Policies

The accounting policies of Cherokee 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 (hereinafter references to the North Carolina General Statutes will be cited as G.S).

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 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, enterprise, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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, result from non-exchange transactions. Other non-operating items such as investment earnings are 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.

Debt Service Fund – This fund accounts for the accumulation of resources to be used for the retirement of QZAB debt owed by the County.

Courthouse Project Fund – This fund is used to account for the renovation to the Courthouse.

The County reports the following major enterprise fund:

Pool and Wellness Center – This fund is used to account for the operation of the fitness and recreation center.

Additionally, the County reports the following type of fiduciary funds:

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 Cherokee County Board of Education; and the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles, the Motor Vehicle Tax Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for the two municipalities in the County; the Sheriff trust fund which accounts for funds collected by the sheriff as an agent and for funds held for prisoners of the county detention facility; and the Deed of Trust Fee Fund which accounts for the five dollars of each fee collected by the register of deeds for registering or filing a deed of trust or mortgage and remitted to the State Treasurer on a monthly basis.

The County reports the following non-major governmental funds:

Special Revenue Funds:

Emergency Telephone System Fund – This fund was established in accordance with North Carolina law to account for the accumulation of telephone surcharges to be used for emergency telephone systems.

Fire District Fund – This fund accounts for the ad valorem tax levies of the fire districts in Cherokee County.

Sheriff's Federal Methamphetamine Grant – This fund accounts for a multi year grant to fight the Methamphetamine drug problem in western NC.

Bear Paw Service District Fund – This fund is established to account for the ad valorem tax levies of the Bear Paw Service District.

Scattered Sites Housing Fund - This fund is established to account for the Grant to build housing for the elderly and disabled.

Housing Preservation Grant Fund - This fund is established to account for the Grant to repair or rehabilitate low and very low-income housing.

Capital Project Funds:

School Improvement Fund – This fund is used to account for the construction of new school facilities.

Health Department Renovation and Expansion Capital Project – This fund is used to account for the renovations, expansion and the purchase of a mobile unit for the Andrews Health Center.

Water and Sewer Improvement Fund – This fund is used to account for the construction and improvements to the water and sewer systems in the County. Once completed, the improvements are transferred to local municipalities.

Airport Improvement Projects Fund - This fund is used to account for the construction of major capital outlay projects for the Andrews-Murphy Airport.

Capital Reserve Fund - This fund is used for the purchase of the Cornerstone Building.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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 nonoperating 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 90 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, Cherokee County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements.

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

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

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

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 Emergency Telephone, Fire District, and Revaluation Special Revenue Fund, the Bear Paw Service District and the Debt Service Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Federal Transportation Recovery Grant Fund, the Federal COPs Meth Fund, the School Improvement Fund, the Health Department Renovation and Expansion Capital Project, the Airport Improvement Projects Fund, the Scattered Sites Housing Fund, the Housing Preservation Grant Fund, and the Capital Reserve Fund.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the County are made in board-designated official depositories and are secured as required by G.S. 159-31. The County may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and Super NOW 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 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, a SEC registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended loan proceeds of the Capital Reserve Fund and the Courthouse Project Fund are classified as restricted assets within the Capital Reserve Fund and Courthouse Project Fund because their use is completely restricted to the purpose for which the loans were originally issued. Customer deposits held by the County before any services are supplied are restricted to the service for which the deposit was collected. Money in the Tax Revaluation Fund is classified as restricted assets because its use is restricted per North Carolina General Statute 153A-150. Money in the Scattered Sites Housing Fund and the Health Department Renovation and Expansion Capital Project Fund is also classified as restricted assets because its use is restricted by revenue source for specific expenditures i.e., economic and physical development and human services.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2011.

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. Inventories and Prepaid Items

The inventories of the County are valued at cost (first-in, first-out), which approximates market. The County's General Fund inventory consists of aviation gasoline and jet fuel. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

7. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are \$5,000 for land, buildings, improvements, furniture and equipment, and vehicles. 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 Cherokee 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 Cherokee County Board of Education.

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

	<u>Years</u>
Buildings	50
Improvements	10 - 25
Furniture and equipment	10
Software	4
Vehicles	4
Computer & electric equipment	4

8. 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 other financing sources.

9. Compensated Absences

The vacation policies of the County provides 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 fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

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

10. 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 laws or regulations of other governments or b) imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Restricted for Public Safety - portion of fund balance that is restricted by revenue source to pay for the safety of the public.

Restricted for Transportation - portion of fund balance that is restricted by revenue source to pay for the purchase and maintenance of transportation vehicles and for the construction of major capital outlay projects for the Andrews-Murphy Airport.

10. Net Assets/Fund Balances (continued)

Restricted for Economic and Physical Development - portion of fund balance that is restricted by revenue source for the construction of housing for the elderly and disabled as well as improvements to the water and sewer systems in the County.

Restricted for Human Services- portion of fund balance that is restricted by revenue source for the purchase of the DSS Building.

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

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

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

Restricted for Debt Service- portion of fund balance that is restricted for the retirement of QZAB debt owed by the County.

Restricted for General Government / Capital Outlay - portion of fund balance that is restricted for the renovation of the County Courthouse.

Committed Fund Balance- Portion of fund balance that can only be used for specific purpose imposed by majority vote of Cherokee 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 School Capital Outlay- portion of fund balance that can only be used for school debt service and school capital outlay.

Committed for Law Enforcement - portion of fund balance that can only be used for future law enforcement expenditures.

Assigned Fund Balance- portion of fund balance that the Cherokee 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.

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

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

11. Prior Period Adjustment

Cherokee County has determined that certain transactions were reported incorrectly in the prior year .

Fund Balance: The fund balance of the Emergency Telephone System Fund was understated at June 30, 2011 in the amount of \$15,806 due to ineligible expenditures paid prior to the 911 Board enacting the Wireless system. According to guidelines released by the 911 Board, these funds should have been transferred from the General Fund of the County to the Emergency Telephone System Fund.

Emergency Telephone System Fund balance, beginning as previously reported	\$ 572,130
Ineligible expenditures made in the prior fiscal year	<u>15,806</u>
Net prior period adjustment	<u>15,806</u>
Emergency Telephone System Fund balance, beginning as restated	<u><u>\$ 587,936</u></u>

The fund balance of the General Fund was understated at June 30, 2011 in the amount of \$17,412. This is due to a \$33,218 understatement in miscellaneous revenue and the aforementioned \$15,806 understatement in the Emergency Telephone System Fund. These two items combined resulted in an increase to the General Fund balance that was recorded on June 30, 2012 through a prior period adjustment.

General Fund balance, beginning as previously reported	\$ 12,440,083
Understatement in miscellaneous revenue	33,218
Adjustment for Emergency Telephone System Fund	<u>(15,806)</u>
Net prior period adjustment	<u>17,412</u>
General Fund balance, beginning as restated	<u><u>\$ 12,457,495</u></u>

Non-major fund accounts receivable was overstated in the prior year by \$80,815. A receivable was inadvertently reported that had already been received. The restatement to accounts receivable decreased fund balance by \$80,815.

Non-Major Fund Balance, beginning as previously reported	\$ 1,242,611
Adjustment for Emergency Telephone System Fund	15,806
Adjustment for receivable	<u>(80,815)</u>
Net prior period adjustment	<u>(65,009)</u>
Non-Major Fund Balance, beginning as restated	<u><u>\$ 1,177,602</u></u>

Governmental Activities: The combined above-mentioned adjustments to fund balance decreased Net Assets by \$47,598 in the Government-Wide statements.

Governmental Activities Net assets, beginning as previously reported	\$ 24,546,659
Rounding Adjustment	(1)
General Fund Balance adjustment	17,412
Non-Major Fund Balance adjustment	<u>(65,009)</u>
Net prior period adjustment	<u>(47,598)</u>
Governmental Activities Net assets, beginning as restated	<u><u>\$ 24,499,061</u></u>

E. Reconciliation of Government-wide and Fund Financial Statements**1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.**

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$9,198,915 consists of several elements as follows:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 55,325,510
Less accumulated depreciation	<u>(16,220,387)</u>
Net capital assets	39,105,123
 Deferred charges related to advance refunding bond issued - included on government-wide statement of net assets but are not current financial resources	 77,650
 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	 94,981
 Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	 1,569,373
 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:	
Bonds, leases, and installment financing	(26,896,467)
Compensated absences	(564,442)
Other postemployment benefits	(679,347)
Landfill closure costs	(3,113,717)
Pension benefit obligation	(173,783)
Accrued interest payable	<u>(220,456)</u>
 Total adjustment	 <u><u>\$ 9,198,915</u></u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$7,088,815 as follows:

Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 6,713,361
Cost of disposed capital asset not recorded in fund statements	-
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.	(1,802,524)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities - it affects only the government-wide statement of net assets	(75,317)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements	2,744,451
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	88,898
Amortization of issuance costs not recorded on fund statements	(8,209)
Expenses reported on fund statements that are capitalized on government-wide statements-loan issuance costs	16,288
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	1,179
Other postemployment benefits	(141,219)
Pension benefits	(24,049)
Landfill closure cost	(163,061)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements.	22,405
Increase in deferred tax revenue at end of year	(257,547)
Increase in accrued taxes receivable at end of year	(25,841)
Total adjustment	<u>\$ 7,088,815</u>

II. Stewardship, Compliance, and Accountability**A. Excess of Expenditures over Appropriations**

In accordance with budgetary control procedures outlined in G.S. 159-28, expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. At June 30, 2012, Cherokee County reported the following expenditures exceeded the amounts appropriated in the budget ordinance.

Function	Budget	Expenditures	Variance
Emergency Telephone System Fund			
Public Safety	550,557	582,163	(31,606)

Management will continue to monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

III. Detail Notes on All Funds**A. Assets****1. Deposits**

All of the County's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, these deposits are considered to be held by their agent in the entity's name. 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 with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under the Pooling Method, the potential exists for 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 Board has no policy regarding custodial credit risk for deposits.

At June 30, 2012, the County's deposits had a carrying amount of \$14,520,588 and a bank balance of \$14,841,509. Of the bank balance, \$625,026 was covered by federal depository insurance, and \$14,216,483 in deposits was covered by collateral held under the Pooling Method.

At June 30, 2012, Cherokee County had \$2,975 cash on hand.

2. Investments

At June 30, 2012, the County's investment balances were as follows:

Investment Type	Cost	Less Than 6 Months
Commercial Paper	\$ 1,905,975	\$ 1,905,975
FHLB Discount Note	1,607,301	1,607,301
NC Capital Management Trust:		
Cash Portfolio	193,672	N/A
Total:	\$ 3,706,948	\$ 3,513,276

Interest Rate Risk. The County has no formal investment policy regarding interest rate risk.

Credit Risk. The County limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2012, 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, 2012. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies (Federal Home Loan Bank) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's \$1,905,975 investment in commercial paper and \$1,607,301 investment in FHLB are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the County's name. The County had no policy on custodial credit risk.

Concentration of Credit Risk. The County places no limit on the amount that the County may invest in any one issuer. More than 94 percent of the County's investments are in IFLLC Finance commercial paper and a FHLB discount note. These investments are 51% and 43% respectively of the County's total investments.

3. 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 due 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	\$ 730,576	\$ 244,743	\$ 975,319
2009	780,883	191,316	972,199
2010	772,960	11,909	784,869
2011	789,405	-	789,405
Total	\$ 3,073,824	\$ 447,968	\$ 3,521,792

4. Receivables

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

	<u>Accounts Receivable</u>	<u>Taxes Receivable</u>	<u>Interest Receivable</u>	<u>Special Assessments</u>	<u>Total</u>
Governmental Activities:					
General	\$ 1,334,208	\$ 1,752,470	\$ 94,982	\$ -	\$ 3,181,660
Other governmental	643,398	159,114	-	-	802,512
Total receivables	1,977,606	1,911,584	94,982	-	3,984,172
Allowance for doubtful accounts	(54,175)	(342,211)	-	-	(396,386)
Total-governmental activities	<u>\$ 1,923,431</u>	<u>\$ 1,569,373</u>	<u>\$ 94,982</u>	<u>\$ -</u>	<u>\$ 3,587,786</u>

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

Local Government Sales and Use Taxes	\$ 1,316,564
State and county sales and use tax refund	409,273
Total	<u>\$ 1,725,837</u>

5. Capital Assets**Primary Government**

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

	Beginning Balances	Increases	Transfers	Decreases	Ending Balances
Governmental Activities:					
Capital assets not being depreciated					
Land	\$ 6,700,183	\$ -	\$ -	\$ -	\$ 6,700,183
Construction in progress	3,708,718	5,792,073	-	-	9,500,791
Total capital assets not being depreciated	10,408,901	5,792,073	-	-	16,200,974
Capital assets being depreciated					
Land improvements	-	28,238	-	-	28,238
Buildings	17,468,561	-	-	-	17,468,561
Other improvements	12,060,652	55,887	-	-	12,116,539
Equipment	1,607,075	110,544	-	-	1,717,619
Software	1,192,559	-	-	-	1,192,559
Computers & electronic equipment	2,353,433	111,901	-	-	2,465,334
Vehicles & motor equipment	3,856,358	614,718	-	335,390	4,135,686
Total capital assets being depreciated	38,538,638	921,288	-	335,390	39,124,536
Less accumulated depreciation for:					
Land Improvements	-	118	-	-	118
Buildings	3,668,568	335,607	-	-	4,004,175
Other improvements	4,455,910	497,419	-	-	4,953,329
Equipment	892,832	121,128	-	-	1,013,960
Software	910,293	119,772	-	-	1,030,065
Computers & other electronic equipment	1,885,253	178,234	-	-	2,063,487
Vehicles & motor equipment	2,940,397	550,246	-	335,390	3,155,253
Total accumulated depreciation	14,753,253	1,802,524	-	335,390	16,220,387
Total capital assets being depreciated, net	23,785,385				22,904,149
Governmental activities capital assets, net	<u>\$ 34,194,286</u>				<u>\$ 39,105,123</u>

5. Capital Assets (Continued)

Depreciation expense was charged to function/programs of the government as follows:

General government	\$ 160,532
Public safety	761,139
Transportation	430,788
Economic and physical development	29,946
Human services	91,232
Environmental protection	294,713
Cultural and recreational	34,174
Total depreciation expense	\$ 1,802,524

	Beginning Balances	Increases	Transfers	Decreases	Ending Balances
Business Type Activities:					
Capital assets being depreciated					
Buildings	\$ 3,087,019	\$ -	\$ -	\$ -	\$ 3,087,019
Other improvements	263,524	6,707	-	-	270,231
Equipment	119,618	-	-	-	119,618
Computers & other electronic equipment	7,613	-	-	-	7,613
Total capital assets being depreciated	3,477,774	6,707	-	-	3,484,481
Less accumulated depreciation for:					
Buildings	249,629	61,741			311,370
Other improvements	90,636	26,231			116,867
Equipment	50,159	11,960			62,119
Computers & other electronic equipment	7,613	-			7,613
Total accumulated depreciation	398,037	99,932	-	-	497,969
Total capital assets being depreciated, net	3,079,737				2,986,512
Business type capital assets, net	\$ 3,079,737				\$ 2,986,512

Construction commitments

The County has the following active construction commitments with contractors at June 30, 2012:

Project	Spent-to-date	Remaining Commitment
Airport Improvements	\$ 715,943	\$ 227,312
Courthouse Project	7,294,625	864,155
Total	\$ 8,010,568	\$ 1,091,467

B. Liabilities**1. Payables**

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

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:			
General	\$ 905,562	\$ 2,175,248	\$ 3,080,810
Other governmental	242,311	381,274	623,585
Total governmental activities	<u>\$ 1,147,873</u>	<u>\$ 2,556,522</u>	<u>\$ 3,704,393</u>
Business-type Activities:			
Pool and Wellness Center	\$ 6,379	\$ 10,998	\$ 17,377
Total business-type activities	<u>\$ 6,379</u>	<u>\$ 10,998</u>	<u>\$ 17,377</u>

2. Pension Plan and Other Postemployment Obligations**a. Local Governmental Employees' Retirement System**

Plan Description. Cherokee 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 is 6.52% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of Cherokee 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, 2012, 2011, and 2010 were \$691,583, \$644,084, and \$486,324, respectively. The contributions made by the County equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance**1. *Plan Description.***

Cherokee County administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 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>33</u>
Total	<u><u>34</u></u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. The County has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

3. *Contributions.*

The County is required by Article 12D 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 by employees.

The annual required contribution for the fiscal year ended June 30, 2012 was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

Employer annual required contribution	\$ 30,853
Interest on net pension obligation	7,487
Adjustment to annual required contribution	<u>(6,529)</u>
Annual pension cost	31,811
Employer contributions made for fiscal year ending June 30, 2011	<u>7,762</u>
Increase in net pension obligation	24,049
Net pension obligation at beginning of year	<u>149,734</u>
Pension obligation at end of fiscal year	<u><u>\$ 173,783</u></u>

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
6/30/2010	\$ 22,309	34.79%	\$ 121,955
6/30/2011	35,541	21.84%	149,734
6/30/2012	31,811	24.40%	173,783

4. Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$184,290. The covered payroll (annual payroll of active employees covered by the plan) was \$1,174,227, and the ratio of the UAAL to the covered payroll was 15.69 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplement Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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 401(k) 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, 2012 were \$74,543, which consisted of \$56,206 from the County and \$16,128 from the law enforcement officers.

d. Registers of Deeds' Supplemental Pension Fund

Plan Description. Cherokee County also contributes to the Registers of Deeds' Supplemental Pension Fund (Fund), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any 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 3 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2012, the County's required and actual contributions were \$3,033.

e. Other Postemployment Benefit

According to a County resolution, the County provides health care benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least thirty years of creditable service with the County. The County pays the cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County's group rates. Currently nine retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2012, the County paid \$64,031 for postretirement health benefit premiums. The County self funds health care coverage, and provides stop loss protection through private insurers.

Plan Description. Under a County resolution as of December 4, 2006, Cherokee County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employer defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least thirty years of creditable service with the County. The HCB Plan is available to qualified retirees at 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	General Employees	Law Enforcement
Retirees and dependents receiving benefits	6	-
Terminated plan members entitled to but not yet receiving benefits	-	29
Active plan members	270	-
Total	276	29

Funding Policy. The County pays the full cost of coverage for healthcare benefits paid to qualified retirees under a County resolution that can be amended by the Board of Commissioners. The County's members pay \$500 per month for dependent coverage. The County has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 2.09% of annual covered payroll. For the current year, the County contributed \$64,031 or .5% of annual covered payroll. The County provides healthcare coverage through a self funded plan. The County's required contributions, under a Board resolution, for employees not engaged in law enforcement and for law enforcement officers represented .5% and 0.0% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$8,793. The County's obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

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

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

The following table shows the components of the County's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 198,870
Interest on net OPEB obligation	21,525
Adjustment to annual required contribution	(15,145)
Annual OPEB cost (expense)	<u>205,250</u>
Contributions made	(64,031)
Increase (decrease) in net OPEB obligation	<u>141,219</u>
Net OPEB obligation, beginning of year	<u>538,128</u>
Net OPEB obligation, end of year	<u><u>\$ 679,347</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2012 were as follows:

3 Year Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 281,556	16.80%	\$ 396,349
6/30/2011	199,579	28.96%	679,907
6/30/2012	205,250	31.10%	679,347

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus the unfunded actuarial accrued liability (UAAL) was \$1,816,407. The covered payroll (annual payroll of active employees covered by the plan) was \$9,515,956, and the ratio of UAAL to the covered payroll was 19.1 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the 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, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5% to 5% annually. The investment rate included a 3% inflation assumption.

The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

f. Other Employment Benefits

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the County made contributions to the State for death benefits of \$16,201. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 90% and 10% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

The county also provides a \$15,000 death benefit to full time employees. For the fiscal year ended June 30, 2012, the County made contributions for death benefits of \$7,710.

g. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

3. Closure and Postclosure Care Costs- Cherokee County Landfill

State and federal laws and regulations require the County to place a final cover on its Landfill Facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,113,717 as landfill closure and post closure care liability at June 30, 2012 represents a cumulative amount reported to-date based on the use of 90.19 percent of the total estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and post closure care of \$280,851 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2006. The County expects to close the landfill facility in approximately 2030. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County has met the requirements of a local government financial test that is one option under State and federal laws and regulations that help determine if a unit is financially able to meet closure and post closure care requirements. However, if additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or by future tax revenues.

4. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Taxes receivable, net (General)	\$ 1,410,259	\$ -
Taxes receivable (net)	159,114	-
Prepaid taxes	-	134,308
Total	<u>\$ 1,569,373</u>	<u>\$ 134,308</u>

5. 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 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 \$44,512,656 million for any one occurrence, general, auto, 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, worker's compensation coverage up to the 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 a \$2 million limit for liability coverage, \$600,000 aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and employer's liability of \$2,000,000 for workers' compensation.

For medical and dental insurance, the county is reinsured through a commercial carrier for individual losses in excess of \$60,000 and aggregate annual losses in excess of \$2,044,010.

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 Director of Finance is individually bonded for \$100,000. The tax collector, as well as the employees in the tax collector's office are bonded for \$10,000 each. The Register of Deeds is bonded for \$10,000. The Sheriff is bonded for \$25,000. 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.

The County does not carry flood insurance.

6. Contingent Liabilities

At June 30, 2012, the County was a defendant in a lawsuit. In the opinion of the County's management and the County attorney, the ultimate effect of this legal matter will not have a material adverse effect on the County's financial position.

7. Long-Term Obligations**a. Installment Purchase**

As authorized by State law [G.S.160A-20 and 153A-158.1], the County financed various property improvements and additions for use by Cherokee County Board of Education during the fiscal year ended June 30, 2012 by installment purchase. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County has entered into a lease with Cherokee County Board of Education that transfers the rights and responsibilities for maintenance and insurance of the property to the Board of Education. The lease calls for nominal annual lease payments and also contains a bargain purchase option. The lease term is the same as that of the installment purchase obligation. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Board of Education.

The County has used installment purchases for equipment, vehicles, software, buildings, and water improvements.

The County's installment purchases are comprised of the following individual issues:

Governmental Activities

	<u>June 30, 2012</u>
Installment purchase \$3,680,000, 30 semi-annual payments of \$163,122 including interest at an annual rate of 3.83% through June 2013, issued 6-04-98 for schools 33% and sewer improvements 66%.	\$ 317,106
Installment purchase \$1,800,000, 30 semi-annual payments of \$30,000 Plus interest at an annual rate of 3.79% through September 2023, issued 9-19-08 for school improvements.	1,380,000
QZAB Installment purchase \$1,371,355, 14 annual payments of \$97,954 at an annual rate of Zero 0% through August 2022, issued 8-14-08 for school improvements.	1,077,493
Installment purchase \$278,800, 60 quarterly payments of \$6,663, including interest at an annual rate of 5.07% through June 2016, issued 6-21-01 for an office building.	95,951
Installment purchase \$1,750,000, 32 semi annual principal payments of \$58,333 plus interest at an annual rate of 4.31% through June 2017, issued 12-17-02 for schools.	641,666
Installment purchase \$920,124, 8 semi-annual payments of \$115,015 plus interest, at 3.21%, through July 18, 2012, issued 7-7-08 for equipment and software.	115,016
QZAB Installment purchase, 1 payments of \$3,250,000, on December 18, 2016 at 0% interest, issued 12-18-02 for schools annual debt service payment \$174,735.	3,250,000
QZAB Installment purchase, 1 payments of \$3,500,000, on July 16, 2018 at 0% interest, issued 7/16/04 for Schools annual debt service payment \$208,825.	3,500,000
Installment purchase, Authorized \$565,507, 30 annual payments of \$28,275 plus interest at an annual rate of 2.205% through May 2026, issued 5-6-06 for water improvements.	395,857
Installment purchase \$172,300, 10 annual payments of \$21,317 including interest at an annual rate of 4.07% through April 2017, issued 4-17-06 for a Rescue Squad Vehicle.	77,252
Installment purchase \$450,000, 30 annual payments of \$30,000 plus interest at an annual rate of 4.03% through March 2021, issued 3-10-06 for schools.	270,000
Refinanced installment purchase of Detention Center and Sheriff's Office in the amount of \$5,700,000, 18 semi-annual payments of \$316,666.67 plus interest at an annual rate of 1.99% through April 10, 2021, issued April 1, 2012.	5,700,000
Installment purchase \$8,158,780, 15 annual payments of \$543,919, plus interest at 3.27% through December 2025, for renovations and additions to the Courthouse.	7,614,861
Installment purchase \$1,216,000, 15 annual payments of \$81,066 plus interest at 5.50% through December 2015, issued 12-28-25 for the Department of Social Services Building acquisition.	1,134,934
Installment purchase \$184,000, 15 annual payments of \$12,266 plus interest at 5.50% through December 2025, issued 12-28-10 for the Department of Social Services Building acquisition.	171,734
Installment purchase \$1,282,886, 30 semi-annual payments of \$85,526 plus interest at an annual rate of 5.67% through December 2025, issued 12-21-10 for the Andrews High School Renovation. This is a Qualified School Construction Bond and interest paid is refundable.	1,154,597
	<u>\$ 26,896,467</u>

Business Type Activities

Installment purchase \$1,000,000 annual payments of \$51,470 including interest at a rate of 4.125% through September 6, 2047. Issued September 6, 2007 for the Pool and Wellness Center.

\$ 956,520

The annual debt service requirements to maturity for the County are as follows:

Year Ending June 30,	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,439,075	\$ 174,866
2014	2,008,840	145,585
2015	2,010,816	128,254
2016	2,012,885	110,828
2017	5,216,572	93,817
2018-2022	12,144,534	284,022
2023-2026	1,063,745	58,140
Total	\$ 26,896,467	\$ 995,512

Year Ending June 30,	Business Type Activities	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 12,013	\$ 39,456
2014	12,509	38,961
2015	13,025	38,445
2016	13,562	37,908
2017	14,122	37,348
2018-2022	79,843	177,537
2023-2027	97,726	159,624
2028-2032	119,615	137,735
2033 and after	594,105	233,122
Total	\$ 956,520	\$ 900,136

d. Long-term Obligation activity

The following is a summary of changes in the County's long term obligations for the fiscal year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Government Activities:					
Installment purchases	\$ 29,565,601	\$ 75,317	\$ 2,744,451	\$ 26,896,467	\$ 2,439,075
Landfill closure costs	2,950,656	163,061		3,113,717	-
Other					
Post employment benefits	538,128	205,250	(64,031)	679,347	-
Compensated absences	565,621	422,555	423,734	564,442	423,000
Pension benefit obligation	149,734	31,811	7,762	173,783	-
Total Government activities	\$ 33,769,740	\$ 897,994	\$ 3,111,916	\$ 31,427,756	\$ 2,862,075
Business-type activities:					
Installment purchases	\$ 968,057	\$ -	\$ 11,537	\$ 956,520	\$ 12,013
Compensated absences	2,936	1,477	485	3,928	-
Total Business-type activities	\$ 970,993	\$ 1,477	\$ 12,022	\$ 960,448	\$ 12,013

Compensated absences 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 as earned.

Capital Assets, Net of Related Debt

Capital assets, net of related debt at June 30, 2012, are computed as follows

Capital assets, net of accumulated depreciation	\$ 39,105,123
Less capital debt:	
Gross debt	26,896,467
Less:	
School debt related to assets to which the County does not hold title	9,583,089
Unexpended debt proceeds	857,722
Net capital debt	<u>16,455,656</u>
Capital assets, net of related debt	<u>\$ 22,649,467</u>

e. Interfund Balances and Activity

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

Due to the General Fund from:

Sheriff's Federal Methamphetamine Grant	\$ 18,083
Housing Preservation Grant	7,200
Scattered Sites	63,921
Water and Sewer Improvements	333,836
Airport Improvement	145,432
Pool and Wellness Center	4,229
Total	<u>\$ 572,701</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between

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

From the General Fund to the Debt Service fund to accumulate to retire QZAB debt	\$ 383,561
From the General fund to the Airport improvement Fund to accumulate resources for the construction of airport improvements	119,535
From the General Fund to the Revaluation Fund to provide resources for the next property revaluation.	75,000
From the General Fund to the Pool and Wellness Fund to provide operating support.	221,419
From the General Fund to the Courthouse Project Fund for the cost of waterproofing the courthouse.	631,209
From the General Fund to the Health Department Renovation and Expansion Capital Project for grant matching.	25,000
Total	<u>\$ 1,455,724</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant

f. **Fund Balance**

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

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	\$ 12,806,638
Less:	
Inventories	30,763
Stabilization by State Statute	3,578,572
Tax Revaluation	232,642
School Capital Outlay	726,930
Law Enforcement	130,680
Appropriated Fund Balance in 2013 budget	-
Working Capital/ Fund Balance Policy	8,107,051
Remaining Fund Balance	\$ -

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

<i>Encumbrances</i>	<i>General Fund</i> \$ -
---------------------	-----------------------------

IV. **Joint Ventures**

1. Nantahala Regional Library - The County participates in a joint venture to operate the Nantahala Regional Library with two other local governments. The County appoints three members to the board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating government's continued funding. None of the participating governments has any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$183,045 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's office at 101 Blumenthal Street, Murphy, NC, 28906.

2. Smoky Mountain Center for Mental Health Developmental Disability and Substance Abuse Service - The County participates in a joint venture to operate the Smoky Mountain Center for Mental Health Developmental Disability and Substance Abuse Services with six other local governments. The County appoints one member to the board of the Center. The County has an ongoing financial responsibility for the joint venture because the Center's continued existence depends on the participating government's continued funding. None of the participating governments has any equity interest in the Center, so no equity interest has been reflected in the financial statements at June 30, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$75,000 to the Center to supplement its activities. Complete financial statements for the Center can be obtained from the Center's offices at P. O. Box 280, Dillsboro, NC, 28725.

V. Jointly Governed Organizations

The County, in conjunction with seven other counties and sixteen municipalities, established the Southwestern 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 Council's governing board. The County paid membership fees of \$18,027 to the Commission during the fiscal year ended June 30, 2012. The County was the sub recipient of a grant for \$331,595 from the Division of Aging of the North Carolina Department of Human Resources, which was passed through the Commission.

The County, in conjunction with five other counties, established the Nantahala Aids Consortium, Inc. The participating governments established and incorporated the Consortium to arrange and provide outpatient health and support services to people living with HIV and their families. Each participating government's health director is also a director for the Consortium.

VI. Benefit Payments Issued by the State

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

	<u>Federal</u>	<u>State</u>
Temporary Assistance for Needy Families	\$ 61,816	\$ -
Medicaid	26,711,076	15,551,606
WIC	587,208	-
Food Stamp Program	6,521,861	
Payments to Elderly and Disabled		242,561
Adoption Assistance	169,797	45,647
Energy Assistance	239,304	-
Title IV-E Foster Care	127,702	34,706
Total	<u>\$ 34,418,764</u>	<u>\$ 15,874,520</u>

VII. Summary Disclosure of Significant Commitments and Contingencies**Federal and State Assisted Programs**

The County has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys 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 moneys.

VIII. Significant Effects of Subsequent Events

Cherokee County has evaluated events and transactions that occurred between June 30, 2012 and January 31, 2013, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

On July 12, 2012, Cherokee County entered into a contract with Midwest Maintenance, Inc. for waterproofing and repairs to terra cotta dentils, flag pole, and tiles on the historical portion of the county courthouse. The total cost of the contract was \$631,209. This was funded with general fund dollars transferred to the capital project fund for the courthouse renovation and addition project. The contract was completed on December 21, 2012.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

Law Enforcement Officers' Special Separation Allowance

Schedule of Funding Progress

Schedule of Employer Contributions

Other Postemployment Benefits

Schedule of Funding Progress

Schedule of Employer Contributions

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2005	\$ -	\$ 58,320	\$ 58,320	\$ -	\$ 772,323	7.55%
12/31/2006	-	77,485	77,485	-	804,843	9.63%
12/31/2007	-	96,898	96,898	-	1,063,987	9.11%
12/31/2008	-	108,950	108,950	-	1,070,465	10.18%
12/31/2009	-	214,398	214,398	-	1,217,682	17.61%
12/31/2010	-	184,290	184,290	-	1,174,227	15.69%
12/31/2011	-	184,290	184,290	-	1,174,227	15.69%

Schedule of Employer Contributions

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2010	22,309	34.79%
2011	35,541	21.84%
2012	31,811	24.40%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial 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*	4.25% to 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	N/A

Cherokee County, North Carolina
Other Postemployment Benefits
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2008	-	2,020,073	2,020,073	0.00%	9,045,677	22.33%
12/31/2010	-	1,816,407	1,816,407	0.00%	9,515,956	19.10%
12/31/2011	-	1,816,407	1,816,407	100.00%	9,515,956	19.10%

Schedule of Employer Contributions

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2010	281,556	16.80%
2011	199,579	28.96%
2012	205,250	28.96%

Notes to the Required Schedules:

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

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	10.5% - 5.00%
Year of Ultimate trend rate	2018
*Includes inflation at	3.00%

Combining and Individual Fund
Statements and Schedules

GENERAL FUND

The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

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. The Revaluation Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented for informational purposes only.

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Current year taxes		\$ 15,973,283	
Penalties and interest		251,640	
Total	\$ 15,865,088	16,224,923	\$ 359,835
Local option sales taxes:			
Article 39 one percent		2,389,213	
Article 40 one-half of one percent		1,359,518	
Article 42 one-half of one percent		1,211,593	
Article 44 one-half of one percent		(8,885)	
Total	4,527,412	4,951,439	424,027
Other taxes and licenses:			
Register of Deeds - excise tax		182,139	
Car rental tax		4,939	
Local occupancy tax		163,470	
Solid Waste Disposal Tax		21,928	
Franchise Tax		55,198	
State and Federal Drug Tax		19,622	
Civil licenses		3,595	
Total	455,521	450,891	(4,630)
Unrestricted intergovernmental:			
Payments in lieu of taxes		1,239,979	
Fuel tax reimbursements		142	
Total	1,189,680	1,240,121	50,441
Restricted intergovernmental:			
ABC bottle fees		9,788	
Court facility fees		37,055	
Criminal Justice grant		56,567	
Health Department grants		38,142	
Health Department state revenues		733,965	
Juvenile Crime Prevention		83,645	
Lottery proceeds		359,878	
Other grants		192,905	
Public School Building Capital Fund		-	
Transportation ROAP		118,676	
Senior Center		279,653	
Social Services		4,572,326	
Tire Disposal Tax Grant		59,197	
Transportation		250,239	
US Forest Service Timber		177,257	
Total	7,862,503	6,969,293	(893,210)

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues (continued):			
Permits and fees:			
Building permits		177,892	
Fire arm permits		20,255	
Fire inspections		4,275	
Landfill user fees		1,270,993	
Precious metal permits		768	
Register of deeds		205,442	
Water and septic permits		165,507	
Total	<u>1,851,262</u>	<u>1,845,132</u>	<u>(6,130)</u>
Sales and services:			
Ambulance fees		1,392,628	
Aviation gas sales		141,974	
Health Department fees		402,757	
Landfill tipping fees		250,448	
Jet fuel sales		155,914	
Other sales		136,146	
Personnel fees		85,039	
Rents, concessions, and fees		127,509	
Sheriff & jail fees		1,139,850	
Transportation fees		391,323	
Vehicle tax collection fees		833	
Total	<u>3,988,229</u>	<u>4,224,421</u>	<u>236,192</u>
Investment earnings:	<u>25,100</u>	<u>20,187</u>	<u>(4,913)</u>
Miscellaneous:			
ABC Store Distributions		54,938	
Insurance proceeds		280,590	
Other		91,496	
Miscellaneous	<u>347,084</u>	<u>427,024</u>	<u>79,940</u>
Total revenues	<u>36,111,879</u>	<u>36,353,431</u>	<u>241,552</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		76,579	
Operating expenditures		213,528	
Capital outlay		-	
Total	<u>294,621</u>	<u>290,107</u>	<u>4,514</u>
Administration:			
Salaries and employee benefits		155,673	
Operating expenditures		13,170	
Total	<u>176,067</u>	<u>168,843</u>	<u>7,224</u>

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
General government (continued):			
Board of Elections:			
Salaries and employee benefits		157,740	
Operating expenditures		66,952	
Total	<u>250,914</u>	<u>224,692</u>	<u>26,222</u>
Information Technology			
Salaries and employee benefits		133,725	
Operating expenditures		115,375	
Capital outlay		36,935	
Total	<u>298,823</u>	<u>286,035</u>	<u>12,788</u>
Finance:			
Salaries and employee benefits		262,015	
Operating expenditures		96,031	
Total	<u>376,592</u>	<u>358,046</u>	<u>18,546</u>
Tax assessor:			
Salaries and employee benefits		349,665	
Operating expenditures		82,451	
Capital outlay		25,936	
Total	<u>466,332</u>	<u>458,052</u>	<u>8,280</u>
Tax collector:			
Salaries and employee benefits		166,536	
Operating expenditures		50,330	
Total	<u>227,994</u>	<u>216,866</u>	<u>11,128</u>
Land records:			
Salaries and employee benefits		119,788	
Operating expenditures		33,439	
Capital outlay		16,995	
Total	<u>171,237</u>	<u>170,222</u>	<u>1,015</u>
Register of deeds:			
Salaries and employee benefits		152,464	
Operating expenditures		189,959	
Total	<u>355,285</u>	<u>342,423</u>	<u>12,862</u>
Public buildings:			
Salaries and employee benefits		182,816	
Operating expenditures		291,858	
Total	<u>489,367</u>	<u>474,674</u>	<u>14,693</u>
Court facilities:			
Operating expenditures		91,303	
Total	<u>121,877</u>	<u>91,303</u>	<u>30,574</u>

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
General government (continued):			
Central services:			
Salaries and employee benefits		520	
Operating expenditures		264,249	
Total	301,172	264,769	36,403
Special appropriations:			
Region A		18,027	
Total	18,027	18,027	-
Total general government	3,548,308	3,364,058	184,250
Public safety:			
Sheriff department:			
Salaries and employee benefits		1,884,958	
Operating expenditures		398,131	
Capital outlay		56,427	
Total	2,380,935	2,339,516	41,419
Jail:			
Salaries and employee benefits		1,651,733	
Operating expenditures		964,080	
Capital outlay		11,592	
Total	2,660,175	2,627,405	32,770
Ambulance service:			
Salaries and employee benefits		1,905,403	
Operating expenditures		384,582	
Capital outlay		154,993	
Total	2,446,600	2,444,978	1,622
Criminal justice:			
Salaries and employee benefits		27,047	
Operating expenditures		27,310	
Capital outlay		-	
Total	58,504	54,357	4,147
911 addressing:			
Salaries and employee benefits		26,445	
Operating expenditures		11,627	
Total	123,988	38,072	85,916
Emergency communications:			
Salaries and employee benefits		441,976	
Operating expenditures		14,104	
Total	485,226	456,080	29,146

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Public safety (continued):			
Emergency management:			
Salaries and employee benefits		108,150	
Operating expenditures		65,872	
Capital outlay		5,683	
Total	<u>192,559</u>	<u>179,705</u>	<u>12,854</u>
Building inspector:			
Salaries and employee benefits		233,287	
Operating expenditures		15,621	
Total	<u>253,121</u>	<u>248,908</u>	<u>4,213</u>
Fire inspections:			
Salaries and employee benefits		104,873	
Operating expenditures		78,291	
Capital outlay		7,706	
Total	<u>192,467</u>	<u>190,870</u>	<u>1,597</u>
Medical examiner:			
Operating expenditures		28,000	
Total	<u>32,700</u>	<u>28,000</u>	<u>4,700</u>
Animal control:			
Operating expenditures		22,850	
Total	<u>40,000</u>	<u>22,850</u>	<u>17,150</u>
Gang prevention:			
Salaries and employee benefits		52,173	
Operating expenditures		8,108	
Total	<u>63,500</u>	<u>60,281</u>	<u>3,219</u>
Special appropriations:			
NC Forest Service-Fire protection		48,275	
Valley River Rescue Squad		50,000	
Cherokee County Rescue Squad		50,000	
Total	<u>163,658</u>	<u>148,275</u>	<u>15,383</u>
Total public safety	<u>9,093,433</u>	<u>8,839,294</u>	<u>254,139</u>

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Transportation:			
Airport:			
Salaries and employee benefits		51,290	
Operating expenditures		300,942	
Total	415,090	352,232	62,858
Public transportation:			
Salaries and employee benefits		448,690	
Operating expenditures		200,166	
Capital outlay		118,719	
Total	800,746	767,575	33,171
Total transportation	1,215,836	1,119,809	96,027
Environmental protection:			
Solid waste:			
Salaries and employee benefits		706,991	
Operating expenditures		469,128	
Capital outlay		119,504	
Total	1,455,537	1,295,623	159,914
Total environmental protection	1,455,537	1,295,623	159,914
Economic and physical development:			
Economic development:			
Salaries and employee benefits		60,062	
Operating expenditures		4,946	
Total	67,693	65,008	2,685
Cooperative extension:			
Salaries and employee benefits		136,232	
Operating expenditures		29,374	
Grants		1,257	
Total	189,724	166,863	22,861
Economic and physical development (continued):			
Soil and water conservation:			
Salaries and employee benefits		85,208	
Total	85,696	85,208	488
Special appropriations:			
Cherokee County Board of Tourism		155,721	
Soil and water conservation district		81,259	
Hiwassee River Coalition		2,500	
Total	253,759	239,480	14,279
Total economic and physical development	596,872	556,560	40,312

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Human services:			
Health department:			
Administration:			
Salaries and employee benefits		468,605	
Operating expenditures		96,041	
Total		<u>564,646</u>	
Health programs:			
Health promotion		15,922	
Lab		199,047	
Bio Terrorism		61,584	
Immunization		113,718	
Communicable disease		29,563	
Adult health		16,886	
Andrews clinic		59,965	
Maternal health		60,724	
Women's health		43,468	
Breast and cervical cancer		37,208	
Breast feeding peer counseling		7,439	
School based clinic		81,294	
School nurse initiative		108,737	
Medication management		31,944	
STD		19,979	
Family planning		179,896	
WIC		152,558	
Child health		39,719	
Child service coordinator		32,646	
Smart start		33,415	
Total		<u>1,325,712</u>	
Environmental health:			
Salaries and employee benefits		139,118	
Operating expenditures		13,615	
Total		<u>152,733</u>	
Food and lodging:			
Salaries and employee benefits		143,030	
Operating expenditures		2,546	
Total		<u>145,576</u>	
 Total Health Department	 <u>2,396,120</u>	 <u>2,188,667</u>	 <u>207,453</u>

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Human services (continued):			
Social services:			
Administration:			
Salaries and employee benefits		2,934,557	
Operating expenses		3,172,052	
Capital outlay		20,869	
Total social services	6,914,581	6,127,478	787,103
Senior citizens program:			
Salaries and employee benefits		186,938	
Operating expenses		163,938	
Total senior citizens program	366,573	350,876	15,697
Mental health:			
Operating expenses		75,000	
Total mental health	75,000	75,000	-
Veterans service officer:			
Salaries and employee benefits		5,609	
Operating expenses		1,657	
Total mental health	8,855	7,266	1,589
Special appropriations:			
Industrial Opportunities, Inc.		50,000	
State of Franklin Health Council		14,000	
Haven Child Advocacy		10,000	
Juvenile Crime Prevention Programs		100,866	
Cherokee County Food Bank		3,400	
Total	178,270	178,266	4
Total human services	9,939,398	8,927,558	1,011,840
Cultural and recreational:			
Library:			
Operating expenditures		183,045	
Total	183,045	183,045	-
Parks and recreation:			
Salaries and employee benefits		206,122	
Operating expenditures		77,138	
Capital outlay		16,646	
Total	324,335	299,906	24,429
Museum:			
Salaries and employee benefits		39,304	
Operating expenditures		83	
Total	39,582	39,387	195
Total cultural and recreation	546,962	522,337	24,625

Cherokee County, North Carolina

General Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Education:			
Public schools - current		5,194,703	
Public schools - County appropriations		841,683	
Community college - current		676,805	
Total education	6,790,927	6,713,191	77,736
Debt service:			
Principal retirements		2,744,451	
Interest and fees		773,642	
Total debt service	3,545,522	3,518,093	27,429
Total expenditures	36,732,795	34,856,523	1,876,272
Revenues over expenditures	(620,916)	1,496,908	2,117,824
Other financing sources (uses):			
Transfers from other funds:	460,574	-	(460,574)
Transfers to other funds:	(1,455,725)	(1,455,724)	1
Proceeds from long term debt issued	-	75,317	75,317
Total other financing sources (uses)	(995,151)	(1,380,407)	(385,256)
Revenues over expenditures before appropriations	(1,616,067)	-	1,732,568
Appropriated fund balance	1,616,067	-	(1,616,067)
Net change in fund balance	\$ -	116,501	\$ 116,501
Fund balance, beginning as previously reported		12,440,083	
Prior period adjustment		17,412	
Fund balance, beginning as restated		12,457,495	
Fund balance, ending		\$ 12,573,996	

Cherokee County, North Carolina

Revaluation Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ 500	\$ 442	\$ (58)
Total revenues	<u>500</u>	<u>442</u>	<u>(58)</u>
Expenditures:			
Current:			
General government:			
Salaries and employee benefits		25,359	
Operating expenditures		97,879	
Capital outlay		-	
Total expenditures	<u>266,730</u>	<u>123,238</u>	<u>143,492</u>
Revenues over (under) expenditures	<u>(266,230)</u>	<u>(122,796)</u>	<u>143,434</u>
Other financing sources (uses):			
Transfer in:			
General Fund		75,000	
Total other financing sources (uses)	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Appropriated fund balance	191,230	-	(191,230)
Revenues and other sources over (under) expenditures	<u>\$ -</u>	(47,796)	<u>\$ (47,796)</u>
Fund balance, beginning		<u>280,438</u>	
Fund balances, ending		<u>\$ 232,642</u>	

MAJOR GOVERNMENTAL FUNDS

The County has two major governmental funds.

Special Revenue Funds:

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Debt Service Fund – This fund accounts for the accumulation of resources to be used for the retirement of QZAB debt owed by the County.

Capital Project Funds:

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by other funds.

Courthouse Project Fund – This fund is used to account for the renovation to the Courthouse.

Cherokee County, North Carolina

Debt Service Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ 77,013	\$ 103,288	\$ 26,275
Total revenues	<u>77,013</u>	<u>103,288</u>	<u>26,275</u>
Other financing sources (uses):			
Transfer in:			
General Fund		383,561	
Total other financing sources (uses)	<u>383,561</u>	<u>383,561</u>	<u>-</u>
Appropriated fund balance	(460,574)	-	460,574
Revenues and other sources over (under) expenditures	<u>\$ -</u>	486,849	<u>\$ 486,849</u>
Fund balance, beginning		<u>3,028,162</u>	
Fund balances, ending		<u>\$ 3,515,011</u>	

Cherokee County, North Carolina

Courthouse Project Fund

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

From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual		Total to Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
Revenues:					
Interest	\$ -	\$ 4,593	\$ 3,662	\$ 8,255	\$ 8,255
Total revenues	<u>-</u>	<u>4,593</u>	<u>3,662</u>	<u>8,255</u>	<u>8,255</u>
Expenditures:					
Education:					
Capital outlay:					
Administration		4,046	10,664	14,710	
Construction		2,586,276	4,639,937	7,226,213	
Professional services		115,987	119,988	235,975	
Contingency		11,800	86,932	98,732	
Total expenditures	<u>8,789,989</u>	<u>2,718,109</u>	<u>4,857,521</u>	<u>7,575,630</u>	<u>1,214,359</u>
Revenues over (under) expenditures	<u>(8,789,989)</u>	<u>(2,713,516)</u>	<u>(4,853,859)</u>	<u>(7,567,375)</u>	<u>1,222,614</u>
Other financing sources (uses):					
Transfer from other funds			631,209	631,209	
Installment purchase proceeds		8,158,780	-	8,158,780	
Total other financing sources (uses)	<u>8,789,989</u>	<u>8,158,780</u>	<u>631,209</u>	<u>8,789,989</u>	<u>-</u>
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 5,445,264</u>	<u>(4,222,650)</u>	<u>\$ 1,222,614</u>	<u>\$ 1,222,614</u>
Fund balance, beginning			<u>5,445,264</u>		
Fund balance, ending			<u>\$ 1,222,614</u>		

Non-major Governmental Funds

The County has ten non-major governmental funds.

Special Revenue Funds:

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Emergency Telephone System Fund – This fund was established in accordance with North Carolina law to account for the accumulation of telephone surcharges to be used for emergency telephone systems.

Fire District Fund – This fund accounts for the ad valorem tax levies of the fire districts in Cherokee County.

Sheriff's Federal Methamphetamine Grant – This fund accounts for a Multi year grant to fight the Methamphetamine drug problem in western NC.

Bear Paw Service District Fund – This fund is established to account for the ad valorem tax levies of the Bear Paw Service District.

Scattered Sites Housing Fund - This fund is established to account for the Grant to build housing for the elderly and disabled.

Housing Preservation Grant Fund - This fund is established to account for the Grant to repair or rehabilitate low- and very low-income housing.

Capital Project Funds:

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by other funds.

School Improvement Fund – This fund is used to account for the construction of the new school facilities.

Health Department Renovation and Expansion Capital Project – This fund is used to account for the renovations, expansion and the purchase of a mobile unit for the Andrews Health Center.

Water and Sewer Improvement Fund – This fund is used to account for the construction and improvements to the water and sewer systems in the County. Once completed the improvements are transferred to local municipalities.

Airport Improvement Projects Fund - This fund is used to account for the construction of major capital outlay projects for the Andrews-Murphy Airport.

Capital Reserve Fund - This fund is used for the purchase of the Cornerstone Building.

Cherokee County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 385,001	\$ -	\$ 385,001
Restricted cash	2	74,539	74,541
Investments	-	-	-
Taxes receivable (net)	159,114	-	159,114
Accounts receivable	116,058	527,340	643,398
Due from other funds	-	-	-
Due from other governments	-	-	-
Deposits and prepaid	-	-	-
	<u>\$ 660,175</u>	<u>\$ 601,879</u>	<u>\$ 1,262,054</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 201,388	\$ 7,994	\$ 209,382
Due to other funds	89,204	479,268	568,472
Deferred revenue-taxes	159,114	-	159,114
Unearned revenues	-	-	-
	<u>449,706</u>	<u>487,262</u>	<u>936,968</u>
Fund balances:			
Restricted:	-	-	-
Stabilization by state statute	116,058	-	116,058
Public safety	210,469	-	210,469
Transportation	-	40,078	40,078
Economic and physical development	-	-	-
Human services	-	74,539	74,539
Fire protection	-	-	-
School capital	-	-	-
Unassigned	(116,058)	-	(116,058)
	<u>210,469</u>	<u>114,617</u>	<u>325,086</u>
Total fund balances	<u>210,469</u>	<u>114,617</u>	<u>325,086</u>
Total liabilities and fund balances	<u>\$ 660,175</u>	<u>\$ 601,879</u>	<u>\$ 1,262,054</u>

Cherokee County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2012

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:			
Ad valorem taxes	\$ 1,630,315	\$ -	\$ 1,630,315
Other taxes and licenses	-	-	-
Restricted intergovernmental	564,612	1,444,100	2,008,712
Restricted other	-	-	-
Investment earnings	880	20	900
Total revenues	<u>2,195,807</u>	<u>1,444,120</u>	<u>3,639,927</u>
Expenditures:			
Current:			
General government	304,912	-	304,912
Public safety	1,907,566	-	1,907,566
Transportation	-	888,253	888,253
Education	-	525,570	525,570
Economic development	360,796	603,581	964,377
Human services	-	46,300	46,300
Capital outlay	-	-	-
Total expenditures	<u>2,573,274</u>	<u>2,063,704</u>	<u>4,636,978</u>
Excess (deficiency) of revenues over expenditures	(377,467)	(619,584)	(997,051)
Other financing sources (uses):			
Installment financings	-	-	-
Transfers from other funds	-	144,535	144,535
Transfers to other funds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>144,535</u>	<u>144,535</u>
Net change in fund balances	(377,467)	(475,049)	(852,516)
Fund balances, beginning as restated	<u>587,936</u>	<u>589,666</u>	<u>1,177,602</u>
Fund balances, ending	<u>\$ 210,469</u>	<u>\$ 114,617</u>	<u>\$ 325,086</u>

Cherokee County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Special Revenue Funds
June 30, 2012

	Emergency Telephone System Fund	Fire District Fund	Federal COPS Meth Grant
Assets			
Cash and cash equivalents	\$ 367,506	\$ 16,464	\$ -
Restricted cash	-	-	-
Investments	-	-	-
Taxes receivable (net)	-	141,507	-
Accounts receivable	-	-	18,083
Due from other funds	-	-	-
Due from other governments	-	-	-
Deposits and Prepaid	-	-	-
Total assets	\$ 367,506	\$ 157,971	\$ 18,083
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 157,037	\$ 16,464	\$ -
Due to other funds	-	-	18,083
Deferred revenue-Taxes	-	141,507	-
Unearned Revenues	-	-	-
Total liabilities	157,037	157,971	18,083
Fund balances:			
Restricted:			
Stabilization by State Statute	-	-	18,083
Public Safety	210,469	-	-
Transportation	-	-	-
Economic and Physical Development	-	-	-
Human Services	-	-	-
Fire Protection	-	-	-
School	-	-	-
Unassigned	-	-	(18,083)
Total fund balances	210,469	-	-
Total liabilities and fund balances	\$ 367,506	\$ 157,971	\$ 18,083

Bear Paw Service District	Scattered Sites Housing Fund	Housing Preservation Grant Fund	Total Nonmajor Special Revenue Funds
\$ 1,031	\$ -	\$ -	\$ 385,001
-	2	-	2
-	-	-	-
17,607	-	-	159,114
-	90,775	7,200	116,058
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 18,638</u>	<u>\$ 90,777</u>	<u>\$ 7,200</u>	<u>\$ 660,175</u>
\$ 1,031	\$ 26,856	\$ -	\$ 201,388
-	63,921	7,200	89,204
17,607	-	-	159,114
-	-	-	-
<u>18,638</u>	<u>90,777</u>	<u>7,200</u>	<u>449,706</u>
-	90,775	7,200	116,058
-	-	-	210,469
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	(90,775)	(7,200)	(116,058)
-	-	-	210,469
<u>\$ 18,638</u>	<u>\$ 90,777</u>	<u>\$ 7,200</u>	<u>\$ 660,175</u>

Cherokee County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Special Revenue Funds
June 30, 2012

	Emergency Telephone System Fund	Fire District Fund	Bear Paw Service District
Revenues:			
Ad valorem taxes	\$ -	\$ 1,325,403	\$ 304,912
Other taxes and licenses	-	-	-
Restricted intergovernmental	203,816	-	-
Restricted other	-	-	-
Investment earnings	880	-	-
Total revenues	<u>204,696</u>	<u>1,325,403</u>	<u>304,912</u>
Expenditures:			
Current:			
General government	-	-	304,912
Public safety	582,163	1,325,403	-
Transportation	-	-	-
Education	-	-	-
Economic Development	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>582,163</u>	<u>1,325,403</u>	<u>304,912</u>
Excess (deficiency) of revenues over expenditures	(377,467)	-	-
Other financing sources (uses):			
Installment financings			
Transfers from other funds	-	-	
Transfers to other funds	-	-	
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(377,467)	-	-
Fund balances, beginning as restated	<u>587,936</u>	<u>-</u>	<u>-</u>
Fund balances, ending	<u>\$ 210,469</u>	<u>\$ -</u>	<u>\$ -</u>

Scattered Sites Housing Fund	Housing Preservation Grant Fund	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 1,630,315
-	-	-
317,596	43,200	564,612
-	-	-
-	-	880
<u>317,596</u>	<u>43,200</u>	<u>2,195,807</u>
		304,912
		1,907,566
		-
		-
317,596	43,200	360,796
-	-	-
<u>317,596</u>	<u>43,200</u>	<u>2,573,274</u>
-	-	(377,467)
-	-	-
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
-	-	(377,467)
-	-	587,936
<u>-</u>	<u>-</u>	<u>587,936</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,469</u>

Cherokee County, North Carolina
Emergency Telephone System Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental	\$ 390,000	\$ 203,816	\$ (186,184)
Investment earnings	2,600	880	(1,720)
Total revenues	<u>392,600</u>	<u>204,696</u>	<u>(187,904)</u>
Expenditures:			
Public safety			
Operating expenditures			
Supplies & materials		9,479	
Language services		130	
Travel & training		69,585	
Telephone		43,915	
Maintenance		36,828	
Software		11,214	
Department allocation		81,727	
Capital outlay		329,285	
Total expenditures	<u>550,557</u>	<u>582,163</u>	<u>(31,606)</u>
Excess (deficiency) of revenues over expenditures	<u>(157,957)</u>	<u>(377,467)</u>	<u>(219,510)</u>
Other financing sources (uses):			
Transfers in		-	
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	157,957	-	(157,957)
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>(377,467)</u>	<u>\$ (377,467)</u>
Fund balance, beginning as previously reported		572,130	
Prior period adjustment		15,806	
Fund balance, beginning as restated		<u>587,936</u>	
Fund balances, ending		<u>\$ 210,469</u>	

Cherokee County, North Carolina

Fire District Fund

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 1,439,979	\$ 1,325,403	\$ (114,576)
Total revenues	<u>1,439,979</u>	<u>1,325,403</u>	<u>(114,576)</u>
Expenditures:			
Public safety:			
Bellview Fire District		90,835	
Brasstown Fire District		13,029	
Culberson Fire District		55,480	
Grape Creek Fire District		24,579	
Hanging Dog Fire District		41,274	
Hiwassee Fire District		164,355	
Wolf Creek Fire District		62,472	
Martins Creek Fire District		79,720	
Peachtree Fire District		161,962	
Murphy Rural Fire District		196,994	
Ranger Fire District		109,580	
Unaka Fire District		31,970	
Valleytown Fire District		293,153	
Total expenditures	<u>1,439,979</u>	<u>1,325,403</u>	<u>114,576</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning		<u>-</u>	
Fund balances, ending		<u>\$ -</u>	

Cherokee County, North Carolina

Bear Paw Service District

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 334,280	\$ 304,912	\$ (29,368)
Total revenues	<u>334,280</u>	<u>304,912</u>	<u>(29,368)</u>
Expenditures:			
General government:			
Bear Paw Service District	<u>334,280</u>	<u>304,912</u>	<u>29,368</u>
Total expenditures	<u>334,280</u>	<u>304,912</u>	<u>29,368</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	-	-	-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning		<u>-</u>	
Fund balances, ending		<u>\$ -</u>	

Cherokee County, North Carolina

Scattered Sites Housing Project

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

From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Grants	800,000	32,172	317,596	349,768	(450,232)
Total revenues	800,000	32,172	317,596	349,768	(450,232)
Expenditures:					
Economic and physical development:					
Capital outlay:					
Administration		32,172	23,441	55,613	
Clearance		-	-	-	
Planning		-	6,983	6,983	
Rehabilitation/Re-Construction		-	279,599	279,599	
Temporary relocation		-	7,573	7,573	
Engineering		-	-	-	
Construction		-	-	-	
Inspection		-	-	-	
Total expenditures	800,000	32,172	317,596	349,768	450,232
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other financing sources (uses):					
Transfer to General Fund				-	-
Total other financing sources (uses)	-	-	-	-	-
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

Cherokee County, North Carolina
Housing Preservation Grant Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Grants	43,500	-	43,200	43,200	(300)
Total revenues	43,500	-	43,200	43,200	(300)
Expenditures:					
Economic and physical development:					
Administration	6,000	-	6,000	6,000	
Construction	37,500	-	37,200	37,200	
Total expenditures	43,500	-	43,200	43,200	300
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other financing sources (uses):					
Transfer to General Fund				-	-
Total other financing sources (uses)	-	-	-	-	-
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

Cherokee County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Capital Project Funds
June 30, 2012

	Water & Sewer Improvements	Capital Reserve	Health Department Renovation and Expansion Capital Project	Airport Improvements	Total Nonmajor Capital Projects Fund
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash	-	41,839	32,700	-	74,539
Investments	-	-	-	-	-
Taxes receivable (net)	-	-	-	-	-
Accounts receivable	333,836	-	-	193,504	527,340
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Deposits and Prepaid	-	-	-	-	-
Total assets	\$ 333,836	\$ 41,839	\$ 32,700	\$ 193,504	\$ 601,879
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 7,994	\$ 7,994
Due to other funds	333,836	-	-	145,432	479,268
Deferred revenue-taxes	-	-	-	-	-
Unearned revenues	-	-	-	-	-
Total liabilities	333,836	-	-	153,426	487,262
Fund balances:					
Restricted:					
Stabilization by state statute	-	-	-	-	-
Public Safety	-	-	-	-	-
Transportation	-	-	-	40,078	40,078
Economic and physical development	-	-	-	-	-
Human services	-	41,839	32,700	-	74,539
Fire protection	-	-	-	-	-
School capital	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	-	41,839	32,700	40,078	114,617
Total liabilities and fund balances	\$ 333,836	\$ 41,839	\$ 32,700	\$ 193,504	\$ 601,879

Cherokee County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Capital Project Funds
June 30, 2012

	School Improvements	Water & Sewer Improvements	Capital Reserve
Revenues:			
Restricted intergovernmental	\$ -	\$ 603,581	
Investment earnings	-	-	20
Total revenues	-	603,581	20
Expenditures:			
Current:			
Transportation	-	-	
Education	525,570	-	
Economic development	-	603,581	
Human services	-	-	-
Total expenditures	525,570	603,581	-
Excess (deficiency) of revenues over expenditures	(525,570)	-	20
Other financing sources (uses):			
Transfers from other funds	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(525,570)	-	20
Fund balances, beginning	525,570	-	41,819
Fund balances, ending	\$ -	\$ -	\$ 41,839

Health Department Renovation and Expansion Capital Project	Airport Improvements	Total Nonmajor Capital Projects Fund
\$ 54,000	\$ 786,519	\$ 1,444,100
-	-	20
<u>54,000</u>	<u>786,519</u>	<u>1,444,120</u>
	888,253	888,253
	-	525,570
	-	603,581
46,300		46,300
<u>46,300</u>	<u>888,253</u>	<u>2,063,704</u>
7,700	(101,734)	(619,584)
<u>25,000</u>	<u>119,535</u>	<u>144,535</u>
<u>25,000</u>	<u>119,535</u>	<u>144,535</u>
32,700	17,801	(475,049)
-	22,277	589,666
<u>\$ 32,700</u>	<u>\$ 40,078</u>	<u>\$ 114,617</u>

Cherokee County, North Carolina

School Improvement Project

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

From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Interest	\$ 2,619	\$ 2,619	\$ -	\$ 2,619	\$ -
NC lottery proceeds	164,000	164,000	-	164,000	-
Total revenues	166,619	166,619	-	166,619	-
Expenditures:					
Education:					
Capital outlay:					
Murphy High School project	1,356,104	1,356,104	-	1,356,104	-
Ranger School addition	1,951,398	1,951,398	-	1,951,398	-
Andrews High	1,282,886	757,316	525,570	1,282,886	-
Total expenditures	4,590,388	4,064,818	525,570	4,590,388	-
Excess (deficiency) of revenues over expenditures	(4,423,769)	(3,898,199)	(525,570)	(4,423,769)	-
Other financing sources (uses):					
QZAB financing	1,371,355	1,371,355	-	1,371,355	-
Other installment financing	1,800,000	1,800,000	-	1,800,000	-
Qualified school construction bond	1,282,886	1,282,886	-	1,282,886	-
Transfer to General Fund	(30,472)	-	-	-	(30,472)
Total other financing sources (uses)	4,423,769	4,454,241	-	4,454,241	30,472
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	\$ -	\$ 556,042	(525,570)	\$ 30,472	\$ 30,472
Fund balance, beginning			525,570		
Fund balance, ending			\$ -		

Cherokee County, North Carolina

Sewer and Water

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

From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Grants	1,031,000	312,071	603,581	915,652	(115,348)
Total revenues	1,031,000	312,071	603,581	915,652	(115,348)
Expenditures:					
Economic and physical development:					
Capital outlay:					
Administration		35,333	21,270		
Engineering		91,200	-		
Construction		185,538	547,311		
Inspection		-	35,000		
Total expenditures	1,031,000	312,071	603,581	915,652	115,348
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other financing sources (uses):					
Transfer to General Fund				-	-
Total other financing sources (uses)	-	-	-	-	-
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

Cherokee County, North Carolina
Capital Reserve - Cornerstone Building

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Interest	\$ -	\$ 90	\$ 20	\$ 110	\$ 110
Total revenues	-	90	20	110	110
Expenditures:					
Human services					
Capital outlay	1,600,000	1,358,271	-	1,358,271	241,729
Total expenditures	1,600,000	1,358,271	-	1,358,271	241,729
Excess (deficiency) of revenues over expenditures	(1,600,000)	(1,358,181)	20	(1,358,161)	241,839
Other financing sources (uses):					
Installment purchase proceeds	1,600,000	1,400,000	-	1,400,000	(200,000)
Total other financing sources (uses)	1,600,000	1,400,000	-	1,400,000	(200,000)
Appropriated fund balance	-	-	-		-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 41,819</u>	20	<u>\$ 41,839</u>	<u>\$ 41,839</u>
Fund balance, beginning			<u>41,819</u>		
Fund balance, ending			<u>\$ 41,839</u>		

Cherokee County, North Carolina
Health Department Renovation and Expansion Capital Project
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual		Total to Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ 54,000	\$ 54,000	\$ 54,000
Total revenues	550,000	-	54,000	54,000	(496,000)
Expenditures:					
Human services					
Capital outlay	64,000	-	46,300	46,300	17,700
Total expenditures	575,000	-	46,300	46,300	528,700
Excess (deficiency) of revenues over expenditures	(25,000)	-	7,700	7,700	32,700
Other financing sources (uses):					
Transfer from other funds	25,000	-	25,000	25,000	-
Total other financing sources (uses)	25,000	-	25,000	25,000	-
Appropriated fund balance	-	-	-		-
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	32,700	<u>\$ 32,700</u>	<u>\$ 32,700</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ 32,700</u>		

Cherokee County, North Carolina

Airport Improvement Project

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

From Inception and for the Fiscal Year Ended June 30, 2012

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Grant-36237.41.6.2	\$ 850,000	\$ 850,000	\$ -	\$ 850,000	\$ -
Grant-36244.55.3.1	174,843	174,844	-	174,844	1
Grant-36237.41.8.1	150,000	3,640	-	3,640	(146,360)
Grant-36237.41.9.2	150,000	688,936	-	688,936	538,936
Grant-36237.41.9.1	1,574,500	-	(62,575)	(62,575)	(1,637,075)
Grant-36237.41.10.1	150,000	30,761	-	30,761	(119,239)
Grant-36237.41.10.2	410,400	26	-	26	(410,374)
Grant-36237.41.10.3	958,200	819,622	17,541	837,163	(121,037)
Grant-36237.41.11.1	241,648	-	211,297	211,297	(30,351)
Grant-36237.41.11.3	355,628	-	-	-	(355,628)
Grant-36237.41.11.2	661,500	-	557,681	557,681	(103,819)
Grant-36237.41.12.1	62,575	-	62,575	62,575	-
Total revenues	5,739,294	2,567,829	786,519	3,354,348	(2,384,946)
Expenditures:					
Transportation:					
Land acquisition 41.6.2	944,444	944,444	-	944,444	-
Pavement rehabilitation 55.3.1	194,271	194,270	-	194,270	1
T Hanger taxi lanes 41.8.1	166,666	4,044	-	4,044	162,622
Taxi ways extension phase II 41.9.1	166,667	-	-	-	166,667
Taxi ways & parking phase I 41.9.2	1,737,833	708,423	(70,743)	637,680	1,100,153
Taxi ways extension phase I 41.10.1	166,667	34,178	-	34,178	132,489
Land acquisition 41.10.2	456,000	260	(260)	-	456,000
Runway approach I 41.10.3	1,064,667	908,257	20,073	928,330	136,337
Taxi ways extension phase 41.11.1	268,498	-	235,274	235,274	33,224
Improve runway 8 safety area 41.11.3	395,142	-	2,156	2,156	392,986
Parallel taxi way project 41.11.2	735,000	1,718	631,009	632,727	102,273
Aviation access driveway 41.12.1	70,744	-	70,744	70,744	-
Total expenditures	6,366,599	2,795,594	888,253	3,683,847	2,682,752
Excess (deficiency) of revenues over expenditures	(627,305)	(227,765)	(101,734)	(329,499)	297,806
Other financing sources (uses):					
Transfer from General Fund	627,305	485,537	119,535	605,072	(22,233)
Total other financing sources (uses)	627,305	485,537	119,535	605,072	(22,233)
Appropriated fund balance	-	-	-	-	-
Revenues and other sources over (under) expenditures	\$ -	\$ 257,772	17,801	\$ 275,573	\$ 275,573
Fund balance, beginning			22,277		
Fund balance, ending			\$ 40,078		

Enterprise Fund

The Cherokee County Pool and Wellness Center. This fund is used to account for the operation of the fitness and recreation center.

Cherokee County, North Carolina
Pool and Wellness Center
Statement of Revenues, Expenditures - Budget and Actual (non-GAAP)
For the Year Ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Charges for services:			
Membership & fees		\$ 359,408	
Total operating revenues	<u>\$ 380,080</u>	<u>359,408</u>	<u>\$ (20,672)</u>
Nonoperating revenues:			
Contributions		18,747	
Total nonoperating revenues	<u>178,424</u>	<u>18,747</u>	<u>(159,677)</u>
Total revenues	<u>558,504</u>	<u>378,155</u>	<u>(180,349)</u>
Other financing sources:			
Transfer from other funds:	-	221,419	221,419
Total revenues and other financing sources	<u>558,504</u>	<u>599,574</u>	<u>41,070</u>
EXPENDITURES:			
Operations:			
Salaries & employee benefits		227,457	
Supplies		28,314	
Travel		1,490	
Utilities		95,174	
Maintenance		18,862	
Other		31,807	
Advertising		3,123	
Capital outlay		6,707	
Total operating expenses	<u>507,004</u>	<u>412,934</u>	<u>94,070</u>
Debt service:			
Interest	40,000	39,534	
Principal	<u>11,500</u>	<u>11,538</u>	
Total debt service	<u>51,500</u>	<u>51,072</u>	<u>428</u>
Total expenditures:	<u>558,504</u>	<u>464,006</u>	<u>94,498</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 135,568</u>	<u>\$ 135,568</u>
Reconciliation from Budgetary Basis (modified accrual) to Full accrual:			
Revenues and other financing sources over (under) expenditures		\$ 135,568	
Reconciling items:			
Principal retirement		11,538	
Depreciation		(99,932)	
Capital outlay		6,707	
Decrease in accrued vacation pay		(992)	
Total reconciling items		<u>(82,679)</u>	
Change in net assets		<u>\$ 52,889</u>	

TRUST AND AGENCY FUNDS

Trust Funds are used to account for assets held by the county in a Trustee capacity. Agency Funds are used to account for assets held by the county as an agent for individual and/or other governments.

Trust Funds:

Sheriff's Fund – This fund accounts for moneys held by the Sheriff for the benefit of inmates while they are incarcerated and for funds held for the Clerk of the court.

Agency Funds:

Fines and Forfeitures Fund – This fund accounts for fines and forfeitures collected by the County that are required to be remitted to the Cherokee County Board of Education

Deed of Trust Fee Fund – This fund accounts for five dollars of each fee collected by the Register of Deeds for registering or filing a deed of trust or mortgage and remitted to the State Treasurer on a monthly basis.

Motor Vehicle Tax Fund – This fund accounts for the proceeds of the motor vehicle taxes that are collected by the County on behalf of the municipalities within the County.

Cherokee County, North Carolina
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Social Services</u>				
Assets:				
Cash and cash equivalents	\$ 56,769	\$ 488,676	\$ 486,610	\$ 58,835
Liabilities:				
Miscellaneous liabilities	\$ 56,769	\$ 488,676	\$ 486,610	\$ 58,835
<u>Deed of Trust</u>				
Assets:				
Cash and cash equivalents	\$ -	\$ 5,926	\$ 5,926	\$ -
Liabilities:				
Intergovernmental payable State of NC	\$ -	\$ 5,926	\$ 5,926	\$ -
<u>Sheriff's Fund</u>				
Assets:				
Cash and cash equivalents	\$ 75,729	\$ 217,132	\$ 215,098	\$ 77,763
Liabilities:				
Miscellaneous liabilities	\$ 75,729	\$ 217,132	\$ 215,098	\$ 77,763
<u>Fines and Forfeitures</u>				
Assets:				
Cash and cash equivalents	\$ -	\$ 139,599	\$ 139,599	\$ -
Liabilities:				
Intergovernmental payable- Cherokee Co BD of ED.	-	139,599	139,599	-
	\$ -	\$ 139,599	\$ 139,599	\$ -
<u>Motor Vehicle Tax</u>				
Assets:				
Cash and cash equivalents	\$ 5,920	\$ 55,066	\$ 57,156	\$ 3,830
Liabilities:				
Intergovernmental payable	\$ 5,920	\$ 55,066	\$ 57,156	\$ 3,830
Intergovernmental payable State of NC	-			-
Total	\$ 5,920	\$ 55,066	\$ 57,156	\$ 3,830
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 138,418	\$ 906,399	\$ 904,389	\$ 140,428
Liabilities:				
Miscellaneous liabilities	\$ 132,498	\$ 705,808	\$ 701,708	\$ 136,598
Intergovernmental payable-	5,920	200,591	202,681	3,830
Total liabilities	\$ 138,418	\$ 906,399	\$ 904,389	\$ 140,428

OTHER SCHEDULES

This section contains additional information required on property taxes and transfers.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

Emergency Telephone System Unspent Balance - PSAP Reconciliation

Schedule of Transfers

Cherokee County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012

<u>Fiscal Year</u>	Uncollected Balance June 30, 2011	Additions	Collections And Credits	Uncollected Balance June 30, 2012
2011-2012	\$ -	\$ 15,941,582	\$ 15,045,638	\$ 895,944
2010-2011	984,225	-	679,351	304,874
2009-2010	395,773	-	228,501	167,272
2008-2009	154,942	-	60,879	94,063
2007-2008	96,591	-	19,732	76,859
2006-2007	67,268	-	7,610	59,657
2005-2006	50,787	-	5,004	45,783
2004-2005	40,876	-	3,450	37,425
2003-2004	39,940	-	4,214	35,726
2002-2003	40,345	-	5,479	34,866
2001-2002	34,514	-	34,514	-
	<u>\$ 1,905,258</u>	<u>\$ 15,941,582</u>	<u>\$16,094,371</u>	<u>\$ 1,752,470</u>
Less: allowance for uncollectible accounts:				
General fund				<u>(342,211)</u>
Ad valorem taxes receivable - net:				
General fund				<u>\$ 1,410,259</u>
 <u>Reconciliation with revenues:</u>				
Ad valorem taxes - General fund				\$ 16,230,834
Reconciling items:				
Interest Collected				(205,530)
Release and adjustments				34,553
Taxes written off				<u>34,514</u>
Total reconciling items				<u>(136,463)</u>
Total collections and credits				<u>\$ 16,094,371</u>

Cherokee County, North Carolina
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2012

	<u>County - wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 4,087,798,961	0.385	\$ 15,738,026	\$ 14,923,072	\$ 814,954
Penalties	-		9,277	9,277	-
Total	<u>4,087,798,961</u>		<u>15,747,303</u>	<u>14,932,349</u>	<u>814,954</u>
Discoveries:					
Current year taxes	62,200,296	0.385	239,471	239,471	-
Abatements					
Penalties			(449)	(449)	
Taxes	(11,621,356)	0.385	(44,742)	(26,825)	(17,917)
Total property valuation	<u>4,138,377,901</u>				
Net levy			15,941,582	15,144,545	797,037
Uncollected taxes at June 30, 2012			<u>895,944</u>	<u>672,551</u>	<u>223,393</u>
Current year's taxes collected			<u>\$15,045,638</u>	<u>\$14,471,994</u>	<u>\$573,644</u>
Current levy collection percentage			<u>94.38%</u>	<u>95.56%</u>	<u>71.97%</u>

Cherokee County, North Carolina
Emergency Telephone System Unspent Balance
PSAP Reconciliation
For the Fiscal Year Ended June 30, 2012

Amounts reported on the Emergency Telephone System Fund budget to actual are different from the PSAP Revenue-Expenditure Report because:

Net Change in Fund Balance, reported on Budget to Actual	\$ (377,467)
Beginning Balance, PSAP Revenue-Expenditure Report	<u>587,936</u>
Ending Balance, PSAP Revenue-Expenditure Report	<u><u>\$ 210,469</u></u>

Cherokee County, North Carolina
Schedule of Transfers
For the Fiscal Year Ended June 30, 2012

	Transfers	
	From	To
Operating Transfers From/To Other Funds		
General Fund:		
Airport Improvement Fund		119,535
Debt service fund		383,561
Revaluation fund		75,000
Courthouse Project Fund		631,209
Health Department Renovation and Expansion Capital Project		25,000
Pool and Wellness Center		221,419
Airport Improvement Fund		
General	119,535	
Debt Service Fund		
General	383,561	
Revaluation Fund		
General	75,000	
Courthouse Project Fund		
General	631,209	
Health Department Renovation and Expansion Capital Project		
General	25,000	
Pool and Wellness Center Proprietary Fund		
General	221,419	
	<u>1,455,724</u>	<u>1,455,724</u>

COMPLIANCE SECTION

Turner, Hatchett & Turner, CPA's, P.A.

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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* Independent Auditors' Report

Cherokee County Board of Commissioners
Murphy, 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 Cherokee County, North Carolina, (the "County"), as of and for the year ended June 30, 2012, which collectively comprises the County's basic financial statements, and have issued our report thereon dated January 31, 2013. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of the obtaining reasonable assurance about whether the 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, non-compliance 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 Cherokee County, in a separate letter dated January 31, 2013.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization 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.

Turner, Hatchett & Turner, C.P.A.'s, P.A.

TURNER, HATCHETT & TURNER CPA'S P.A.

January 31, 2013

Turner, Hatchett & Turner, CPA's, P.A.

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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

Independent Auditors' Report

Cherokee County Board of Commissioners
Murphy, North Carolina

Compliance

We have audited Cherokee County, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Cherokee County's major federal programs for the year ended June 30, 2012. Cherokee County's major federal programs are identified in the summary of auditors' 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 Cherokee County's management. Our responsibility is to express an opinion on Cherokee 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 Cherokee 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 of Cherokee County's compliance with those requirements.

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

Internal Control Over Compliance

Management of Cherokee County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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.

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 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 Board of Commissioners, management, others within the entity, 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.

Turner, Hatchett & Turner, C.P.A.'s, P.A.

TURNER, HATCHETT & TURNER, CPA'S P.A.

January 31, 2013

Turner, Hatchett & Turner, CPA's, P.A.

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Report on Compliance - Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

Independent Auditors' Report

Cherokee County Board of Commissioners
Murphy, North Carolina

Compliance

We have audited Cherokee 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 are applicable to each of its major State programs for the year ended June 30, 2012. Cherokee County's major State programs are identified in the summary of auditors' 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 Cherokee County's management. Our responsibility is to express an opinion on Cherokee 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 Cherokee 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 Cherokee County's compliance with those requirements.

In our opinion, Cherokee 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, 2012.

Internal Control Over Compliance

Management of Cherokee County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major State program in order 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 Cherokee 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 the 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 for the information and use of the Board of Commissioners, management, others within the organization, 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.

Turner, Hatchett & Turner, C.P.A.'s, P.A.

TURNER, HATCHETT & TURNER, CPA'S P.A.

January 31, 2013

Cherokee County, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material Weakness identified _____ yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to financial statements noted

_____ yes X no

Federal Awards

Internal control over major federal programs:

- Material Weakness identified _____ yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? _____ yes X no

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

Identification of major Federal Program:

Name of Federal Program or Cluster	CFDA#
Title XIX Medicaid	93.778

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 978,722

Auditee qualified as low-risk auditee

 X yes _____ no

Cherokee County, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

State Awards

Internal control over major state programs:

- Material Weakness identified _____ yes X no

- Significant Deficiency(s) identified that are not considered to be material weaknesses? _____ yes X no

Type of auditor's report issued on compliance for major state programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act

_____ yes X no

Identification of Major State programs:

Name of State Program or Cluster

The Medical Assistance Cluster is a State match on a Federal program. Therefore, this cluster has been included in the list of major federal programs above.

II. Findings Related to the Audit of the Basic Financial Statements of Cherokee County.

None

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

None

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

None

Cherokee County, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2012

Section II. Financial Statement Findings

None Reported

Section III. Federal Award Findings and Questions Costs

None Reported

Section IV. State Award Findings and Questioned Costs

None Reported

Cherokee County, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2012

None Reported

Cherokee County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2012

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 Grants					
Cash Programs:					
<u>U.S. Department of Agriculture</u>					
<u>Food and Nutrition Service</u>					
Passed-through the N.C. Department of Health and Human Services:					
Division of Social Services:					
Administration:					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	XXXX	256,814	-	256,814
Passed-through the N.C. Department of Health and Human Services:					
Division of Public Health:					
Administration:					
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	XXXX	154,340	-	-
Direct Benefit Payments:					
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	XXXX	587,208	-	-
<u>Rural Utilities Service</u>					
Direct Program:					
Water and Waste Water Disposal Systems for Rural Communities	10.760	XXXX	171,903	-	-
<u>Rural Housing Service</u>					
Direct Program:					
Rural Housing Preservation Grant	10.433	XXXX	43,200	-	-
Total U.S. Department of Agriculture			1,213,465	-	256,814
<u>U.S. Department of Housing and Urban Development</u>					
Passed through the N.C. Department of Commerce					
Community Development Block Grant - (CDBG-R) 09-R-1958	14.255	XXXX	448,693	-	-
Community Development Block Grant - CDBG 10-C-2117	14.218	XXXX	317,596	-	-
Total Department of Housing and Urban Development			766,289	-	-
<u>U. S. Department of Justice</u>					
<u>Bureau of Justice Assistance</u>					
Bulletproof Vest Partnership Program	16.607	XXXX	3,468	-	-
Total Department of Justice			3,468	-	-
<u>U.S. Department of Transportation</u>					
<u>Federal Aviation Administration</u>					
Passed-through N.C. Department of Transportation:					
State Block Grant Program - Airport Improvement Plan					
Project 36237.41.10.3	20.106	XXXX	17,693	-	1,966
Project 36237.41.11.1	20.106	XXXX	211,885	-	23,543
Project 36237.41.11.2	20.106	XXXX	567,908	-	63,101
Project 36237.41.11.3	20.106	XXXX	1,940	-	216
<u>Federal Transit Administration</u>					
Passed-through N.C. Department of Transportation:					
Formula Grants for Other than Urbanized Areas					
Project 36233.22.13.1	20.509	XXXX	137,065	8,565	25,702
Project 36233.22.13.3	20.509	XXXX	32,901	4,113	4,114
Project 51001.30.1.3	20.513	XXXX	60,084	7,511	7,512
Total U.S. Department of Transportation			1,029,476	20,189	126,154
<u>U.S. Department of Homeland Security</u>					
Passed-through N.C. Department of Public Safety					
Division of Emergency Management					
2007-GE-T7-0048-7006 Formula Grants	97.067	XXXX	6,978	-	-
2007-GE-T7-0048-6010 Formula Grants	97.067	XXXX	7,215	-	-
Hazard Mitigation Grant Program	97.039	XXXX	24,186	8,062	-
Emergency Management Performance Grants	97.042	XXXX	29,273	-	29,273
Total U.S. Department of Homeland Security			67,652	8,062	29,273

Cherokee County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
<u>U.S. Election Assistance Commission</u>					
Passed through N.C. State Board of Elections:					
Help America Vote Act (HAVA Funds)	90.401	XXXX	4,492	-	-
Total U.S. Election Assistance Commission			4,492	-	-
<u>U.S. Department of Health and Human Services:</u>					
<u>Office of the Population Affairs</u>					
Passed-through the N.C. Department of Health and Human Services:					
Division of Public Health:					
Family Planning Services Title X	93.217	XXXX	34,281	-	-
<u>Administration on Aging</u>					
<u>Division of Aging and Adult Services</u>					
<u>Aging Cluster:</u>					
Special Programs for the Aging Title III - Part B					
Grants for Supportive Services and Senior Centers	93.044	XXXX	150,678	8,477	16,954
Special Programs for the Aging Title III - Part C					
Nutrition Services	93.045	XXXX	169,115	9,945	19,890
Nutrition Services Incentive Program	93.053	XXXX	18,345	-	-
Total Aging Cluster			338,138	18,422	36,844
<u>Administration for Children and Families</u>					
Social Service Block Grant (SSBG) - In Home Services	93.667	XXXX	153,436	9,035	40,193
Promoting Safe and Stable Families	93.556	XXXX	4,572	-	-
N. C. Child Support Enforcement Section	93.563	XXXX	242,560	-	124,930
Low Income Home Energy Assistance Block Grant:					
Administration	93.568	XXXX	239,304	-	-
Child Welfare Services - State Grants					
- Adoption Subsidy - Direct Benefit Payments	93.645	XXXX	9,688	-	3,229
Family Violence Prevention and Services	93.671	XXXX	2,367	-	789
ARRA - Foster Care Title IV-E	93.658	XXXX	190,593	11,862	177,758
Foster Care Direct Benefits	93.658	XXXX	127,702	34,706	35,565
ARRA - Adoption Assistance					
Administration	93.659	XXXX	7,702	-	6,985
Adoption Assistance Direct benefits	94.659	XXXX	169,797	45,647	45,647
Chafee Foster Care Independence Program					
Administration	93.674	XXXX	6,058	1,514	-
Public Assistance	93.674	XXXX	13,151	-	-
AFDC Unemployed					
Public Assistance	93.560	XXXX	(511)	(140)	(140)
Temporary Assistance for Needy Families					
Administration	93.558	XXXX	395,583	-	102,961
Public Assistance	93.558	XXXX	61,816	-	-
Division of Social Services:					
Child Care Development Fund-Administration	93.596	XXXX	86,598	-	-
<u>Centers for Medicare and Medicaid Services</u>					
Passed-through N.C. Department of Health and Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778	XXXX	26,711,076	15,551,606	8,457
Division of Social Services:					
Administration:					
Medical Assistance Program	93.778	XXXX	509,780	12,569	495,238
State Children's Insurance Program N.C. Health Choice	93.767	XXXX	68,526	11,897	10,153
Division of Public Health:					
Medical Assistance Program	93.778	XXXX	15,326	5,913	-
Bioterrorism Grant	93.069	XXXX	38,480	-	-
Temporary Assistance for Needy Families (TANF)					
Family Planning	93.558	XXXX	1,616	-	-
Division of Insurance					
Senior Health Insurance Information Program	93.558	XXXX	2,618	-	-

Cherokee County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
<u>Centers for Disease Control</u>					
Passed-through N.C. Department of Health and Human Services:					
Division of Public Health:					
Cooperative Agreements for State-Based Comprehensive					
Breast and Cervical Cancer Early Detection Programs	93.919	XXXX	45,891	10,200	-
Nutrition, Physical Activity, and Obesity Programs	93.283	XXXX	2,119	-	-
ARRA Preventing Healthcare - Associated Infections	93.717	XXXX	2,110	-	-
<u>Health Resources and Services Administration</u>					
Passed-through N.C. Department of Health and Human Services:					
Division of Public Health:					
Maternal & Child Health Services Block Grant:					
Maternal Health	93.994	XXXX	3,609	2,707	-
Family Planning	93.994	XXXX	25,391	19,046	-
Child Care Coordination	93.994	XXXX	921	691	-
Child Health	93.994	XXXX	16,111	12,084	-
Motivational Interviewing	93.994	XXXX	1,580	-	-
<u>Immunization Cluster</u>					
Immunization Grants	93.268	XXXX	11,237	-	-
Total U.S. Department of Health and Human Services			29,539,226	15,747,759	1,088,609
Total federal awards			32,624,068	15,776,010	1,500,850
Continued					
State Awards:					
<u>N.C. Department of Environment and Natural Resources</u>					
Division of Waste Management					
Community Waste Reduction & Recycling Grant		XXXX	-	4,531	1,133
Scrap Tire Program		XXXX	-	25,840	-
Total N.C. Department of Environment and Natural Resources			-	30,371	1,133
<u>N.C. Department of Health and Human Services</u>					
Division of Aging and Adult Services					
Senior Center - General Purpose		XXXX	-	3,052	1,017
Total Division of Aging and Adult Services			-	3,052	1,017
Division of Social Services:					
Administration					
TANF Incentive		XXXX	-	117	-
AFDC Incentive		XXXX	-	53	-
Public Assistance:					
Domiciliary Care		XXXX	-	242,561	242,561
State Foster Care		XXXX	-	84,031	84,031
Foster Care HF Maximization		XXXX	-	80,760	80,760
Foster Care at Risk Maximization		XXXX	-	2,198	1,169
CWS Adoption Subsidy		XXXX	-	230,400	71,940
Total Division of Social Service			-	640,120	480,461
Division of Public Health:					
Aid to Counties		XXXX	-	92,199	-
Communicable Disease		XXXX	-	11,066	-
Tuberculosis		XXXX	-	746	-
Tuberculosis Medical		XXXX	-	540	-
HIV/STD		XXXX	-	500	-
Women's Preventive Health		XXXX	-	5,000	-
Risk Reduction/Health Promotion		XXXX	-	6,195	-
Public Health Nursing		XXXX	-	70	-
School Health Centers		XXXX	-	54,036	-
School Nurse Funding Initiative		XXXX	-	100,000	-
Lead Prevention		XXXX	-	312	-
Environmental Health		XXXX	-	4,000	-
Other Receipts		XXXX	-	4,205	-
Total Division of Public Health			-	278,869	-
Total N.C. Department of Health and Human Services			-	922,041	481,478

Cherokee County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2012

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>N. C. Department of Public Instruction</u>					
Public School Building Capital Fund - Lottery Proceeds		XXXX	-	357,131	-
Total N. C. Department of Public Instruction			-	357,131	-
<u>N.C. Department of Transportation</u>					
Rural Operating Assistance Program (ROAP)					
ROAP Elderly and Disabled Transportation Assistance Program					
Work project #36220.10.4.1. ROAP EDTAP		XXXX	-	58,352	-
ROAP Rural General Public Program					
Work project #36228.22.4.1 ROAP RGP		XXXX	-	49,936	-
ROAP Work First Transitional - Employment					
Work project #36236.11.2.1 ROAP WORK FIRST		XXXX	-	3,428	-
Work project #36236.11.3.1 ROAP WORK FIRST		XXXX	-	6,960	-
Total N.C. Department of Transportation			-	118,676	-
<u>N.C. Department of Public Safety</u>					
Division of Juvenile Justice & Delinquency Prevention					
Community-Based Youth Gang Violence Prevention Program		XXXX	-	60,200	81
30th District Multi-County Budget		XXXX	-	83,645	16,765
Division of Corrections					
Criminal Justice Partnership Program 20-0702 - I - A		XXXX	-	56,567	-
Total N.C. Department of Public Safety			-	200,412	16,846
Total State awards			-	1,628,631	499,457
Total federal and State awards			\$ 32,624,068	\$ 17,404,641	\$ 2,000,307

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 Cherokee 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 general purpose 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. Loans Outstanding

Cherokee County had the following loan balances outstanding as of June 30, 2012. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
N.C. Public Water Supply		XXXX	395,857
Community Facilities Loans and Grants	10.766	XXXX	956,520

3. The following are clustered by the N.C. Department of Health and Human Services and are treated separately for state audit requirement purposes: Foster Care and Adoption.