

Report to the Board of County Commissioners
of

Haywood County, North Carolina

June 30, 2012



DIXON HUGHES GOODMAN^{LLP}

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To the Board of County Commissioners
Haywood County, North Carolina

We have audited the financial statements of Haywood County as of and for the year ended June 30, 2012, and have issued our report thereon dated November 7, 2012. Professional standards require we advise you of the following matters related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter dated January 24, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

In accordance with *Government Auditing Standards*, we have issued a written report on internal controls and compliance. That report is included in our Compliance Reports.





Our Responsibility under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act

As stated in our engagement letter dated January 24, 2012, our responsibility, under federal regulations, is to test controls and compliance with the requirements of laws, regulations, contracts and grant agreements that have a direct and material effect on the administration of the County's major federal and state programs and are responsible for communicating significant findings and known, or likely, questioned costs in excess of \$10,000 as defined in OMB Circular A-133. There were no findings reported.

Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Management is responsible for the transmittal letter, management's discussion and analysis, and other information included in the Comprehensive Annual Financial Report ("CAFR"). Our responsibility for the other information containing the County's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we have read the additional information included in the CAFR and noted no inconsistencies with the information or the manner of its presentation in the CAFR.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on January 24, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant





accounting policies used by the County are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2012. We noted no transactions entered into during the year that were both significant and unusual that, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is depreciation expense.

- Management's estimate of depreciation expense is based on the assets' respective estimated useful lives. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate for doubtful accounts and claims incurred but not reported is based on historical experience and appears to be logically developed and consistently applied.
- Management's estimates for other postemployment benefit obligations and landfill closure and postclosure care costs are based on guidance provided by independent third parties.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. The disclosures present the issues involved, and the related judgments made, in formulating particularly sensitive financial state disclosures (for example, disclosures related to revenue recognition and subsequent events).





Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 7, 2012 (see Appendix A).

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the





County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Auditing standards generally accepted in the United States of America and Government Auditing Standards require independence for all audits. The two main principles of independence are: (1) do not perform non-attest services that involve making management decisions; and (2) do not audit your own work. No events have occurred to impair our independence during this year's audit. We have assisted management in the preparation of the financial statements and schedule of expenditures of federal and State awards. Management has reviewed and approved these statements and schedule.

This information is intended solely for the use of the Board of Commissioners and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to express our appreciation for the assistance and cooperation given our representatives during our audit. Should have you have any questions concerning the matters presented herein, we would be pleased to discuss them with you further at your convenience.

Asheville, North Carolina
November 7, 2012

Dixon Hughes Goodman LLP





Services Performed

- Annual audit of financial statements
- Compliance audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act
- Annual report to management on observations and recommendations for improvements
- Attendance at Board meetings as requested
- Consultation on accounting matters as requested
- Assistance with the preparation of the Comprehensive Annual Financial Report
- Assistance with preparation of the Data Collection Form in compliance with OMB Circular A-133





Our report for the 2012 audit expresses an **unqualified opinion** on the fair presentation of the basic financial statements in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our reports on compliance and internal control in accordance with Government Auditing Standards, OMB Circular A-133, and the State Single Audit Implementation Act disclosed no instances of non-compliance and no material weaknesses in controls in the current year.

The following is a summary of the General Fund's fund balance:

	<u>2012</u>	<u>2011</u>
Total fund balance	\$ 14,512,110	\$ 13,568,617
Less:		
Non-spendable fund balance--inventories	(100,794)	(105,379)
Restricted for stabilization by State statute	<u>(4,602,244)</u>	<u>(4,824,776)</u>
Fund balance available for appropriation	<u>9,809,072</u>	<u>8,638,462</u>
Total expenditures and transfers out	<u>\$ 69,094,751</u>	<u>\$ 68,351,738</u>
Available fund balance as a percentage of expenditures	<u>14%</u>	<u>13%</u>
Total fund balance as a percentage of expenditures	<u>21%</u>	<u>20%</u>

The Local Government Commission recommends maintaining available fund balance equal to at least 8% of expenditures.

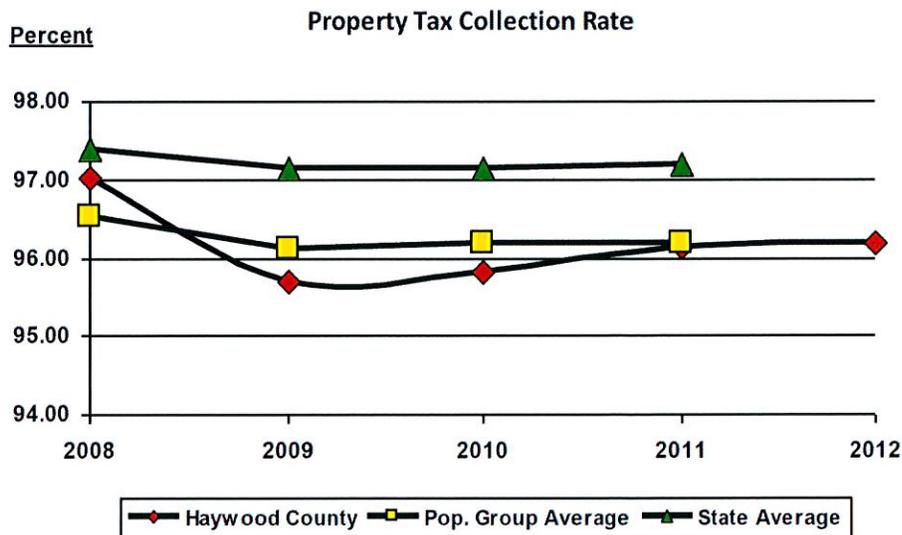
The County's policy is to have fund balance available as a percentage of expenditures of at least 11%.





The following is a summary, from Page 117 of the basic financial statements, of property tax collections and collections rates:

	000's	
	<u>2012</u>	<u>2011</u>
Net levy	\$ 38,510	\$ 37,386
Uncollected taxes at June 30	(1,472)	(1,446)
Current year taxes collected	<u>\$ 37,038</u>	<u>\$ 35,940</u>
Ratio of taxes collected to net levy	<u>96.18%</u>	<u>96.13%</u>



Based on county and municipal information at www.nctreasurer.state.nc.us for counties (populations 50,000 - 99,999). 2012 data is not yet available.





To the Board of County Commissioners
Haywood County, North Carolina

In planning and performing our audit of the financial statements of Haywood County, North Carolina (the "County") for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters.

Public School Building Capital Fund

During testing of the reporting requirements for the Public School Building Capital Fund, we noted final reports for completed projects were not submitted within 60 days of completion as required by the North Carolina Department of Public Instruction. We recommend the County monitor Haywood County Schools' compliance with the





reporting requirements to ensure final reports for completed projects are submitted to the Department of Public Instruction in a timely manner.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to express our appreciation for the assistance and cooperation given our representatives. Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you further at your convenience.

Asheville, North Carolina
November 7, 2012

Dixon Hughes Goodman LLP





DIXON HUGHES GOODMAN^{LP}

Appendix A – Signed Client Representation Letter



Report to the Board of County Commissioners of
Haywood County, North Carolina

BOARD OF COMMISSIONERS:

MARK S. SWANGER, CHAIRMAN
J.W. "KIRK" KIRKPATRICK, III, VICE CHAIRMAN
L. KEVIN ENSLEY
BILL L. UPTON
MICHAEL T. SORRELLS



COUNTY MANAGER
MARTY STAMBY

LEON M. KILLIAN, III
COUNTY ATTORNEY

November 7, 2012

Dixon Hughes Goodman LLP
500 Ridgefield Court
Asheville, NC 28806

We are providing this letter in connection with your audit of the financial statements of Haywood County (the "County") as of June 30, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Haywood County and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
- 2) We have made available to you all—
 - a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.
- 5) We are not aware of any material uncorrected financial statement misstatements both individually and in the aggregate, to the financial statements taken as a whole.
- 6) We are in agreement with the adjusting journal entries you have recommended, and we will record them in our records.
- 7) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 8) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 9) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 10) The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets/fund balances.
- 11) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the Board of Commissioners is contingently liable.
 - a) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

- 12) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 13) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- 14) There are no—
 - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance
 - b) Unasserted claims or assessments that our attorney has advised us are probable of assertion, other than those already disclosed to you, and we have not contacted our lawyers about such matters since the effective date of their letters to you.
 - c) Except as disclosed in the CAFR, there are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- 15) The County has satisfactory title to all owned assets, and, except as disclosed in the CAFR, there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 16) The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 17) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 18) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 19) The financial statements properly classify all funds and activities.

- 20) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 21) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance components (non-spendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- 22) Provisions for uncollectible receivables have been properly identified and recorded.
- 23) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 24) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, and transfers.
- 25) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 26) Deposits and investment securities are properly classified as to risk.
- 27) Capital assets are properly capitalized, reported, and depreciated. All intangible assets owned by the County have been capitalized.
- 28) We acknowledge our responsibility for the required supplementary information ("RSI"). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 29) We acknowledge our responsibility for the presentation of the combining and individual fund financial statements, budgetary schedules, and other schedules (other supplemental information) in accordance with accounting principles generally accepted in the United States of America. We have reviewed the other supplemental information and we believe the form and content is fairly presented in accordance with accounting principles generally accepted in the United States of America. We have disclosed to you all significant assumptions or interpretations underlying the measurement and presentation of the other supplemental information.
 - a) If the combining and individual fund financial statements, budgetary schedules, and other schedules is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 30) We have appropriately disclosed the County's practice regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for

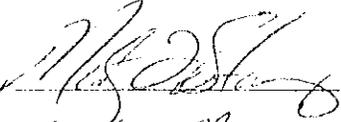
which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

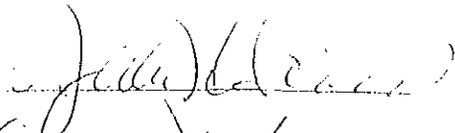
- 31) We agree with the results of specialists in evaluating the County's Law Enforcement Officers' Separation Allowance, the Other Postemployment Benefits liability, and the Landfill Closure and Postclosure care costs liability; and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 32) With respect to federal and state award programs:
 - a) We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - c) We acknowledge our responsibility for presenting the schedule of expenditures of federal and state awards in accordance with the requirements of *OMB Circular A-133 Section 310.b* and we believe the schedule, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the schedule of expenditures of federal and state awards have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the schedule.
 - d) If the Schedule of Expenditures of Federal and State Awards is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the schedule no later than the date we issue the supplementary information and the auditors' report thereon.
 - e) We have identified and disclosed to you all of our government programs and related activities subject to *OMB Circular A-133*.

- f) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- g) We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
- h) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.
- i) We have received no requests from a federal agency to audit one or more specific programs as a major program except as requested by the NC State Auditor to test the Foster Care Program.
- j) We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
- k) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- p) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- q) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.
- r) The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information, if any, on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- t) We have charged costs to federal awards in accordance with applicable cost principles.
- u) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- v) We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

33) We have evaluated and classified any subsequent events as recognized or not recognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed: 
Title: Country Manager

Signed: 
Title: Finance Director