

Report to the Board of County Commissioners  
of

# Polk County, North Carolina

June 30, 2014



**DIXON HUGHES GOODMAN<sub>LLP</sub>**

*positively unique*



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To the Board of County Commissioners  
Polk County, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Polk County, North Carolina (the "County") for the year ended June 30, 2014, and have issued our report thereon dated October 29, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133, and the State Single Audit Implementation Act, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated February 28 and July 7, 2014. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Results**

### **Qualitative Aspects of Accounting Practices**

*Accounting policies* - 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 2014. We noted no transactions entered in by the County during the year that were both significant and unusual that we are required to inform you. Also, we noted no transactions for which there is a lack of authoritative guidance.

All significant transactions have occurred during this fiscal year have been properly recognized in the basic financial statements.

*Accounting estimates* - Certain amounts recorded in the basic financial statements are based on estimates prepared by management. All estimates should be 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 only estimates used in the preparation of the basic financial statements are as follows:

- 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 depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate for doubtful accounts is based on historical experience. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

*Financial Statement Disclosures* - The notes to the basic financial statements are an integral part of the County's basic financial statements. All significant disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America and are neutral, consistent, and clear.

### **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.

We proposed no significant audit adjustments to the basic financial statements.

We assisted management in the preparation of the basic financial statements. We proposed and made report entries to convert the fund statements prepared on the modified accrual basis of accounting to the government-wide statements prepared on the full accrual basis of accounting. Those adjustments are summarized on pages 17 and 19 of the basic financial statements.





## **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**

Management has made various representations to us about the financial statements and compliance reports that are included in the management representation letter. 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.

## **Other Matters**

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 Comprehensive Annual Financial Report ("CAFR"). Management has reviewed and approved the CAFR.

With respect to supplementary information included in the financial section of the CAFR, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial section of the CAFR. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the CAFR or to the CAFR itself.

The introductory and statistical sections of the CAFR are not a part of the basic financial statements and are therefore not included in the scope of our audit.

This information is intended solely for the use of the Board of County Commissioners and management of the County, 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 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  
October 29, 2014

*Dixon Hughes Goodman LLP*





## Services Performed

- Annual audit of the financial section of the CAFR
- Assistance with the preparation of the CAFR
- 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
- Preparation of the data collection form required by OMB Circular A-133
- Preparation of the Annual Financial Information Report (“AFIR”)
- Attendance at Board meetings as requested
- Consultation on accounting matters as requested







Our report for the 2014 audit expresses an **unmodified 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 report on compliance and internal control in accordance with *Government Auditing Standards* disclosed no material weaknesses in internal controls or instances of material noncompliance with laws, regulations, contracts, and grant agreements.

Our reports on compliance and internal controls in accordance with OMB Circular A-133, and the State Single Audit Implementation Act have not been issued as of October 29, 2014. The delay is due to software problems at the North Carolina Department of Health and Human Services (“NCDHHS”). Our reports will be issued soon after NCDHHS is able to rectify the problem and provide accurate confirmations.

The following is a summary of the County’s fund balance in the General Fund:

	<u>2014</u>	<u>2013</u>
Total fund balance	\$ 9,507,313	\$ 7,942,581
Less:		
Restricted for stabilization by State Statute	<u>(1,047,125)</u>	<u>(785,210)</u>
Fund balance available for appropriation	<u>8,460,188</u>	<u>7,157,371</u>
Total expenditures and transfers out	<u>\$ 21,065,255</u>	<u>\$ 22,211,118</u>
Available fund balance as a percentage of expenditures	<u>40.16%</u>	<u>32.22%</u>

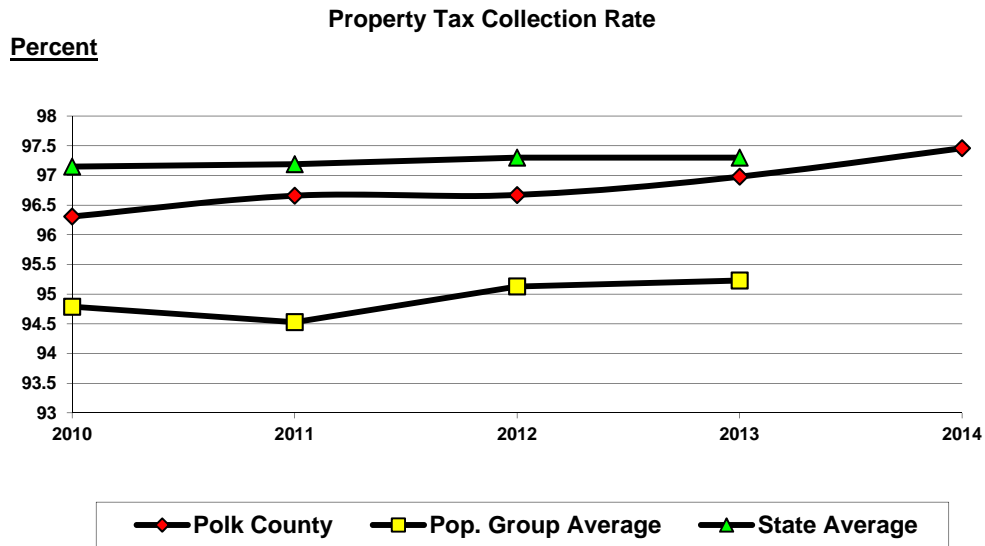
The Local Government Commission recommends maintaining available fund balance equal to at least 8% of expenditures.





The following is a summary of the County's property tax collections and collection rates:

	<u>2014</u>	<u>2013</u>
Net levy	\$ 14,513,531	\$ 14,306,826
Less: Uncollected taxes at June 30	<u>(368,978)</u>	<u>(431,696)</u>
Current year taxes collected	<u>\$ 14,144,553</u>	<u>\$ 13,875,130</u>
Ratio of taxes collected to net levy	<u>97.46%</u>	<u>96.98%</u>



Based on county and municipal information at [www.nctreasurer.com](http://www.nctreasurer.com) for counties (populations below 25,000). 2014 data is not yet available.





DIXON HUGHES GOODMAN LLP

# Appendix A – Signed Management Representation Letter



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

D. Marche Pittman  
Interim County Manager  
Beth Fehrmann  
Clerk to the Board  
Assistant to County Manager



Ted B. Owens  
Chair  
Michael V. Gage  
Vice-Chair  
Ray D. Gasperson  
Commissioner  
Keith Holbert  
Commissioner  
Tom E. Pack  
Commissioner

October 29, 2014

Dixon Hughes Goodman LLP  
500 Ridgefield Court  
Asheville, NC 28806

This representation letter is provided in connection with your audit of the financial statements of Polk County (the "County") which comprise the respective financial position of the governmental activities, the business-type activities and each major fund as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, for the year then ended, the aggregate remaining fund information, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.(U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

#### ***Financial Statements***

- 1) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by accounting principles to be included in the financial reporting entity.
- 2) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter and the LGC Form 205, Contract to Audit Accounts dated February 28, 2014 for the preparation and fair presentation of the financial statements in accordance with the applicable criteria.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- 5) The following have been properly recorded and disclosed in the financial statements:
  - a) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, guarantees and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the Board of Commissioners is contingently liable.
  - c) Other liabilities or gain or loss contingencies.
- 6) Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the County vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
- 7) Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.
- 8) You have recommended adjusting journal entries that have been posted to the County's accounts. There were no other uncorrected financial statement misstatements or omitted disclosures that are material, both individually and in the aggregate, to the financial statements for each opinion unit.
- 9) The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

***Information Provided***

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All transactions have been recorded in the accounting records and are reflected in the financial statements.

- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) 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.
  - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the County's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.
- 15) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the County's related parties and all the related party transactions of which we are aware.
- 18) The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets/fund balances.
- 19) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; 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 or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 20) There are no 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
- 21) We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
- 22) The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

***Government-Specific***

- 23) We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

- 24) 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.
- 25) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; 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 or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 26) 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) 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.
- 27) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 28) 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.
- 29) The financial statements properly classify all funds and activities.
- 30) 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.
- 31) Components of net position (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.
- 32) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- ~~33) Provisions for uncollectible receivables have been properly identified and recorded.~~
- 34) 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.

- 35) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal and transfers.
- 36) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 37) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 38) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and depreciated. All intangible assets owned by the County have been capitalized.
- 39) We have appropriately disclosed the County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 40) 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.
- 41) 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. The methods of measurement and presentation of the other supplemental information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. 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 are 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.
- 42) In regard to the nonattest services that you have provided or will provide as outlined in the engagement letter dated February 28, 2014, we will:
  - a. Assume all management responsibilities.
  - b. ~~Designate an individual with suitable skill, knowledge, or experience to oversee the services.~~
  - c. Evaluate the adequacy and results of the services to be performed,
  - d. Accept responsibility for the results of the services.



43) With respect to federal and state award programs:


- a) We are responsible for understanding and complying with 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 acknowledge our responsibility for presenting the schedule of expenditures of federal and state awards (the schedule) 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 *OMB Circular A-133 Section 310.b*. The methods of measurement and presentation of the schedule 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.
- c) If the Schedule of Expenditures of Federal and State Awards are 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.
- d) We have identified and disclosed to you all of our government programs and related activities subject to *OMB Circular A-133* and included in the Schedule of Expenditures of Federal and State Awards 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.
- e) 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.
- f) We are responsible for establishing and maintaining, and have established and maintained, 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.
- g) 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 relevant to federal and state programs and related activities.

- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material 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 all known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective action actions taken 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 compliance with the direct material requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) 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.
- q) 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.
- r) 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

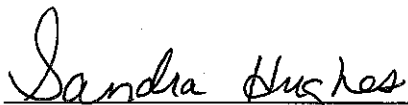
prepared, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.

- s) 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 or state agency or pass-through entity, as applicable.
- t) 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 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.
- u) We have charged costs to federal awards in accordance with applicable cost principles.
- v) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w) We are responsible for preparing and implementing a corrective action plan for each audit finding.
- x) 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.

To the best of our knowledge and belief, 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 or in the schedule of findings and questioned costs that is not already disclosed.

Signed: 

Title: Int. County Manager

Signed: 

Title: Finance Officer