

Compliance Section

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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**

Honorable Mayor and members of
the Town Council
Town of Boone
Boone, 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 the Town of Boone as of and for the year ended June 30, 2011, which collectively comprise the Town of Boone's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Boone Housing Authority, and the Downtown Boone Development Association, as described in our report on Town of Boone, North Carolina's financial statements. The financial statements of the Boone ABC Board, the Boone Tourism Development Authority, and the Downtown Boone Development Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Boone'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 Town of Boone's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Boone'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 the internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to 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 obtaining reasonable assurance about whether the Town of Boone's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Town Council, 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 specific parties.

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October 28, 2011

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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**

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Boone, North Carolina

Compliance

We have audited the Town of Boone, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Boone's major federal programs for the year ended June 30, 2011. The Town of Boone's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Boone's management. Our responsibility is to express an opinion on the Town of Boone'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 the Town of Boone'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 the Town of Boone's compliance with those requirements.

In our opinion, the Town of Boone 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, 2011.

Internal Control Over Compliance

Management of the Town of Boone 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 Town of Boone'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

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 Town'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 management, others within the entity, members of the Board of Commissioners, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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**Report On Compliance With Requirements Applicable To Each 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**

Honorable Mayor and members of
the Town Council
Town of Boone
Boone, North Carolina

Compliance

We have audited Town of Boone, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011. The Town of Boone's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Boone's management. Our responsibility is to express an opinion on the Town of Boone'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 the Town of Boone'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 the Town of Boone's compliance with those requirements.

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

Internal Control Over Compliance

Management of the Town of Boone 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 the Town of Boone's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the organization, members of the Town Council, 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.

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October 28, 2011

Town of Boone, North Carolina
 Schedule of Findings and Questioned Costs
 June 30, 2011

Section I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) indentified that
 are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial
 financial statements noted _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) indentified that
 are not considered to be material weaknesses? _____ yes X none reported

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

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

Identification of major federal programs:

CFDA No.	Names of Federal Program or Cluster
14.228	Community Development Block Grant - Winkler's Creek Project

Dollar threshold used to distinguish
 between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

Significant deficiency(s) indentified that
 are not considered to be material weaknesses? _____ yes X none reported

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:

Program Name

Passed through the N.C. Rural Economic Development Center
 Funding for Blowing Rock Interconnect

Funding for Winkler's Creek Dredging

Town of Boone, North Carolina
Schedule of Findings and Questioned Costs
June 30, 2011

Section II. Financial Statement Findings

None Reported

Section III. Federal Award Findings and Questioned Costs

None Reported

Section IV. State Award Findings and Questioned Costs

None Reported

Town of Boone, North Carolina
Corrective Action Plan
June 30, 2011

Section II. Financial Statement Findings

None Reported

Section III. Federal Award Findings and Questioned Costs

None Reported

Section IV. State Award Findings and Questioned Costs

None Reported

Town of Boone, North Carolina
Prior Year Audit Findings
June 30, 2011

Prior Year Audit Findings

None Reported

Town of Boone, North Carolina
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2011

<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>
Federal Grants:			
Cash Programs:			
<u>U. S. Department of Homeland Security</u>			
Passed-through N.C. Department of Crime Control and Public Safety: Hazard Mitigation Grants Program	97.039		\$ 246,732
<u>U. S. Department of Justice</u>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.804		11,607
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through N.C. Department of Commerce Community Development Block Grant	14.228		458,620
Total assistance - federal programs			716,959
State Grants:			
Cash Assistance:			
<u>N.C. Rural Economic Development Center</u>			
Funding for Blowing Rock Interconnect			577,833
Funding for Winkler's Creek Dredging			422,000
Planning Grant			3,850
<u>N.C. Department of Environment and Natural Resources</u>			
Forestry Grant			
<u>N.C. Department of Transportation:</u>			
Non-State System Street-Aid Allocation (Powell Bill)			367,415
Governor's Highway Safety Program			11,082
Pedestrian Planning Grant			37,082
Total assistance - State programs			1,419,262
Total assistance			\$ 2,136,221