

WATAUGA COUNTY, NORTH CAROLINA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**Watauga County, North Carolina
Table of Contents**

<u>Exhibit</u>		<u>Page</u>
	Financial Section	
	Independent Auditor's Report	
	Management's Discussion and Analysis	
	Basic Financial Statements:	
	Government-wide Financial Statements:	
Exhibit A	Statement of Net Assets	1
Exhibit B	Statement of Activities	2-3
	Fund Financial Statements:	
Exhibit C	Balance Sheet – Governmental Funds and Reconciliation of the Governmental Funds Balance sheet to the Statement of Net Assets	4
Exhibit D	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
Exhibit D	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Exhibit E	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	7-8
Exhibit F	Statement of Fund Net Assets – Proprietary Funds	9
Exhibit G	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	10
Exhibit H	Statement of Cash Flows – Proprietary Funds	11
Exhibit I	Statement of Fiduciary Net Assets – Fiduciary Funds	12
Exhibit J	Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	13
	Notes to the Financial Statements	14-41
	Required Supplemental Financial Data:	
Schedule 1	Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	42
Schedule 2	Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	43
Schedule 3	Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	44

**Watauga County, North Carolina
Table of Contents**

Combining and Individual Fund Statements and Schedules:

<u>Statement</u>		<u>Page</u>
1	Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund – Budget and Actual	45-50
2	Combining Balance Sheet – Nonmajor Governmental Funds	51
3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	52
	Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	53
4	Substance Abuse Tax Fund	
5	E-911 Telephone Surcharge Fund	54
6	Fire Districts Fund	55
7	Revaluation Fund	56
8	Disaster Relief Fund	57
9	CDBG Housing Rehabilitation Fund	58
10	Law Enforcement Center Capital Project Fund	59
11	Solid Waste Fund	60
12	Combining Statement of Fiduciary Assets and Liabilities - Agency Fund	61
	Other Schedules	
13	Schedule of Ad Valorem Taxes Receivable	62
14	Analysis of Current Tax Levy – County-Wide Levy	63
14-A	Secondary Market Disclosures	64
14-B	Ten Largest Taxpayers	65
15	Analysis of Current Tax Levy – Fire Districts	66
	Compliance Section:	
	Reporting on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	

**Watauga County, North Carolina
Table of Contents**

<u>Statement</u>		<u>Page</u>
16	Schedule of Findings and Questioned Costs	73
17	Summary Schedule of Prior Year Audit Findings	74
18	Schedule of Expenditures of Federal and State Awards	75-77

Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watauga County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the AppalCART. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the AppalCART is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina as of June 30, 2005, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005 on our consideration of Watauga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual nonmajor fund schedules, 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, and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 8, 2005

BASIC FINANCIAL STATEMENTS

FINANCIAL SECTION

Watauga County

MANAGEMENT 'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2005

Management's Discussion and Analysis

As management of Watauga County, we offer readers of Watauga County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements and notes, which follow this narrative.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the fiscal year by \$39,607,716
- The County's total net assets increased by \$5,620,185 primarily due to various construction projects and an increase in revenues over the budgeted amounts.
- The County's unreserved fund balance for the general fund was \$13,419,786 at the end of the year represented 34.7% of total General Fund expenditures.
- Watauga County's total debt decreased by \$1,750,856 during the current fiscal year. The key factor in this decrease was the scheduled payments of existing debt.
- Watauga County maintained it's A bond rating.

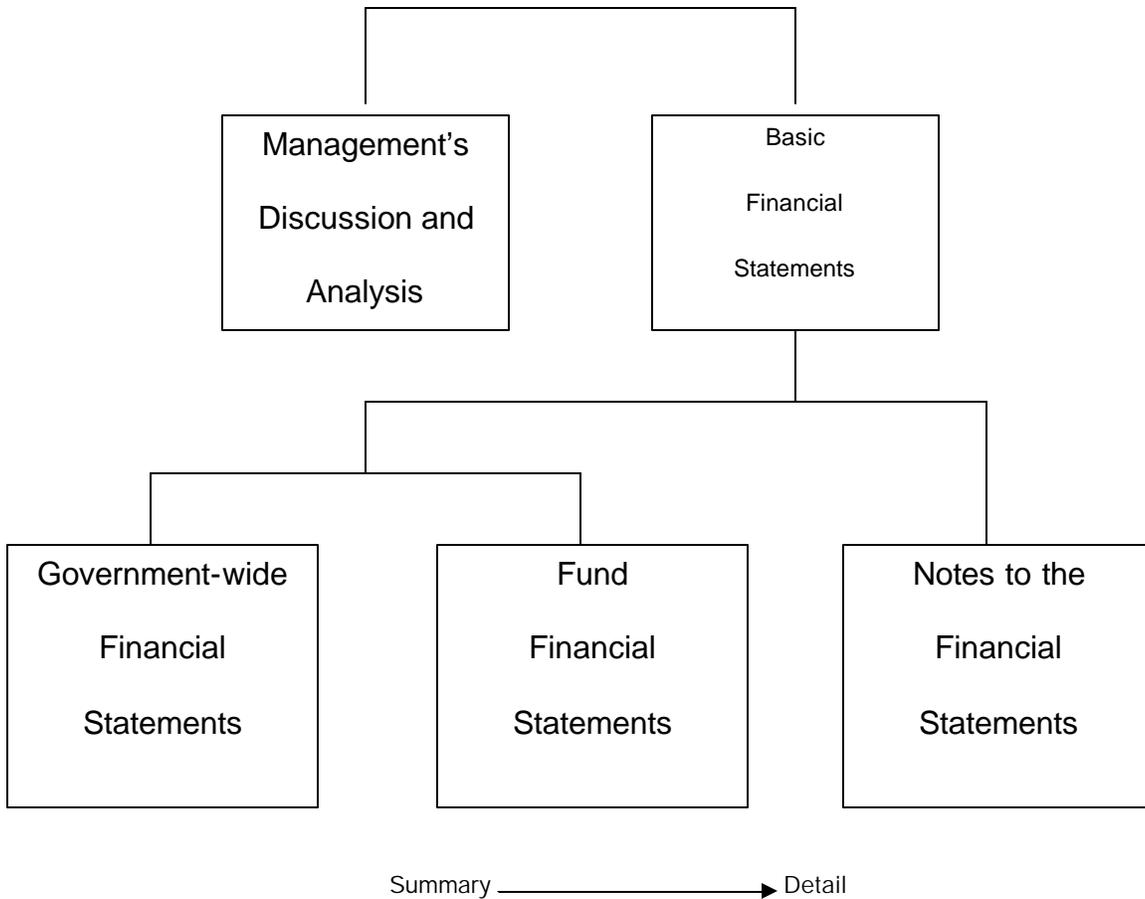
Overview of the Financial Statements

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

The basic financial statements present two different views of the County's finances 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 Watauga County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) 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 C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental fund statements, 2) the budgetary comparison statement 3) the proprietary fund statements and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's programs. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

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 gage the County's financial condition.

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes landfill services offered by Watauga County. The final category is the component units. Watauga Economic Development Commission operates as an Economic Development Commission in Boone, North Carolina. The Watauga County Board of Commissioners appoints a majority of the governing body and provides some financial support. Appalcart is a separate not-for-profit organization, which operates a transportation authority primarily in Watauga County. Watauga County Board of Commissioners appoints the seven-member governing body. Watauga County provides some financial support and Appalcart is financially accountable to the County.

The government-wide financial statements are on Exhibits A and B 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. Watauga County, like all 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 the County can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's activities 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 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.

The 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 three columns: 1) the final budget as amended by the board, 2) the actual resources, charges to appropriations, and ending balances in the General Fund, and 3) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - Watauga County has one kind of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-like activities in the government-wide financial statements. Watauga County uses enterprise funds to account for its solidwaste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Assets and Statement of Activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has 4 fiduciary funds, one which is a health insurance trust fund, one which is a pension trust fund, and 2 which 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 13 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 41 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2003, were the beginning of a new era in financial reporting for the County and many other units of government across the United States. Prior to June 30, 2003, Watauga County maintained their governmental, proprietary, and fiduciary fund groups as separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of Watauga County. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Government Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in Watauga County's financial reports as well as those of many other units of government. While Watauga County was required to implement these changes for the fiscal year ended June 30, 2003, other units were required to implement Statement 34 in 2002, and any remaining governments were implemented in 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future year' reports will have more comparative data that will allow more opportunities for comparative analysis.

Watauga County's Net Assets Figure 2

	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 27,516,217	31,674,567	3,444,330	4,377,795	33,960,547	36,052,362
Capital assets	<u>26,975,790</u>	<u>19,226,708</u>	<u>4,647,836</u>	<u>3,136,046</u>	<u>31,623,626</u>	<u>22,362,754</u>
Total asset	<u>54,492,007</u>	<u>50,901,275</u>	<u>8,092,166</u>	<u>7,513,841</u>	<u>62,584,173</u>	<u>58,415,116</u>
Long-term liabilities, outstanding	20,560,831	22,596,186	349,091	64,592	20,909,922	22,660,778
Other liabilities	<u>1,634,075</u>	<u>1,348,642</u>	<u>432,460</u>	<u>476,560</u>	<u>2,066,535</u>	<u>1,825,202</u>
Total liabilities	<u>22,194,906</u>	<u>23,944,828</u>	<u>781,551</u>	<u>541,152</u>	<u>22,976,457</u>	<u>24,485,980</u>
Net assets:						
Invested in capital assets, net of related debt	20,063,795	11,611,766	4,340,234	3,110,293	24,404,029	14,722,059
Restricted	869,165	773,246	--	--	869,165	773,246
Unrestricted	<u>11,364,141</u>	<u>14,465,595</u>	<u>2,970,381</u>	<u>3,862,396</u>	<u>14,334,522</u>	<u>18,327,991</u>
Total net assets	<u>\$ 32,297,101</u>	<u>26,850,607</u>	<u>7,310,615</u>	<u>6,972,689</u>	<u>39,607,716</u>	<u>33,823,296</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$39,607,716 of June 30, 2005. The County's net assets increased by \$5,620,185 for the fiscal year ended June 30, 2005. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$24,404,029, Restricted net assets of \$869,165 and Unrestricted net assets of \$14,334,522.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding 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. At June 30, 2005, the increase in this category of net assets is due to current year additions to capital assets being more than offset by current year depreciation expenses and new long-term debt issuances.

Another category of net assets is restricted net assets. This represents resources that are subject to external restrictions on how they may be used.

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors.

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 98.14%, higher than the 2004 statewide average of 96.70%.
- Increase in charges for services due to economic growth.

Watauga County Changes in Net Assets Figure 3

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$2,696,681	1,576,374	3,244,959	2,728,042	5,941,640	4,304,416
Operating grants and tributions	4,243,474	4,006,414	22,555	19,117	4,266,029	4,025,531
General revenues:						
Property taxes	20,944,307	20,449,298	--	--	20,944,307	20,449,298
Other taxes	1,792,720	10,657,368	--	--	11,792,720	10,657,368
Grants and contributions not restricted to specific programs	13,054	25,294	--	--	13,054	25,294
Other	656,211	388,037	59,911	42,256	716,122	430,293
Total revenues	40,346,447	37,102,785	3,327,425	2,789,415	43,673,872	39,892,200
Expenses:						
General government	5,266,136	4,722,577	--	--	5,266,136	4,722,577
Public safety	7,546,298	6,987,835	--	--	7,546,298	6,977,835
Economic and physical development	789,593	782,775	--	--	789,593	782,775
Human services	7,817,570	7,740,617	--	--	7,817,570	7,740,617
Cultural and recreation	1,207,295	1,162,271	--	--	1,207,295	1,162,271
Education	10,946,838	9,495,883	--	--	10,946,838	9,495,883
Interest on long-term debt	854,586	753,765	--	--	854,586	753,765
Solid Waste	--	--	3,296,450	2,852,304	3,328,850	2,852,304
Total expenses	34,428,316	31,645,723	3,296,450	2,852,304	37,724,766	34,488,027
Increase in net assets before transfers and special item	5,918,131	5,457,062	30,975	(62,889)	5,949,106	5,404,173
Special Item: Property tax refund to Appalachian Student Housing Corporation	(296,521)	--	(32,400)	--	(328,921)	--
Transfers	(339,351)	(659,602)	339,351	659,602	--	--
Increase in net assets	5,282,259	4,797,460	337,926	596,713	5,620,185	5,404,173
Net assets, July 1	26,850,607	22,148,987	6,972,689	6,375,976	33,823,296	28,524,963
Prior Period adjustment	164,235	(95,840)	--	--	164,235	(95,840)
Net assets, June 30	32,297,101	\$26,956,447	7,310,615	6,972,689	39,607,716	33,929,136

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. Governmental activities increased the County's net assets by \$5,282,259 thereby accounting for 94.0% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Increase in fee revenue for Register of Deeds operations
- Increased collections of property tax revenue above budgeted amounts
- Solicitation of additional grant revenues for the Public Safety
- Maintenance of the County's high tax collections rate of 98.14%

Business-type activities: Business-type activities increased Watauga County's net assets by \$337,926, accounting for 6.0 % of the total growth in the government's net assets. Key elements of this increase are as follows:

- Increase in revenues due to use of County facilities.
- Reduced debt services costs

Financial Analysis of the County's Funds

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

Governmental Funds - The focus of Watauga County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance 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 the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$13,419,786 while total fund balance reached \$18,331,705. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 34.7 percent of total General Fund expenditures, while total fund balance represents 47.3 percent of that same amount.

At June 30, 2005, the governmental funds of Watauga County reported a combined fund balance of \$24,974,792, a 1.46 percent decrease over last year. The primary reason for this decrease is the decrease in fund balance in the General Fund.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues and expenditures by \$ 11,968,227.

The actual operating revenues for the General Fund were about \$1,500,000 more than the budgeted amount. Actual operating expense were less than budgeted by \$8,685,167.

Proprietary Funds - Watauga 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 Solidwaste Landfill Fund at the end of the fiscal year amounted to \$2,970,381. The total growth in net assets was \$337,926.

Capital Asset and Debt Administration

Capital Assets. Watauga County's investment in capital assets for its governmental and business - type activities as of June 30, 2005, totals \$31,623,626 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Completed renovation of County swimming pool
- Completed development of Brookshire Park
- Purchased new vehicles for County departments
- Continued construction of new solidwaste transfer station
- Continued construction of new jail and law enforcement center
- Continued renovation of new administration building
- Purchased new front end loader, recycling truck, and trash truck for solidwaste operations
- Purchased approximately seven acres of land adjacent to Watauga High School

Watauga County's Capital Assets

Figure 4 WATAUGA COUNTY'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities	Business Activities	Total
	2005	2005	2005
Land	\$ 5,496,312	1,377,212	6,873,524
Buildings	13,847,557	655,537	14,503,094
Other improvements	72,435	186,045	258,480
Equipment	746,144	73,148	819,292
Vehicles	672,539	453,205	1,125,744
Construction in progress	6,140,803	1,902,689	8,043,492
Total	\$ 26,975,790	4,647,836	31,623,626

Additional information on the County's capital assets can be found in note 3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2005, Watauga County had bonded debt outstanding of \$12,915,000 all of which is backed by the good faith and credit of the County. The County also has several installment purchase notes outstanding. A summary of total long-term debt is shown in Figure 5.

Watauga County's Outstanding Debt

General Obligation Bonds

Figure 5

	<u>Governmental Activities</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 12,915,000	14,320,000	15,355,000

Watauga County's total debt decreased by \$1,750,856 or (7.73%) during the past fiscal due to annual debt service payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As mentioned in the financial highlights section of this document, Watauga County maintained its A bond rating. This bond rating is a good indication of the sound financial condition of Watauga County. A good bond rating also helps keep interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Watauga County is \$423,358,422.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the economic environment the County is working in.

- The County is experiencing a low unemployment rate of 1.8%, one of the lowest in the state
- The County continues to experience growth in the tourism industry.
- Appalachian State University with an economic impact estimated at \$450 million a year provides stability to the local economy

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental activities - The County's property tax rate was increased 4.5 cents in order to generate approximately \$2.5 in property tax revenue to be earmarked for education. Sales tax revenue is projected to increase due to continued economic growth.

Budgeted expenditures in the General Fund include a 6.9% increase in the current expense appropriation to the school system as well as \$2,522,858 to be transferred to the Capital Reserve Fund to fund future high school renovations, construction and/or debt service.

Business-type Activities: The County budgeted an increase in tipping, greenbox and landfill fees in the Solidwaste Landfill Fund. These increases will generate approximately \$350,000.

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 Watauga County Finance Director, 842 West King Street, Boone, NC 28607.

Watauga County, North Carolina
Statement of Net Assets
June 30, 2005

Exhibit A

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	AppalCART
ASSETS				
Cash and cash equivalents	\$ 22,806,532	3,142,115	25,948,647	468,399
Receivables (net)	1,966,345	287,976	2,254,321	10,955
Due from other funds	20,914	--	20,914	--
Due from other governments	2,134,974	14,239	2,149,213	134,083
Inventories	--	--	--	100,940
Prepaid items	144,660	--	144,660	29,379
Deferred charges - issuance cost	81,006	--	81,006	--
Deferred charges - refunding	314,166	--	314,166	--
Intangible asset - advanced funding of pension obligation	47,620	--	47,620	--
Capital assets:				
Land, improvements, and construction in progress	11,637,115	3,749,982	15,387,097	--
Other capital assets, net of depreciation	15,338,675	897,854	16,236,529	2,885,973
Total capital assets	26,975,790	4,647,836	31,623,626	2,885,973
Total assets	54,492,007	8,092,166	62,584,173	3,629,729
LIABILITIES				
Accounts payable and accrued expenses	1,204,182	281,383	1,485,565	67,784
Unearned revenue	317,543	151,001	468,544	18,819
Accrued interest payable	112,350	--	112,350	--
Customer deposits	--	76	76	--
Long-term liabilities:				
Due within one year	2,131,958	91,907	2,223,865	--
Due in more than one year	18,428,873	257,184	18,686,057	--
Total liabilities	22,194,906	781,551	22,976,457	86,603
NET ASSETS				
Invested in capital assets, net of related debt	20,063,795	4,340,234	24,404,029	2,885,973
Restricted for:				
Public safety	769,275	--	769,275	--
Register of Deeds	99,890	--	99,890	--
Unrestricted (deficit)	11,364,141	2,970,381	14,334,522	657,153
Total net assets	\$ 32,297,101	7,310,615	39,607,716	3,543,126

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

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2005

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 5,266,136	1,698,803	102,670	--
Public safety	7,546,298	413,742	531,934	--
Economic and physical development	789,593	--	23,673	--
Human service	7,817,570	262,872	3,585,197	--
Cultural and recreation	1,207,295	321,264	--	--
Education	10,946,838	--	--	--
Interest on long-term debt	854,586	--	--	--
Total governmental activities	<u>34,428,316</u>	<u>2,696,681</u>	<u>4,243,474</u>	<u>--</u>
Business-type activities:				
Solid waste	<u>3,296,450</u>	<u>3,244,959</u>	<u>22,555</u>	<u>--</u>
Total	<u>\$ 37,724,766</u>	<u>5,941,640</u>	<u>4,266,029</u>	<u>--</u>
Component unit:				
AppalCART	<u>\$ 1,945,918</u>	<u>835,719</u>	<u>877,456</u>	<u>725,359</u>

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
Special item - Property tax refund to Appalachian
Student Housing Corporation
Gain on sale of assets
Transfers
 Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Prior period adjustment
Net assets - ending

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Net (Expense) Revenues and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	AppalCART	
(3,464,663)	--	(3,464,663)		
(6,600,622)	--	(6,600,622)		
(765,920)	--	(765,920)		
(3,969,501)	--	(3,969,501)		
(886,031)	--	(886,031)		
(10,946,838)	--	(10,946,838)		
(854,586)	--	(854,586)		
(27,488,161)	--	(27,488,161)		
--				
--	(28,936)	(28,936)		
(27,488,161)	(28,936)	(27,517,097)		
			492,616	
\$ 20,944,307	--	20,944,307	--	
10,720,021	--	10,720,021	--	
1,072,699	--	1,072,699	--	
13,054	--	13,054	--	
540,230	59,911	600,141	9,937	
115,981	--	115,981	--	
(296,521)	(32,400)	(328,921)	--	
--	--	--	3,136	
(339,351)	339,351	--	--	
32,770,420	366,862	33,137,282	13,073	
5,282,259	337,926	5,620,185	505,689	
26,850,607	6,972,689	33,823,296	3,037,437	
164,235	--	164,235	--	
\$ 32,297,101	7,310,615	39,607,716	3,543,126	

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

Watauga County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2005

Exhibit C

	General	Capital Reserve Fund	Other Governmental Funds	Total Governmental Fund
ASSETS				
Cash and cash equivalents	\$ 16,208,677	4,425,651	2,172,204	22,806,532
Taxes receivable, net	578,934	--	61,824	640,758
Due from other governments	2,134,974	--	--	2,134,974
Due from other funds	20,914	--	--	20,914
Accounts receivable, net	1,100,873	60,000	107,632	1,268,505
Other assets	144,660	--	--	144,660
Total assets	<u>\$ 20,189,032</u>	<u>4,485,651</u>	<u>2,341,660</u>	<u>27,016,343</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,095,225	--	88,043	1,183,268
Unearned revenue	20,649	--	10,751	31,400
Deferred revenue	741,453	--	64,516	805,969
Due from other funds	--	--	20,914	20,914
Total liabilities	<u>1,857,327</u>	<u>--</u>	<u>184,224</u>	<u>2,041,551</u>
Fund balances:				
Reserved for:				
State statute	3,235,847	--	107,632	3,343,479
Encumbrances	1,576,182	--	--	1,576,182
Register of Deeds	99,890	--	--	99,890
Unreserved	13,419,786	4,485,651	--	17,905,437
Unreserved, reported in nonmajor:				
Special revenue funds	--	--	721,394	721,394
Capital projects funds	--	--	1,328,410	1,328,410
Total fund balances	<u>18,331,705</u>	<u>4,485,651</u>	<u>2,157,436</u>	<u>24,974,792</u>
Total liabilities and fund balances	<u>\$ 20,189,032</u>	<u>4,485,651</u>	<u>2,341,660</u>	

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

The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds.

47,620

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

26,975,790

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

57,082

Liabilities for earned but deferred revenues in fund statements.

519,826

Deferred charges based on refunding issues.

395,172

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 4).

(20,673,181)

Net assets of governmental activities

\$ 32,297,101

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

Watauga County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	General	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 19,785,009	--	1,216,868	21,001,877
Local option sales taxes	10,720,021	--	--	10,720,021
Other taxes and licenses	802,910	--	269,789	1,072,699
Unrestricted intergovernmental	13,054	--	--	13,054
Restricted intergovernmental	5,004,888	45,000	477,920	5,527,808
Permits and fees	866,052	--	--	866,052
Sales and services	534,899	--	--	534,899
Investment earnings	426,248	111,504	13,874	551,626
Miscellaneous	115,981	--	--	115,981
Total revenues	<u>38,269,062</u>	<u>156,504</u>	<u>1,978,451</u>	<u>40,404,017</u>
EXPENDITURES				
Current:				
General government	9,789,775	--	241,037	10,030,812
Public safety	5,960,090	--	5,528,049	11,488,139
Economic and physical development	734,832	--	--	734,832
Human services	7,186,968	--	--	7,186,968
Cultural and recreational	1,152,813	--	--	1,152,813
Intergovernmental:				
Education	10,945,823	--	--	10,945,823
Capital outlay	--	--	18,715	18,715
Debt service:				
Principal	2,107,947	--	--	2,107,947
Interest	839,015	--	--	839,015
Total expenditures	<u>38,717,263</u>	<u>--</u>	<u>5,787,801</u>	<u>44,505,064</u>
Excess (deficiency) of revenues over expenditures	<u>(448,201)</u>	<u>156,504</u>	<u>(3,809,350)</u>	<u>(4,101,047)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	3,462,437	1,521,826	--	4,984,263
Transfers to other funds	(1,953,828)	(3,265,519)	(104,267)	(5,323,614)
Total other financing sources and uses	<u>1,508,609</u>	<u>(1,743,693)</u>	<u>(104,267)</u>	<u>(339,351)</u>
Net change in fund balance	1,060,408	(1,587,189)	(3,913,617)	(4,440,398)
Fund balances-beginning	22,398,343	6,072,840	779,772	29,250,955
Prior period adjustment - to record prior accounts receivable	164,235	--	--	164,235
Prior period adjustment - to transfer expenditures to Capital Projects fund	(5,291,281)	--	5,291,281	--
Fund balances-ending	<u>\$ 18,331,705</u>	<u>4,485,651</u>	<u>2,157,436</u>	<u>24,974,792</u>

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

Watauga County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

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

Net changes in fund balances - total governmental funds	\$ (4,440,398)
---	----------------

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

9,101,195

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis until due, rather than as it accrues. This adjustment combines the net changes for four balances.

Compensated absences	(72,466)	
Advance funding of pension obligation	12,758	
Accrued interest expense	(10,154)	
Taxes receivable	<u>(57,570)</u>	
Combined adjustment		(127,432)

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 transactions has any effect on net assets. Also, governmental funds report the effect of issuance cost, 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.

748,894

Total changes in net assets of governmental activities	\$ <u><u>5,282,259</u></u>
--	----------------------------

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

Watauga County, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	General Fund			
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 19,211,244	19,211,244	19,785,009	573,765
Local option sales tax	9,981,804	9,981,804	10,720,021	738,217
Other taxes and licenses	578,300	628,300	802,910	174,610
Unrestricted intergovernmental	10,500	10,500	13,054	2,554
Restricted intergovernmental	3,922,218	5,162,492	5,004,888	(157,604)
Permits and fees	878,938	878,938	866,052	(12,886)
Sales and services	518,142	518,142	534,899	16,757
Investment earnings	262,500	262,500	426,248	163,748
Miscellaneous	116,536	118,366	115,981	(2,385)
Total revenues	<u>35,480,182</u>	<u>36,772,286</u>	<u>38,269,062</u>	<u>1,496,776</u>
Expenditures:				
Current:				
General government	6,379,354	11,373,953	9,789,775	1,584,178
Public safety	5,857,017	6,527,185	5,960,090	567,095
Economic & Physical	706,971	816,086	734,832	81,254
Human services	7,573,927	7,721,568	7,186,968	534,600
Cultural and recreation	1,195,193	1,211,652	1,152,813	58,839
Education	9,950,426	11,401,940	10,945,823	456,117
Debt service:				
Principal retirement	1,888,941	1,959,890	2,107,947	(148,057)
Interest and other charges	682,921	895,421	839,015	56,406
Total expenditures	<u>34,234,750</u>	<u>41,907,695</u>	<u>38,717,263</u>	<u>3,190,432</u>
Revenues over (under) expenditures	<u>1,245,432</u>	<u>(5,135,409)</u>	<u>(448,201)</u>	<u>4,687,208</u>
Other financing sources (uses):				
Transfers from other funds	308,396	3,372,562	3,462,437	89,875
Transfers to other funds	(1,953,828)	(7,448,563)	(1,953,828)	5,494,735
Future project funding	--	--	--	--
Fund balance appropriated	400,000	9,211,410	--	(9,211,410)
Total other financing sources (uses)	<u>(1,245,432)</u>	<u>5,135,409</u>	<u>1,508,609</u>	<u>(3,626,800)</u>
Revenues and other sources over (under) expenditures and other uses	--	--	1,060,408	1,060,408
Fund balances, beginning of year	--	--	22,398,343	--
Prior period adjustment - to record prior year accounts receivable	--	--	164,235	--
Prior period adjustment - to transfer expenditures to capital project fund	--	--	(5,291,281)	--
Fund balances, end of year	<u>\$ --</u>	<u>--</u>	<u>18,331,705</u>	<u>--</u>

Watauga County, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

Exhibit E

Capital Reserve Fund			
Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
Original	Final		
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	45,000	45,000
--	--	--	--
--	--	--	--
40,000	40,000	111,504	71,504
--	--	--	--
40,000	40,000	156,504	116,504
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
40,000	40,000	156,504	116,504
1,521,826	1,521,826	1,521,826	--
(215,745)	(3,265,519)	(33,265,519)	--
(2,111,826)	(1,612,052)	--	1,612,052
765,745	3,315,745	--	(3,315,745)
(40,000)	(40,000)	(1,743,693)	(1,703,693)
--	--	(1,587,189)	(1,587,189)
--	--	6,072,840	--
--	--	--	--
--	--	4,485,651	--

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

Watauga County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,142,115
Receivables, net	287,976
Due from other governments	14,239
Total current assets	3,444,330
Capital assets:	
Land, improvements, and construction in progress	3,749,982
Other capital assets, net of depreciation	897,854
Total capital assets	4,647,836
Total assets	8,092,166
LIABILITIES	
Current liabilities:	
Accounts payable	281,383
Customer deposits	76
Installment purchase payable	91,907
Total current liabilities	373,366
Noncurrent liabilities:	
Deferred Revenue	151,001
Compensated absences	41,489
Installment purchase payable	215,695
Total noncurrent liabilities	408,185
Total liabilities	781,551
NET ASSETS	
Invested in capital assets, net of related debt	4,340,234
Unrestricted	2,970,381
Total net assets	\$ 7,310,615

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

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 3,244,659
Restricted intergovernmental revenues	22,555
Miscellaneous	300
	3,267,514
Total operating revenues	3,267,514
 OPERATING EXPENSES:	
Landfill operations	3,184,742
Depreciation	136,868
	3,321,610
Total operating expenses	3,321,610
Operating income (loss)	(54,096)
 NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	59,911
Interest paid on long term debt	(7,240)
	52,671
Total non operating revenue (expenses)	52,671
Income (loss) before transfers	(1,425)
Transfers to (from) other funds (net)	339,351
	337,926
Change in net assets	337,926
Total net assets - beginning	6,972,689
Total net assets - ending	\$ 7,310,615

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

Watauga County, North Carolina
Statement of Cash Flows
Enterprise Fund
For The Fiscal Year Ended June 30, 2005

	<u>Solid Waste Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 3,197,483
Cash paid for goods and services	(2,504,556)
Cash paid to employees for services	(736,701)
Other operating revenue	22,855
Net cash provided by operating activities	<u>(20,919)</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>339,351</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,648,658)
Proceeds from installment purchase	375,000
Principal paid on installment purchase contracts	(93,151)
Interest paid on installment purchase contracts	(7,240)
Net cash used by capital and related financing activities	<u>(1,374,049)</u>
Cash flows from investing activities:	
Interest on investments	<u>59,911</u>
Net increase (decrease) in cash and cash equivalents	(995,706)
Cash and cash equivalents, July 1	<u>4,137,821</u>
Cash and cash equivalents, June 30	<u>\$ 3,142,115</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>(54,096)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	136,868
Changes in assets and liabilities:	
Increase in accounts receivable	(62,241)
Increase in deferred revenue	15,065
Decrease in accounts payable and accrued liabilities	(59,165)
Increase in accrued vacation pay	2,650
Total adjustments	<u>33,177</u>
Net cash used by operating activities	<u>\$ (20,919)</u>

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

**Watauga County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ <u>117,637</u>	<u>206,169</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u> --</u>	<u>206,169</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>117,637</u>	<u> --</u>

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

Watauga County, North Carolina
Statement of Changes in Fiduciary Net
Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

Exhibit J

		Pension Trust Fund <hr/> June 30, 2005 <hr/>
Additions:		
Employer contributions	\$	41,117
Interest earned		<u>1,797</u>
Total additions		<u>42,914</u>
Deductions:		
Benefits		30,872
Administrative expense		<u>245</u>
Total deductions		<u>31,117</u>
Change in net assets		11,797
Net assets, beginning		<u>105,840</u>
Net assets, ending	\$	<u><u>117,637</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies:

The accounting policies of Watauga County and its component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity:

The County, which is governed by a five-member Board of Commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. The discretely presented component unit presented below is reported in a separate column in the County's combined financial statements in order to emphasize that it is legally separate from the County.

AppalCART

AppalCART operates mainly in Watauga County in the northwest part of North Carolina, providing transportation services to the various areas and residents within Watauga County. Watauga County's Board of Commissioners appoints the seven-member governing board of AppalCART and AppalCART operates within the County's boundaries for the benefit of the County's residents. The County provides some financial support to AppalCART but it is not responsible for the debts of AppalCART except when such are expressly granted by statute or by the consent of the Board of Commissioners of Watauga County.

The Board of Commissioners of Watauga County has the authority to terminate the existence of AppalCART at any time, provided a 60-Day written notice is given to AppalCART, and all property and assets of AppalCART shall automatically become the property of Watauga County and the County shall succeed to all rights, obligations and liabilities of AppalCART. AppalCART designates its own management, approves its own budget, and maintains its own accounting system; however, AppalCART is fiscally accountable to Watauga County, and the County has the authority to examine all records and accounts at any time. AppalCART, which has a June 30 year-end, is presented as if it were a proprietary fund.

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statement: The statement of net assets and the statement of activities display information about the primary government (the County) and its component unit. 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued):

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

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

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

The County reports the following major governmental funds:

General Fund – This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Reserve Fund – This is a special revenue fund. It accounts for the County's reserves set aside for further capital asset additions.

The County reports the following major enterprise fund:

Solid Waste Fund – This fund accounts for the operation, maintenance, and development of the County's landfill and disposal sites.

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 Health Benefits Fund, which accounts for moneys held for the County's self insurance; for disability and retiree insurance; and the Vehicle

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities within the County.

Note 1 - Summary of Significant Accounting Policies (continued):

Measurement Focus and 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 fund 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 are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga

Note 1 -Summary of Significant Accounting Policies (continued):

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 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements. For those motor vehicles which are renewed and billed under the annual system, taxes are due on May 1 of each year, and the uncollected taxes are reported as a receivable on the financial statements offset by deferred revenues because the due date and the date upon which the interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the County's operations during the 2005 fiscal year.

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.

The County has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and presentation and for inclusion of Management's Discussion and Analysis as required supplementary information.

C. Budgetary Data

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Reserve, the Substance Abuse Tax, the Emergency Telephone, Fire District, and Revaluation Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Housing Rehabilitation Special Revenue Fund and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the

Note 1 - Summary of Significant Accounting Policies (continued):

C. Budgetary Data (continued)

multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial 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 and AppalCART are made in board-designated official depositories and are secured as required by G.S. 159-31. The County and AppalCART may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County and AppalCART may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County and AppalCART 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 and AppalCART's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, an 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

2. Cash and Cash Equivalents

The County pools money 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. AppalCART considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

Note 1 - Summary of Significant Accounting Policies (continued):

3. 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, 2001.

4. 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.

5. Inventory

The inventories of AppalCART are maintained for fuel oil, tires, and vehicle parts; valuation is at lower of cost or market on an average basis.

6. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization is \$5,000 for all governmental fund assets. On July 1, 1989, the County established the Solid Waste Enterprise Fund to account for the operations of the landfill. At this time, all landfill assets were transferred to this fund at original cost less accumulated depreciation from date of purchase. Property, plant, and equipment acquired after July 1, 1989, are recorded at original cost at time of acquisition. After July 1, 2002, the Enterprise Fund's minimum capitalization costs of \$5,000. Prior to July 1, 2002, the Enterprise Fund did not have a minimum capitalization cost. Plant assets of the County are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss or disposition is not calculated except in extraordinary circumstances. 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

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

	<u>Years</u>
Buildings	30 to 50
Improvements	8 to 10
Furniture and equipment	5 to 10
Vehicles	5 to 6
Computer equipment	3 to 6

Note 1 - Summary of Significant Accounting Policies (continued):

6. Capital Assets (continued)

Capital assets of the AppalCART are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Office furniture and equipment	5
Maintenance and shop	8
Vehicles	7-12
Land improvements	10

7. Long-term Obligations

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

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

8. Compensated Absences

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

The sick leave policies of the County and AppalCART provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since none of the entities have

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County or its component unit.

9. Net Assets/Fund Balances

Net Assets

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

Note 1 - Summary of Significant Accounting Policies (continued):

9. Net Assets/Fund Balances (continued)

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved for inventories – portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances – portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.

Reserved by State statute – portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Reserved for register of deeds – a portion of the fund balance constituting of the Automation Enhancement and Preservation Fund is funded by 10% of the fees collected and maintained by the register of deeds' office. The funds are available for appropriation but are legally restricted for computer and imaging technology in the register of deeds' office.

Unreserved

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2005-2006 budget ordinance.

Undesignated – a portion of the total fund balance is available for appropriation that is uncommitted at year-end.

Note 1 - Summary of Significant Accounting Policies (continued):

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 government fund balance sheet includes 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 \$7,322,309 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
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)	\$ 44,598,385
Less accumulated depreciation	(17,622,595)
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds	47,620

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

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	57,082
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	519,826
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	395,172
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 and installment financing	(19,826,995)
Compensated absences	(733,836)
Accrued interest payable	<u>(112,350)</u>
Total adjustment	\$ <u><u>7,322,309</u></u>

Note 1 - Summary of Significant Accounting Policies (continued):

E. Reconciliation of Government-wide and Fund Financial Statements (continued)

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 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 \$9,722,657 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 10,256,053
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	(1,154,858)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

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	667,888
Expenses reported on fund statements that are capitalized on government-wide statements – bond issuance and refunding costs	81,006
The advance funding of pension obligations	12,758
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	(3,340)
Amortization of refunding costs not recorded on fund statements	(6,814)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(72,466)

Note 1 - Summary of Significant Accounting Policies (continued):

E. Reconciliation of Government-wide and Fund Financial Statements (continued)

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:

Reversal of deferred tax revenue recorded at 7/1/04 (583,368)

Recording of tax receipts deferred in the fund statements as of 6/30/05 519,826

Increase in accrued taxes receivable for year ended 6/30/05 5,972

Total adjustment \$ 9,722,657

Note 2 - Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

There were no instances of noncompliance with North Carolina Statutes.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All of the County's and AppalCART'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 and AppalCART's, agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County and AppalCART, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits.

Note 3 - Detail Notes on All Funds (continued)

1. Deposits (continued)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or the AppalCART under the Pooling Method, the potential exists for undercollateralization, 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.

At June 30, 2005, the County's deposits had a carrying amount of \$24,484,064 and a bank balance of \$11,208,975. Of the bank balance, \$300,000 was covered by federal depository insurance, and \$18,052 in non-interest bearing deposits and \$10,890,923 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2005, Watauga County had \$1,750 cash on hand.

At June 30, 2005, the AppalCART's deposits had a balance of \$21,612 and a bank balance of \$53,365. All of the bank balance was covered by federal depository insurance.

2. Investments

At year end, the County's and AppalCART's investments consisted of investments with the North Carolina Capital Management Trust. The County's and AppalCART's investments in the North Carolina Capital Management Trust are exempt from categorization because the County and AppalCART do not own any identifiable securities in these mutual funds.

At June 30, 2005, the County's investments consisted of \$1,786,637 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's. The County has no policy on credit risk.

At June 30, 2005, the AppalCART's investments consisted of \$446,787 in the North Carolina Capital Management Trust's Cash Portfolio.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 - Detail Notes on All Funds (continued)

3. Property Tax – Use – Value Assessment on Certain Lands

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxes 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
2002	\$ 296,899	83,874	380,773
2003	507,376	97,670	605,046
2004	478,158	49,011	527,169
2005	<u>481,808</u>	<u>--</u>	<u>481,800</u>
Total	\$ <u>1,764,233</u>	<u>230,555</u>	<u>1,994,788</u>

4. Receivables

Receivables at the government-wide level at June 30, 2005, were as follows:

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 1,100,873	1,049,593	2,134,974	4,285,440
Capital Revenue	60,000	--	--	60,000
Other Governmental	<u>107,632</u>	<u>74,831</u>	<u>--</u>	<u>182,463</u>
Total receivables	1,268,505	1,124,424	2,134,974	4,527,903
Allowance for doubtful accounts	<u>--</u>	<u>(426,584)</u>	<u>--</u>	<u>(426,584)</u>
Total-governmental activities	\$ <u>1,268,505</u>	<u>697,840</u>	<u>2,134,974</u>	<u>4,101,319</u>
Business-type activities				
Solid Waste	\$ 287,976	--	14,239	302,215
Allowance for doubtful accounts	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total-business-type activities	\$ <u>287,976</u>	<u>--</u>	<u>14,239</u>	<u>302,215</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 - Detail Notes on All Funds (continued)

4. Receivables (continued)

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

Local option sales tax	\$ 1,712,695
Scrap tire tax	10,553
White goods tax	3,686
Criminal Justice Partnership Program	27,111
Daycare	68,212
County Administration	269,070
Foster care	6,650
Adoption Assistance	2,806
NWNC Methamphetamine Grant	<u>48,430</u>
Total	\$ <u>2,149,213</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,241,405	3,254,907	--	5,496,312
Construction in progress	<u>1,497,088</u>	<u>5,995,828</u>	<u>1,352,113</u>	<u>6,140,803</u>
Total capital assets not being depreciated	<u>3,738,493</u>	<u>9,250,735</u>	<u>1,352,113</u>	<u>11,637,115</u>
Capital assets being depreciated:				
Buildings	28,691,894	493,932	--	29,185,826
Other improvements	33,780	61,421	--	95,201
Equipment	1,885,538	153,433	--	2,038,971
Vehicles and motor equipment	<u>1,368,657</u>	<u>296,532</u>	<u>23,917</u>	<u>1,641,272</u>
Total capital assets being depreciated	<u>31,979,869</u>	<u>1,005,318</u>	<u>23,917</u>	<u>32,961,270</u>
Less accumulated depreciation for:				
Buildings	14,531,825	806,444	--	15,338,269
Improvements	19,930	2,836	--	22,766
Equipment	1,117,969	174,858	--	1,292,827
Vehicles and motor equipment	<u>821,930</u>	<u>170,720</u>	<u>23,917</u>	<u>968,733</u>
Total accumulated depreciation	<u>16,491,654</u>	<u>1,154,858</u>	<u>23,917</u>	<u>17,622,595</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Total capital assets being depreciated, net	<u>15,488,215</u>	<u>15,338,675</u>
Governmental activity capital assets, net	\$ <u>19,226,708</u>	<u>26,975,790</u>

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Primary Government

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

General government	\$ 109,165
Public safety	285,813
Education	1,015
Economic and physical development	53,153
Human services	612,825
Cultural and recreational	<u>92,887</u>
Total depreciation expense	\$ <u>1,154,858</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,377,212	--	--	1,377,212
Construction in progress	<u>655,613</u>	<u>1,247,076</u>	--	<u>1,902,689</u>
Total capital assets not being depreciated	<u>2,032,825</u>	<u>1,247,076</u>	--	<u>3,279,901</u>
Capital assets being depreciated:				
Improvements	470,081	--	--	470,081
Buildings	877,367	--	--	877,367
Equipment	1,115,921	--	17,760	1,098,161
Vehicles	<u>789,406</u>	<u>401,582</u>	--	<u>1,190,988</u>
Total capital assets being depreciated	<u>3,252,775</u>	<u>401,582</u>	<u>17,760</u>	<u>3,636,597</u>
Less accumulated depreciation for:				
Improvements	274,280	9,756	--	284,036
Buildings	204,283	17,547	--	221,830
Equipment	1,010,692	32,081	17,760	1,025,013
Vehicles	<u>660,299</u>	<u>77,484</u>	--	<u>737,783</u>
Total accumulated depreciation	<u>2,149,554</u>	<u>136,868</u>	<u>17,760</u>	<u>2,268,662</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Total capital assets being depreciated, net	<u>1,103,221</u>	<u>1,367,935</u>
Business-type activities capital assets, net	<u>\$ 3,136,046</u>	<u>4,647,836</u>

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Construction commitments

The government has active construction projects as of June 30, 2005. The projects include a new law enforcement facility, a new administration building, an addition to the existing courthouse, and the construction of a transfer station at the solid waste facility. At June 30, 2005, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Transfer Station	1,902,689	284,184
Law enforcement facility	4,394,256	1,365,221
Administration building	1,564,608	560,677
Courthouse addition	<u>181,939</u>	<u>108,560</u>
Total	<u>\$ 8,043,492</u>	<u>\$ 2,318,642</u>

Discretely presented component units

Actively for the AppalCART for the year ended June 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,114,242	--	--	1,114,242
Construction in progress	<u>35,701</u>	<u>15,360</u>	--	<u>51,061</u>
Total capital assets not being depreciated	<u>1,149,943</u>	<u>15,360</u>	--	<u>1,165,303</u>
Capital assets being depreciated:				
Land improvements	159,662	--	--	159,662

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Office furniture and equipment	109,234	2,745	--	111,979
Vehicles	2,506,905	785,054	156,183	3,135,776
Shop equipment	<u>112,968</u>	<u>1,894</u>	--	<u>114,862</u>
Total capital assets being depreciated	<u>2,888,769</u>	<u>789,693</u>	<u>156,183</u>	<u>3,522,279</u>
Less accumulated depreciation for:				
Land improvements	105,184	10,176	--	115,360
Office furniture and equipment	75,228	10,122	--	85,350
Vehicles	1,375,898	285,433	156,183	1,505,148
Shop equipment	<u>90,644</u>	<u>5,087</u>	--	<u>95,751</u>
Total accumulated depreciation	<u>1,646,974</u>	<u>310,818</u>	<u>156,183</u>	<u>1,801,609</u>
Total capital assets being depreciated, net	<u>1,241,795</u>			<u>1,720,670</u>
AppalCART capital assets, net	\$ <u>2,391,738</u>			<u>2,885,973</u>

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2005, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$1,095,225	--	112,350	--	1,207,575
Other governmental	<u>108,957</u>	--	--	--	<u>108,957</u>
Total-governmental activities	<u>1,204,182</u>	--	<u>112,350</u>	--	<u>1,316,532</u>
Business-type activities:					
Solid Waste	\$ <u>281,383</u>	--	--	--	<u>281,383</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Watauga 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 Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

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 4.96% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Watauga 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, 2005, 2004, and 2003 were \$868,194, \$809,902, and \$763,589, respectively. The contributions made by the County equaled the required contributions for each year.

Note 3 - Detail Notes on All Funds (continued)

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description*

Watauga 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. The Separation Allowance is reported in the County's report as a fiduciary fund.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2004, the Separation Allowance's membership consisted of :

Retirees receiving benefits	4	
Active plan members		<u>34</u>
Total		<u>38</u>

2. *Contributions*

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the County.

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefits increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2004 was 26 years.

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 26,782	137.64 %	\$ (25,221)
2004	30,398	131.72	(34,862)
2005	30,251	142.17	(47,620)

Note 3 - Detail Notes on All Funds (continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income 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.

Funding Policy. Article 12E of G.S. Chapter 143 required 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 voluntary contributions to the plan. Contributions for the year ended June 30, 2005 were \$68,624, which consisted of \$60,068 from the County and \$8,556 from the law enforcement officers.

d. Supplemental Retirement Income Plans for General Employees

Employees, other than law enforcement, have the choice of participating in a 401(k) plan or a 457 deferred compensation plan. The County contributes 4.5 percent of each employees salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2005 to these plans were \$528,472, which consisted of \$361,412 from the County and

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

\$167,060 from employees.

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Register of Deeds' Supplemental Pension 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.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2005, the County's required and actual contributions were \$21,634.

Note 3 - Detail Notes on All Funds (continued)

f. Other Post Employment Benefits – Watauga County

Health Benefits

The County has elected to allow retiring employees to extend their health insurance coverage up to the time when they become eligible for Medicare coverage. This policy came into effect September 1, 2001. For employees retiring with a minimum of 10 years service under the Local Government Retirement System with at least the last 5 years with the County, the employees may extend his/her health insurance coverage, but is fully responsible for the premium. With a minimum of 20 years of service, the employee can maintain the health insurance coverage, and the County will pay the lesser of \$300 or 75% of the monthly premium. With a minimum of 25 years of service, the employee can maintain coverage and the County will pay the lesser of \$400 or 100% of the monthly premium. If the employee chooses to make this election, it must be made before the employee's actual retirement date. The employee is expected to enroll in Medicare when eligible, and has the option to remain with the health insurance plan for 30 days after becoming eligible for Medicare.

Death Benefits

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

The County has elected to provide death benefits to all eligible 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 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 may not be less than \$25,000 and no more than \$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 payrolls, based upon rates established annually by the State. 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, 2005, the County made contributions to the State for death benefits of \$10,406. The County's required contributions for employees represented .14% 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.

Note 3 - Detail Notes on All Funds (continued)

g. Retirement System – AppalCART

The AppalCART retirement plan is a money purchase plan through Jefferson Pilot Pension Life. Each employee who works 1,000 hours in the fiscal year will be eligible for an 8.25% of gross pay contribution in the retirement system. The vesting schedule after working 1,000 hours in each plan year is as follows:

<u>Years of Service</u>	<u>Percent Vested</u>
2	40%
3	60
4	80
5 or more	100

This rate of contribution is subject to change due to funding constraints. The contribution requirement for June 30, 2005 and 2004 amounted to \$51,125 and \$46,368, respectively. Payments of \$39,455

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

and \$62,671 were made for each fiscal year, respectively.

3. Groundwater Contamination/Landfill Closure

In March 1993, the County's engineers found groundwater contamination at the County's landfill site which exceeded State and Federal maximum contaminant levels for some constituents. On April 8, 1994, the County stopped accepting municipal solid waste at the County's landfill, and closure procedures were initiated. The County's engineers developed an assessment plan, which was approved by the NCDEHNR Solid Waste Management Division, to determine the extent, nature, and source of the contamination. The County installed groundwater monitoring wells in and around the landfill property to test for the presence of possible contaminants. On January 12, 1996, the County's engineers issued a Remedial Investigation and Alternative Report which proposed a remedial cap with some supplemental steps (including some continued assessment monitoring activities). In February 1996, the Board of Commissioners approved the engineer's proposal with some adjustments based on public comment. The County, after advertisement and bidding, awarded a contract for construction of the cap in May 1996. The approximate cost to date of the assessment and remedial cap is \$2,700,000. The capping project is complete and groundwater conditions remain stable. Groundwater testing continues, as required by NCDENR. Also, due to NCDENR directive, in fiscal year 2004/2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

Note 3 - Detail Notes on All Funds (continued)

4. Deferred/Unearned Revenues

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

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid taxes not yet earned (General)	\$ 162,516	162,516
Taxes receivable, net (General)	578,937	--
Taxes receivable, net (Special Revenue)	64,516	--

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Prepaid revenue	<u>31,400</u>	<u>155,027</u>
Total	\$ <u>837,369</u>	<u>317,543</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 three 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 \$125.5 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, workers' compensation coverage up to the statutory limits, and health insurance for county employees. 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 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. For health insurance, the county is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through commercial carriers for individual losses in excess of \$100,000.

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

Note 3 - Detail Notes on All Funds (continued)

5. Risk Management (continued)

AppalCART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical malpractice. The AppalCART carries commercial insurance for these 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.

6. Contingent Liabilities

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

At June 30, 2005, the County was a defendant in various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements.

b. Installment Purchase

As authorized by State law [G.S.160A-20 and 153A-158.1], the County financed various property acquisitions during previous years by installment purchase. The installment purchases were issued pursuant to security agreements that require that legal title remain with the County as long as the debt is outstanding.

The County has three installment purchases serviced by the general fund. The first installment purchase was executed on November 1, 1997, for the construction and renovation of the Human Services Center and requires sixty quarterly principal and interest payments of \$72,318.

The second installment purchase was executed on December 1, 1998 for the renovation of the East Annex Building, and the construction of the new Watauga County Health Department, and requires forty quarterly principal and interest payments of \$51,219.

The third installment purchase was executed on April 30, 2004 for the renovation of existing structures to house the County's Law Enforcement Center. This installment purchase requires 60 quarterly principal payments of \$83,333 plus interest at 3.24 percent.

The County also has one installment purchase serviced by the Solid Waste Fund. The installment purchase was executed on September 15, 2004 for the purchase of equipment and requires twelve quarterly payments of \$24,753 which includes interest at 2.60% compounded quarterly.

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

b. Installment Purchase (continued)

For Watauga County, the future minimum payments as of June 30, 2005, including \$1,442,677 of interest, are:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2006	\$ 721,958	252,674	91,907	7,107
2007	741,403	222,429	94,320	4,694
2008	761,824	191,208	96,796	2,214
2009	679,424	159,563	24,579	160
2010	592,555	134,000	--	--
2011-2015	2,081,497	376,828	--	--
2016-2020	<u>1,333,334</u>	<u>91,800</u>	<u>--</u>	<u>--</u>
Principal payments	\$ <u>6,911,995</u>		<u>307,602</u>	
Total interest payments		\$ <u>1,428,502</u>		<u>14,175</u>

c. General Obligation Indebtedness

All general obligation bonds serviced by the County's general fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest payments are appropriated when due.

The County's general obligation bonds payable at June 30, 2005 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$7,500,000 1993 School Facility Serial Bonds, due in semi-annual installments through June 1, 2014; interest at 4.40 percent	\$ 3,375,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	5,310,000
\$4,275,000 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent	<u>4,230,000</u>
Total	\$ <u>12,915,000</u>

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

Annual debt service requirements to maturity for the County's general obligation bonds are as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 1,410,000	482,075
2007	1,385,000	438,055
2008	1,365,000	391,905
2009	1,350,000	344,027
2010	1,335,000	294,003
2011-2015	<u>6,070,000</u>	<u>713,965</u>
Total	\$ <u>12,915,000</u>	<u>2,664,030</u>

At June 30, 2005, Watauga County had a legal debt margin of \$423,358,422.

d. Advance Refunding

In December 2001, the County issued \$6,425,000 of general obligation advance refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of general resources for all future debt service payments of \$5,900,000 general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$282,135 and resulted in an economic gain of \$231,604.

In April 2004, the County issued \$4,275,000 of general obligation advance refunding bonds to provide resources to purchase U.S. government securities that were placed into an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,950,000 general obligation bonds. The refunding debt consists of \$3,950,000 1995 School Facility Serial Bonds (partially refunded for the maturities in the years 2005-2015). As a result the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$293,305 and resulted in an economic gain of \$279,411.

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

e. 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, 2005:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 14,320,000	--	1,405,000	12,915,000	1,410,000
Installment purchases	7,614,942	--	702,947	6,911,995	721,958
Compensated absences	661,370	588,008	515,542	733,836	--
Total governmental activities	\$ 22,596,312	588,008	2,623,489	20,560,831	2,131,958
Business-type activities:					
Installment purchases	\$ 25,753	375,000	93,151	307,602	91,907
Compensated absences	38,839	27,921	25,271	41,489	--
Total business-type activities	\$ 64,592	402,921	118,422	349,091	91,907
Discretely presented component units:					
Compensated absences	\$ 39,152	39,726	38,619	40,259	--

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 is earned.

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2005, consists of the following:

From the General fund to the Capital Reserve fund to accumulate resources for future capital acquisitions	\$ 1,521,826
From the Special Revenue fund to the General fund to reimburse for an expense paid	104,267
From the Capital Reserve fund to the General fund for the new construction projects	3,265,519
From the General fund to the Solid Waste fund to supplement other funding sources	432,002
From the Solid Waste fund to the General fund to reimburse for an expense paid	<u>92,651</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Total \$ 5,416,265

Note 4 - Joint Ventures

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member 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 governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2005. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$394,700 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2005. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$481,235 to the Health Department to supplement its activities. Complete financial statements for the Health Department can be obtained from the Health Department's offices at 126 Poplar Grove Connector Road, Boone, NC 28607.

The County also participates in a joint venture to operate New River Behavioral Health Center with four other local governments. Each participating governmental appoints one County Commissioner to the Governing Board and they in turn appoint the other members. None of the participating governments have any equity interest in the Behavioral Health Center Department, so no equity interest has been reflected in the financial statements at June 30, 2005. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$212,687 to the Behavioral Health Care Department to supplement its activities. Complete financial statements for the Behavioral Health Care Department can be obtained at 895 State Farm Road, Suite 508, Boone, NC 28607.

Note 5 - Jointly Governed Organization

The County communally governs Caldwell Community College and Technical Institute with one other government and the community college system of the State of North Carolina. The County appoints two members of its fourteen members Board of Trustees. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$635,238 to Caldwell Community College and Technical Institute to supplement its activities. Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - 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 basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Temporary assistance to needy families	\$ 115,264	--
Medicaid	15,181,929	7,207,606
Food stamp program	1,724,009	--
Energy assistance	49,746	--
Adoption assistance	130,926	37,730
Adoption subsidy	--	22,526
Adult assistance	--	154,262
Title IV-E, foster care	71,191	15,190
Total	<u>\$ 17,273,065</u>	<u>7,437,314</u>

Note 7 - 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.

Note 8 - Special Item

The County was involved in a dispute with the Appalachian Student Housing Corporation (ASHC) over whether or not the property held by ASHC was exempt from property taxes. The County's position was that the property did not qualify for the tax exemption, and the state's Property Tax Commission sided with the County. However, the case was appealed and the NC Court of Appeals overturned the Commission's decision. The County was required to refund the property taxes and sanitation fees paid by the ASHC for the last three years which totaled \$328,921.

Note 9 - Prior Period Adjustment

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

During the fiscal year 2005, an adjustment of \$164,235 was made to record prior year accounts receivable in the General Fund and an adjustment of \$5,291,281 was made to transfer expenditures recorded in the General Fund to the Law Enforcement Capital Projects Fund.

WATAUGA COUNTY, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Reserved Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll for Year Ending on Val Date (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/1999	55,840	135,027	79,187	41.35	777,266	10.19
12/31/2000	65,840	237,850	172,010	27.68	809,782	21.24
12/31/2001	75,840	282,522	206,682	26.84	832,870	24.82
12/31/2002	85,840	334,449	248,609	25.67	1,015,925	24.47
12/31/2003	95,840	330,741	234,901	28.98	1,025,616	22.90
12/31/2004	105,840	318,853	213,013	33.19	1,089,341	19.55

WATAUGA COUNTY, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Reserved</u>	
2000	\$ 15,150	66.01	%
2001	15,203	65.78	
2002	24,419	40.95	
2003	27,067	36.95	
2004	30,843	32.42	
2005	30,962	32.30	

Watauga County
Law Enforcement Officers' Special Separation Allowance Schedule 3
Required Supplementary Information
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	12/31/04
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 – 9.8%
Includes inflation at	3.75%
Cost of living adjustments	N/A

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
Revenues:			
Taxes - ad valorem:			
Current year	\$	19,300,841	
Prior years		376,878	
Advertising and interest		107,290	
Total Taxes - ad valorem	<u>19,211,244</u>	<u>19,785,009</u>	<u>573,765</u>
Local Option Sales Taxes:			
Article 39 and 44		7,450,811	
Article 40 one-half of one percent		1,645,942	
Article 42 one-half of one percent		1,623,268	
Total Taxes - Local Option Sales	<u>9,981,804</u>	<u>10,720,021</u>	<u>738,217</u>
Taxes - other:			
Real estate transfer tax		606,643	
Animal tax		1,066	
ABC - .05/bottle		16,929	
Gross receipts tax - county		27,327	
Other		150,945	
Total Taxes - other	<u>628,300</u>	<u>802,910</u>	<u>174,610</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		13,054	
Total Unrestricted intergov. rev.	<u>10,500</u>	<u>13,054</u>	<u>2,554</u>
Restricted intergov. revenues:			
Grants-Federal & State		4,198,773	
Public School Facility Funds		652,557	
POA-Town of Boone		6,000	
Court facilities fees		147,558	
Total Restricted intergov. revenues	<u>5,162,492</u>	<u>5,004,888</u>	<u>(157,604)</u>
Permits and fees:			
Gun permits		9,556	
Serving civil summons		38,692	
Jail and officer fees		52,895	
Drug fees awarded by court		292	
Planning and inspection fees		295,827	
Marriage license		9,360	
Register of deeds fees		453,123	
Fire inspection fees		6,307	
Total Permits and fees	<u>878,938</u>	<u>866,052</u>	<u>(12,886)</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,835	
Recreation department revenues		321,264	
Sales of tax maps		1,565	
Data processing fees		296	
Rich Mtn. antenna rental		3,600	
Copy revenue		14,589	
Tax collection fees-Towns		76,609	
Jail medical service		2,177	
Other		98,964	
Total Sales and service	<u>518,142</u>	<u>534,899</u>	<u>16,757</u>
Investment earnings:			
Interest earned on investments	<u>262,500</u>	<u>426,248</u>	<u>163,748</u>
Miscellaneous:	<u>118,366</u>	<u>115,981</u>	<u>(2,385)</u>
TOTAL REVENUES	<u>36,772,286</u>	<u>38,269,062</u>	<u>1,496,776</u>

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
EXPENDITURES:			
General Government			
Governing body:			
Operating expenses	54,763	45,630	9,133
Administration:			
Salaries and benefits		271,221	
Operating expenses		13,162	
Total Administration	324,193	284,383	39,810
Finance:			
Salaries and benefits		338,430	
Operating expenses		47,901	
Total Finance	407,733	386,331	21,402
Tax Supervisor:			
Salaries and benefits		851,690	
Operating expenses		129,715	
Capital Outlay		17,346	
Total Tax Supervisor	1,144,548	998,751	145,797
Tax Revaluation:			
Salaries and benefits		68,301	
Operating expenses		69,128	
Total Tax Revaluation	220,828	137,429	83,399
Legal Services:			
Operating expenses	56,000	43,552	12,448
Court facilities:			
Operating expenses	7,500	5,226	2,274
Elections:			
Salaries and benefits		154,715	
Operating expenses		105,539	
Capital Outlay		27,349	
Total Elections	332,885	287,603	45,282
Register of Deeds:			
Salaries and benefits		327,535	
Operating expenses		77,248	
Capital Outlay		2,060	
Total Register of Deeds	469,217	406,843	62,374
General administration:			
Operating expenses		795,045	
Capital outlay		2,520,793	
Total General administration	3,493,532	3,315,838	177,694
Information technologies:			
Salaries and benefits		218,269	
Operating expenses		151,908	
Capital outlay		101,128	
Total Information technologies	522,353	471,305	51,048
Maintenance:			
Salaries and benefits		890,324	
Operating expenses		44,400	
Capital Outlay		38,176	
Total Maintenance	1,023,247	972,900	50,347

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
Public Buildings			
Courthouse:			
Operating expenses		202,137	
Capital Outlay		22,770	
Total Courthouse	320,235	224,907	95,328
East Courthouse Annex:			
Operating expenses	31,108	26,874	4,234
Heilig Meyers:			
Operating expenses		16,869	
Capital Outlay		1,247,951	
Total Heilig Meyers	1,907,818	1,264,820	642,998
Emergency Management:			
Operating expenses	1,050	57	993
Hannah:			
Operating expenses	12,797	9,749	3,048
Animal Shelter:			
Operating expenses	8,140	4,465	3,675
Old Cove Creek School:			
Operating expenses	29,192	10,873	18,319
New Health Department:			
Operating expenses	59,260	45,449	13,811
Public Building-APPALCART:			
Operating expenses	2,400	1,693	707
New Library:			
Operating expenses	37,344	28,244	9,100
Caldwell College & Tech. Inst:			
Operating expenses	8,500	238	8,262
Watauga Comm. Center:			
Operating expenses	26,095	11,586	14,509
Law Enforcement Center:			
Operating expenses	53,608	43,622	9,986
West Courthouse Annex:			
Operating expenses	27,011	20,868	6,143
Human Services Center:			
Operating expenses	66,764	57,606	9,158
Appalachian Enterprise Center:			
Operating expenses	16,226	4,829	11,397
Recreation Administration Center:			
Operating expenses	4,116	2,755	1,361
Aquatics Center:			
Operating expenses		86,435	
Capital Outlay		346,433	
Total Aquatics Center	446,220	432,868	13,352

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
Opt./Maintenance Facility:			
Operating expenses	32,175	29,814	2,361
Recreation Fields/Parks:			
Operating expenses	28,225	19,068	9,157
Brookshire Park:			
Operating expenses		10,901	
Capital Outlay		182,698	
Total Brookshire Park	198,870	193,599	5,271
Total Public Buildings	3,317,154	2,433,984	883,170
Total General Government	11,373,953	9,789,775	1,584,178
Public Safety			
Sheriff's department:			
Salaries and benefits		1,621,069	
Operating expenses		263,294	
Capital outlay		174,113	
Total Sheriff's department	2,210,416	2,058,476	151,940
Communications:			
Salaries and benefits		342,659	
Operating expenses		13,790	
Capital Outlay		16,030	
Total Communications	393,692	372,479	21,213
321 Speed Reduction:			
Salaries and benefits	41,279	41,279	--
NW Methamphetamine Task Force:			
Salaries and benefits		46,090	
Operating expenses		25,011	
Capital Outlay		29,793	
Total NW Methamphetamine Task Force	187,500	100,894	86,606
Governor's Crime Commission:			
Salaries and benefits	29,994	29,990	4
COPS Programs:			
Operating expenses	--	1,514	(1,514)
Jail:			
Salaries and benefits		541,717	
Operating expenses		512,299	
Total Jail	1,171,375	1,054,016	117,359
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		187,890	
Operating expenses		463,496	
Capital Outlay		40,927	
Total Emerg. Mgt. & Fire Protect.	711,091	692,313	18,778
Planning and Inspections:			
Salaries and benefits		469,569	
Operating expenses		60,672	
Total Planning and Inspections	580,411	530,241	50,170
Medical examiner:			
Operating expenses	25,000	23,075	1,925
Ambulance and rescue squad:			
Operating expenses	982,840	880,190	102,650

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
Animal control:			
Salaries and benefits		121,987	
Operating expenses		18,097	
Total Animal control	155,743	140,084	15,659
Forestry:			
Operating expenses	37,844	35,539	2,305
Total Public Safety	6,527,185	5,960,090	567,095
Economic & Physical Development			
Elderly & Disabled Transportation:			
Operating expenses	105,124	92,928	12,196
Special Appropriations:	420,373	364,182	56,191
Cooperative extension:			
Salaries and benefits		157,929	
Operating expenses		15,139	
Total Cooperative extension	178,382	173,068	5,314
Soil conservation:			
Salaries and benefits		79,951	
Operating expenses		8,053	
Capital Outlay		16,650	
Total Soil conservation	112,207	104,654	7,553
Total Economic & Physical Development	816,086	734,832	81,254
Human Services			
Public health:			
Operating expenses	481,235	481,235	--
Mental health:			
Operating expenses	315,280	315,278	2
Social services - admin.:			
Salaries and benefits		2,080,312	
Operating expenses		333,270	
Total Social services - admin.	2,414,829	2,413,582	1,247
Beneficiary payments:	1,988,075	1,635,207	352,868
State foster care and daycare			
Room & Board		5,998	
Other		130	
Purchase-daycare XX		753,884	
Total State foster care and daycare	777,923	760,012	17,911
Project on aging:			
Salaries and benefits		1,210,498	
Operating expenses		254,562	
Capital Outlay		4,690	
Total Project on aging	1,633,722	1,469,750	163,972
Veterans service officer:			
Salaries and benefits		109,838	
Operating expenses		2,066	
Total Veterans service officer	110,504	111,904	(1,400)
Total Human Services	7,721,568	7,186,968	534,600

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	
Education			
Public Schools - current		8,487,224	
Public Schools - capital outlay		1,520,068	
Community College - current		930,031	
Community College - capital outlay		<u>8,500</u>	
Total Education	<u>11,401,940</u>	<u>10,945,823</u>	<u>456,117</u>
Cultural and recreational			
Library:			
Operating expenses	<u>394,700</u>	<u>394,700</u>	--
Recreation:			
Salaries and benefits		461,310	
Operating expenses		97,885	
Capital Outlay		<u>7,194</u>	
Total Recreation	<u>592,904</u>	<u>566,389</u>	<u>26,515</u>
Aquatics:			
Salaries and benefits		139,492	
Operating expenses		16,566	
Capital Outlay		<u>8,360</u>	
Total Aquatics	<u>195,009</u>	<u>164,418</u>	<u>30,591</u>
Recreation - Maintenance:			
Operating expenses		11,720	
Capital Outlay		<u>15,586</u>	
Total Recreation - Maintenance	<u>29,039</u>	<u>27,306</u>	<u>1,733</u>
Total Cultural and recreational	<u>1,211,652</u>	<u>1,152,813</u>	<u>58,839</u>
Debt Service			
Principal retirement		2,107,947	
Interest & fees		<u>839,015</u>	
Total Debt Service	<u>2,855,311</u>	<u>2,946,962</u>	<u>(91,651)</u>
TOTAL EXPENDITURES	<u>41,907,695</u>	<u>38,717,263</u>	<u>3,190,432</u>
Excess (deficiency) of revenues over expenditures	<u>(5,135,409)</u>	<u>(448,201)</u>	<u>4,687,208</u>
OTHER FINANCING SOURCES (USES):			
Transfers to other funds	(1,953,828)	(1,953,828)	--
Transfers from other funds	3,372,562	3,462,437	89,875
Transfers to capital projects fund	(5,494,735)	--	5,494,735
Fund balance appropriated	<u>9,211,410</u>	--	<u>(9,211,410)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,135,409</u>	<u>1,508,609</u>	<u>(3,626,800)</u>
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	<u>--</u>	<u>1,060,408</u>	<u>1,060,408</u>
Fund balances at beginning of year		22,398,343	
Prior period adjustment - to record prior year accounts receivable		164,235	
Prior period adjustment - to record transfer of expenditures to Capital Projects Fund		<u>(5,291,281)</u>	
Fund balances at end of year		<u>\$ 18,331,705</u>	

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds						Capital Projects Fund			
	Substance Abuse Tax Fund	E-911 Telephone Surcharge Fund	Fire Districts Fund	Revaluation Fund	Disaster Relief Fund	CDBG Housing Rehabilitation Fund	Total Nonmajor Governmental Revenue Funds	Law Enforcement Center Capital Projects Fund	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS:										
Cash and cash equivalents	\$ 87,191	672,342	24,565	59,696	--	--	843,794	1,328,410	1,328,410	2,172,204
Accounts receivable, net	1,982	18,181	--	--	67,639	19,830	107,632	--	--	107,632
Taxes receivable, net	--	--	61,824	--	--	--	61,824	--	--	61,824
Total assets	\$ 89,173	690,523	86,389	59,696	67,639	19,830	1,013,250	1,328,410	1,328,410	2,341,660
LIABILITIES AND FUND BALANCE										
Liabilities:										
Accounts payable and accrued liabilities	2,918	7,503	11,122	--	66,500	--	88,043	--	--	88,043
Deferred revenue	--	--	75,267	--	--	--	75,267	--	--	75,267
Due to other funds	--	--	--	--	1,084	19,830	20,914	--	--	20,914
Total Liabilities	2,918	7,503	86,389	--	67,584	19,830	184,224	--	--	184,224
Fund Balances:										
Reserved by state statute	1,982	18,181	--	--	--	--	20,163	--	--	20,163
Unreserved	84,273	664,839	--	59,696	55	--	808,863	1,328,410	1,328,410	2,137,273
Total fund balances	86,255	683,020	--	59,696	55	--	829,026	1,328,410	1,328,410	2,157,436
Total liabilities and fund balances	\$ 89,173	690,523	86,389	59,696	67,639	19,830	1,013,250	1,328,410	1,328,410	2,341,660

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Funds						Capital Projects Funds			
	Substance Abuse Tax	E-911 Telephone Surcharge	Fire Districts Fund	Revaluation Funds	Disaster Relief Fund	CDBG Housing Rehabilitation Fund	Total Nonmajor Special Revenue Funds	Law Enforcement Center Capital Projects Fund	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES										
Ad valorem taxes	\$ --	--	1,216,868	--	--	--	1,216,868	--	--	1,216,868
Other taxes and licenses	--	269,789	--	--	--	--	269,789	--	--	269,789
Restricted intergovernmental	43,423	97,213	--	--	96,247	241,037	477,920	--	--	477,920
Investment earnings	1,426	11,396	--	997	55	--	13,874	--	--	13,874
Total revenues	44,849	378,398	1,216,868	997	96,302	241,037	1,978,451	--	--	1,978,451
EXPENDITURES										
Current:										
General government	--	--	--	--	--	241,037	241,037	--	--	241,037
Public safety	15,834	236,229	1,216,868	--	96,247	--	1,565,178	3,962,871	3,962,871	5,528,049
Capital outlay	11,847	6,868	--	--	--	--	18,715	--	--	18,715
Total expenditures	27,681	243,097	1,216,868	--	96,247	241,037	1,824,930	3,962,871	3,962,871	5,787,801
Excess (deficiency) of revenues over expenditures	17,168	135,301	--	997	55	--	153,521	(3,962,871)	(3,962,871)	(3,809,350)
OTHER FINANCING SOURCES (USES)										
Transfers to other funds	--	(104,267)	--	--	--	--	(104,267)	--	--	(104,267)
Total other financing sources and uses	--	(104,267)	--	--	--	--	(104,267)	--	--	(104,267)
Net change in fund balances	17,168	31,034	--	997	55	--	49,254	(3,962,871)	(3,962,871)	(3,913,617)
Fund balances - beginning	69,087	651,986	--	58,699	--	--	779,772	5,291,281	5,291,281	6,071,053
Fund balances - ending	\$ 86,255	683,020	--	59,696	55	--	829,026	1,328,410	1,328,410	2,157,436

WATAUGA COUNTY, NORTH CAROLINA
 Substance Abuse Tax Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2005

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Restricted intergovernmental	\$ 34,741	43,423	8,682
Investment Earnings	<u> --</u>	<u> 1,426</u>	<u> 1,426</u>
Total revenues	<u> 34,741</u>	<u> 44,849</u>	<u> 10,108</u>
Expenditures:			
Public Safety	18,495	15,834	2,661
Capital Outlay	<u> 40,249</u>	<u> 11,847</u>	<u> 28,402</u>
Total expenditures	<u> 58,744</u>	<u> 27,681</u>	<u> 31,063</u>
Excess (deficiency) of revenues over expenditures	<u> (24,003)</u>	<u> 17,168</u>	<u> 41,171</u>
Appropriated fund balance	<u> 24,003</u>	<u> --</u>	<u> (24,003)</u>
Excess (deficiency) of revenue and appropriated fund balance over expenditures	<u> --</u>	<u> 17,168</u>	<u> 17,168</u>
Fund balance at beginning of year		<u> 69,087</u>	
Fund balance at end of year		<u> 86,255</u>	

WATAUGA COUNTY, NORTH CAROLINA
E-911 Telephone Surcharge Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2005

	2005		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes and licenses: 911 subscriber fees	\$ 285,000	269,789	(15,211)
Restricted intergovernmental: Wireless 911 funds	85,000	96,978	11,978
Investment earnings	--	11,396	11,396
Restricted intergovernmental: FEMA	235	235	--
	Total revenues	378,398	8,163
Expenditures:			
Public safety:			
911 system subscriber fees:			
Salaries and employee benefits	69,454	63,273	6,181
Operating expenses	293,414	170,676	122,738
Capital outlay	146,714	6,868	139,846
	Total 911 system subscriber fees	240,817	268,765
Wireless 911:			
Operating expenses	1,040	2,280	(1,240)
Capital Outlay	90,231	--	90,231
	Total Wireless 911	2,280	88,991
	Total expenditures	243,097	357,756
Excess (deficiency) of revenues over expenditures	(230,618)	135,301	365,919
Other Financing Sources (Uses):			
Transfers to other funds	(104,267)	(104,267)	--
Appropriated fund balance	334,885	--	(334,885)
Total Other Financing Sources	230,618	(104,267)	(334,885)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	31,034	31,034
Fund balance at beginning of year		651,986	
Fund balance at end of year		\$ 683,020	

WATAUGA COUNTY, NORTH CAROLINA
 Fire Districts Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2005

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Ad valorem taxes	\$ 1,228,286	1,216,868	(11,418)
Total revenues	1,228,286	1,216,868	(11,418)
Expenditures:			
Public safety:			
Beaver Dam Fire District	70,236	68,752	1,484
Blowing Rock Fire District	169,653	169,690	(37)
Boone Fire District	209,365	206,489	2,876
Cove Creek Fire District	147,465	147,839	(374)
Deep Gap Fire District	76,712	74,471	2,241
Foscoe Fire District	265,120	265,672	(552)
Meat Camp Fire District	86,783	85,196	1,587
Meat Camp/Creston Fire District	3,304	2,682	622
Shawneehaw Fire District	54,799	53,840	959
Stewart Simmons Fire District	42,609	43,338	(729)
Todd Fire District	26,113	23,735	2,378
Zionville Fire District	76,127	75,164	963
Total expenditures	1,228,286	1,216,868	11,418
Excess (deficiency) of revenues over expenditures	\$ <u> --</u>	--	<u> --</u>
Fund balance at beginning of year		--	
Fund balance at end of year		\$ <u> --</u>	

WATAUGA COUNTY, NORTH CAROLINA
 Revaluation Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2005

	2005		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Investment earnings	\$ --	997	997
Expenditures:			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	997	997
Fund balance at beginning of year		58,699	
Fund balance at end of year		\$ 59,696	

WATAUGA COUNTY, NORTH CAROLINA
 Disaster Relief Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2005

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Restricted intergovernmental	\$ 2,065,555	96,247	(1,969,308)
Investment earnings	<u> --</u>	<u> 55</u>	<u> 55</u>
Total revenues	<u>2,065,555</u>	<u>96,302</u>	<u>(1,969,253)</u>
Expenditures:			
Public Safety	<u>2,065,555</u>	<u>96,247</u>	<u>1,969,308</u>
Total expenditures	<u>2,065,555</u>	<u>96,247</u>	<u>1,969,308</u>
Excess (deficiency) of revenues over expenditures	<u>\$ --</u>	<u> 55</u>	<u> 55</u>
Fund balance at beginning of year		<u> --</u>	
Fund balance at end of year		<u>\$ 55</u>	

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Housing Rehabilitation
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2005

	2005				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 400,000	100,450	241,037	341,487	(58,513)
Total revenues	400,000	100,450	241,037	341,487	(58,513)
Expenditures:					
Residence rehabilitation	60,000	285	32,821	33,106	26,894
Clearance activities	10,500	--	--	--	10,500
Relocation expenses	286,000	86,371	181,794	268,165	17,835
Planning	3,500	3,500	--	3,500	--
Grant administration	40,000	10,294	26,422	36,716	3,284
Total expenditures	400,000	100,450	241,037	341,487	58,513
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year			\$ --		

WATAUGA COUNTY, NORTH CAROLINA
 Law Enforcement Center Capital Project
 Statement of Revenues and Expenditures and Changes in
 Fund Balance - Budget and Actual
 From Inception and For the Fiscal Year Ended June 30, 2005

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:					
Capital Projects	5,722,666	431,385	3,962,871	4,394,256	1,328,410
Excess (deficiency) of revenues over expenditures	<u>(5,722,666)</u>	<u>(431,385)</u>	<u>(3,962,871)</u>	<u>4,394,256</u>	<u>1,328,410</u>
Other financing sources (uses):					
Operating transfers - in (out):					
From capital reserve fund	722,666	722,666	--	722,666	--
Loan proceeds	<u>5,000,000</u>	<u>5,000,000</u>	<u>--</u>	<u>5,000,000</u>	<u>--</u>
Total other financing sources (uses)	<u>5,722,666</u>	<u>5,722,666</u>	<u>--</u>	<u>5,722,666</u>	<u>--</u>
Increase (decrease) in fund balance	\$ <u> --</u>	<u>5,291,281</u>	<u>(3,962,871)</u>	<u>1,328,410</u>	<u>1,328,410</u>
Fund balance at beginning of year					
Prior period adjustment - to transfer expenditures from general fund			<u>5,291,281</u>		
Fund balance at end of year			\$ <u>1,328,410</u>		

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures
Budget and Actual (NON-GAAP)
For the Fiscal Year Ended June 30, 2005

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenues:			
Landfill charges	\$	3,244,659	
Restricted intergovernmental revenues		22,555	
Other operating revenues		300	
Total	<u>2,922,420</u>	<u>3,267,514</u>	<u>345,094</u>
Non-operating revenues:			
Investment earnings	<u>35,000</u>	<u>59,911</u>	<u>24,911</u>
Total revenues	<u>2,957,420</u>	<u>3,327,425</u>	<u>370,005</u>
EXPENDITURES:			
Landfill operations:			
Salaries and employee benefits		736,701	
Other operating expenditures		2,445,391	
Total	<u>3,544,787</u>	<u>3,182,092</u>	<u>362,695</u>
Budgetary appropriations			
Interest paid		7,240	
Debt principal		93,151	
Capital outlay		1,648,658	
Total budgetary appropriations	<u>1,749,049</u>	<u>1,749,049</u>	<u>--</u>
Total expenditures	<u>5,293,836</u>	<u>4,931,141</u>	<u>362,695</u>
Revenues under expenditures	<u>(2,336,416)</u>	<u>(1,603,716)</u>	<u>732,700</u>
Other financing sources (uses):			
Proceeds from installment purchase	375,000	375,000	--
Transfers from other funds	432,002	432,002	--
Transfers to other fund	(92,651)	(92,651)	--
Appropriated fund balance	<u>1,529,414</u>	<u>--</u>	<u>(1,529,414)</u>
Total other financing sources (uses):	<u>2,336,416</u>	<u>714,351</u>	<u>(1,529,414)</u>
Revenues over expenditures and other sources (uses)	<u>\$ --</u>	<u>(889,365)</u>	<u>(889,365)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Proceeds from lease purchase		(375,000)	
Capital outlays		1,648,658	
Depreciation		(136,868)	
Payment of debt principal		93,151	
Increase in accrued vacation pay		(2,650)	
Total reconciling items		<u>1,227,291</u>	
Change in net assets		<u>\$ 337,926</u>	

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Social Services:				
Assets:				
Cash and Investments	\$ <u>19,202</u>	<u>131,850</u>	<u>133,000</u>	<u>18,052</u>
Liabilities:				
Accounts Payable	\$ <u>19,202</u>	<u>131,850</u>	<u>133,000</u>	<u>18,052</u>
 Health Benefits:				
Assets:				
Cash and Investments	<u>175,697</u>	<u>9,947</u>	<u>2,000</u>	<u>183,644</u>
Liabilities:				
Accounts Payable	<u>175,697</u>	<u>9,947</u>	<u>2,000</u>	<u>183,644</u>
 Vehicle Tax-Towns:				
Assets:				
Cash and Investments	<u>9,654</u>	<u>92,602</u>	<u>97,783</u>	<u>4,473</u>
Liabilities:				
Accounts Payable	<u>9,654</u>	<u>92,602</u>	<u>97,783</u>	<u>4,473</u>
 Total - All Agency Funds				
Assets:				
Cash and Investments	\$ <u>204,553</u>	<u>234,399</u>	<u>232,783</u>	<u>206,169</u>
Liabilities:				
Accounts Payable	\$ <u>204,553</u>	<u>234,399</u>	<u>232,783</u>	<u>206,169</u>

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2005

	Uncollected Balance June 30, 2004	Additions	Collections and Credits	Uncollected Balance June 30, 2005
<u>Fiscal year:</u>				
2004 - 2005	\$ --	19,665,663	19,300,841	364,822
2003 - 2004	418,550	--	274,251	144,299
2002 - 2003	158,289	--	58,954	99,335
2001 - 2002	87,525	--	19,259	68,266
2000 - 2001	62,282	--	9,769	52,513
1999 - 2000	45,523	--	7,022	38,501
1998 - 1999	41,257	--	4,235	37,022
1997 - 1998	32,532	--	2,773	29,759
1996 - 1997	24,668	--	1,315	23,353
1995 - 1996	23,429	--	1,579	21,850
1994 - 1995	26,868	--	26,868	--
	<u>\$ 920,923</u>	<u>19,665,663</u>	<u>19,706,866</u>	<u>879,720</u>
Plus: 2005 - 2006 receivable				112,790
Less: allowance for uncollectible accounts General Fund				<u>(413,576)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 578,934</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 19,785,009
Reconciling items:	
Advertising and interest collected	(107,155)
Taxes written off	<u>29,012</u>
Total reconciling items	<u>(78,143)</u>
Total collections and credits	<u>\$ 19,706,866</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-Wide Levy
 For the Fiscal Year Ended June 30, 2005

	County-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 5,203,611,464	\$ 0.35	18,212,604	\$ 18,212,604	--
Motor vehicles taxed at current year's rate	353,604,084	0.35	1,237,897	--	1,237,897
Penalties	--		4,497	4,497	--
Total	<u>5,557,215,548</u>		<u>19,454,998</u>	<u>18,217,101</u>	<u>1,237,897</u>
Discoveries:					
Current year taxes	74,422,430	0.35	292,506	292,506	--
Prior year taxes	--		53,913	53,913	--
Penalties	--		6,822	6,822	--
Total	<u>74,422,430</u>		<u>353,241</u>	<u>353,241</u>	<u>--</u>
Abatements:	<u>(40,736,146)</u>		<u>(142,576)</u>	<u>(120,720)</u>	<u>(21,856)</u>
Total property valuation	<u>\$ 5,590,901,832</u>				
Net levy			19,665,663	18,449,622	1,216,041
Uncollected taxes at June 30, 2004			<u>364,822</u>	<u>267,044</u>	<u>97,778</u>
Current year's taxes collected			<u>\$ 19,300,841</u>	<u>18,182,578</u>	<u>1,118,263</u>
Current levy collection percentage			<u>98.14%</u>	<u>98.55%</u>	<u>91.96%</u>

WATAUGA COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2005

Statement 14-A

Secondary Market Disclosures:

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 5,004,262,308
Personal Property	520,044,353
Public Service Companies	<u>66,595,171</u>
Total Assessed Valuation	5,590,901,832
Tax Rate per \$100	0.35
Levy (includes discoveries, releases and abatements)	\$ <u><u>19,665,663</u></u>

In addition to the County-wide rate, the following table lists the levies by the County on behalf of fire protection districts for the fiscal year ended June 30:

Fire Protection Districts	\$ <u><u>1,211,517</u></u>
---------------------------	----------------------------

**WATAUGA COUNTY, NORTH CAROLINA
 Ten Largest Taxpayers
 For the Fiscal Year Ended June 30, 2005**

Statement 14-B

Taxpayer	Type of Business	2004 Assessed Valuation	Percentage of Total Assessed Valuation
Blue Ridge Electric	Electric Utility	\$ 41,419,086	0.74 %
Spiritual Center of America	Resort/Real Estate	38,674,190	0.69
Maharishi Spiritual Center of America	Resort/Real Estate	23,453,400	0.42
Bell South	Telephone Utility	19,232,664	0.34
Lowe's Home Centers	Home Supply Center	18,817,970	0.34
Appalachian South Inc.	Rental Properties	11,782,000	0.21
Hound Ears Club, Inc.	Resort/Real Estate	10,358,500	0.19
Boone Mall	Shopping Center	10,205,900	0.18
WM Land Boone Ltd Partnership	Retail Sales/Walmart	9,875,200	0.18
Heavenly Mtn. Resort, Inc.	Resort	9,395,580	0.17
		<u>\$ 193,214,490</u>	<u>3.46 %</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Fiscal Year Ended June 30, 2005

	Beaver Dam Fire District	Blowing Rock Fire District	Boone Fire District	Cove Creek Fire District	Deep Gap Fire District	Foscoe Fire District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawneehaw Fire District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.02</u>	<u>0.05</u>	<u>0.03</u>	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.04</u>
Net levy	\$ 68,906	167,500	205,903	147,249	73,903	264,742	84,495	2,541	53,814	42,871	24,498	75,094
Uncollected taxes at June 30, 2005	<u>2,455</u>	<u>2,108</u>	<u>3,675</u>	<u>4,632</u>	<u>2,065</u>	<u>4,966</u>	<u>2,601</u>	<u>233</u>	<u>1,844</u>	<u>1,512</u>	<u>1,164</u>	<u>3,556</u>
Current year's taxes collected	\$ <u>66,451</u>	<u>165,392</u>	<u>202,228</u>	<u>142,617</u>	<u>71,838</u>	<u>259,776</u>	<u>81,894</u>	<u>2,308</u>	<u>51,970</u>	<u>41,359</u>	<u>23,334</u>	<u>71,538</u>
Current levy collection percentage	<u>96.44%</u>	<u>98.74%</u>	<u>98.22%</u>	<u>96.85%</u>	<u>97.21%</u>	<u>98.12%</u>	<u>96.92%</u>	<u>90.83%</u>	<u>96.57%</u>	<u>96.47%</u>	<u>95.25%</u>	<u>95.26%</u>

BRYCE HOLDER, CPA, P. A.

BRYCE HOLDER, CPA

PO Box 1908 or 820-F State Farm Road
Boone, North Carolina, 28607

Phone: 828-264-3595
Or: 800-456-3595

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the basic financial statements of Watauga County, North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 8, 2005. We did not audit the financial statements of AppalCART.

Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART is based solely on the report of the other auditor. 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.

Compliance

As part of obtaining reasonable assurance about whether Watauga 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 and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Watauga 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management, others within the organization, members of the Board of County 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 specific parties.

Bryce Holder, CPA, P.A.

September 8, 2005

BRYCE HOLDER, CPA, P. A.

BRYCE HOLDER, CPA

PO Box 1908 or 820-F State Farm Road
Boone, North Carolina, 28607

Phone: 828-264-3595
Or: 800-456-3595

Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2005. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga 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 Watauga 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 Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management, others within the organization, members of the Board of County Commissioners, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

Bryce Holder, CPA, P.A.

September 8, 2005

BRYCE HOLDER, CPA, P. A.

BRYCE HOLDER, CPA

PO Box 1908 or 820-F State Farm Road
Boone, North Carolina, 28607

Phone: 828-264-3595
Or: 800-456-3595

Report on Compliance With Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, 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, 2005. Watauga County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 Watauga 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 Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management, others within the organization, members of the Board of County Commissioners, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

Bryce Holder, CPA, P.A.

September 8, 2005

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

I. Summary of Auditor=s Results

- A. An unqualified opinion was issued on the financial statements of Watauga County.
- B. Our audit of the basic financial statements disclosed no reportable conditions in internal controls.
- C. Our audit of the basic financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements that are material to the basic financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the County=s major programs disclosed no reportable conditions in internal controls over major programs.
- E. An unqualified opinion was issued on Watauga County=s compliance with the types of compliance requirements applicable to its major federal programs.
- F. An unqualified opinion was issued on Watauga County=s compliance with the types of compliance requirements applicable to its major State programs.
- G. Major federal programs for Watauga County for the fiscal year ended June 30, 2005 are:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778
Food Stamp Program	10.551 10.561
Subsidized Child Care Cluster	93.575 93.596 93.667 93.558

- H. Major State programs for Watauga County for the fiscal year ended June 30, 2005 are:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778
Public School Building Capital Fund	N/A

- I. The threshold for determining Type A programs for Watauga County is \$594,275.
- J. Watauga County qualified as a low risk auditee under Section .530 of Circular No. A-133.

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

There were no findings or questioned costs.

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

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005

The prior year audit report disclosed no audit findings.

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2005

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Federal Grants:					
U.S. Dept. of Agriculture					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Food Stamp Cluster:					
Food Stamp Program-Noncash	10.551		\$ 1,724,009	--	--
State Administrative Matching Grants for the Food Stamp Program	10.561		213,783	--	213,783
Total Food Stamp Cluster			1,937,792	--	213,783
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		27,307	--	--
Passed-through the N.C. Division of Emergency Management:					
Watershed Protection and Flood Prevention	10.904		50,729	16,910	--
Total U.S. Dept. of Agriculture			2,015,828	16,910	213,783
U.S. Dept. of Housing and Urban Development					
Passed-through the N.C. Dept. of Health and Commerce:					
Community Development Block Grant	14.228		241,037	--	--
U.S. Dept of Transportation					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Passed-through the N.C. Dept of Transportation					
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605		22,942	--	18,337
U.S. Dept of Homeland Security					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Hazardous Material Emergency Preparedness Planning	97.021		1,089	--	--
Public Assistance Grants	97.036		55,501	--	--
Hazard Mitigation Grant	97.039		13,923	--	4,757
Emergency Management Performance Grant	97.042		21,736	--	--
State Homeland Security Program	97.073		214,125	--	--
Total U.S. Dept of Homeland Security			306,374	--	4,757
U.S. Dept. of Justice					
Passed-through the N.C. Dept of Justice:					
Public Safety Partnership and Community Policing Grants (COPS)	16.710		3,185	--	--
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Northwest Methamphetamine Task Force	16.592		75,616	--	25,205
Edward Byrne Memorial Justice Assistance Grant Program	16.738		22,495	--	7,499
Total U.S. Dept of Justice			101,296	--	32,704
U.S. Dept. of Health & Human Services					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		3,893	249	460
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		42,148	10,561	5,857
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		55,507	45,765	11,253
In Home Services - State Funds			--	62,005	6,889
Senior Center			--	24,498	94
Family Caregiver Support Program	93.052		5,849	373	691
Social Services Block Grant (SSBG)					
In-home Services	93.667		5,255	--	583
Total Aging Cluster			112,652	143,451	25,827
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Temporary Assistance for Needy Families					
Administration	93.558		223,819	--	244,571
Direct Benefit Payments	93.558		115,264	--	--
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		78,985	--	--
Direct Benefit Payments	93.568		49,746	--	65
Childcare Development Fund-Administration	93.596		60,000	--	--

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2005

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
U.S. Dept. of Health & Human Services (cont.)					
Child Welfare Services	93.645		13,060	3,362	990
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	22,526	5,930
Title IV-E Foster Care	93.658		158,848	11,750	24,584
Foster Care - Direct Benefit Payments	93.658		71,191	15,190	25,774
Adoption Assistance - Direct Benefit Payments	93.659		130,926	37,730	37,730
Social Services Block Grant	93.667		166,267	26,633	55,480
DCD Smart Start			--	42,300	--
Division of Child Development:					
Subsidized Child Care Cluster:					
Child Care and Development					
Fund - - Discretionary	93.575		237,798	--	--
Child Care and Development					
Fund - - Mandatory	93.596		108,514	--	--
Child Care and Development					
Fund - - Match	93.596		111,435	63,991	--
Social Services Block Grant	93.667		10,053	--	--
TANF	93.558		69,479	--	--
Smart Start			--	79,647	--
TANF - Maintenance of Effort			--	83,487	--
Total Subsidized Child Care Cluster			<u>537,279</u>	<u>227,125</u>	<u>--</u>
Health Care Financing Administration					
Passed-through the N.C. Dept. of Health and					
Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		15,181,929	7,207,606	1,154,197
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		389,093	30,464	345,534
Health Choice	93.767		26,170	1,639	7,354
Links	93.674		1,864	466	--
Passed-through the N.C. Dept. of Health and					
Human Services:					
Division of Facility Services:					
National Bioterrorism Hospital Preparedness Program	93.889		12,986	--	--
Passed-through the N.C. State Board of Elections					
Help America Vote Act of 2002	93.617		<u>32,655</u>	<u>--</u>	<u>--</u>
Total U.S. Department of Health & Human Services			<u>17,362,734</u>	<u>7,770,242</u>	<u>1,928,036</u>
Total Federal Awards			<u>20,050,211</u>	<u>7,787,152</u>	<u>2,197,617</u>
State Awards:					
N.C. Dept. of Health and Human Services					
Division of Social Services					
State/County Special Assistance for Adults-					
Direct Benefit Payments			--	154,262	154,262
State Foster Care Benefits Program			--	11,318	11,318
Program Integrity			--	359	--
State Aid to Counties			--	20,725	--
State Adult Protective Service			--	26,660	--
Foster Care at Risk			--	2,519	1,047
Total N.C. Dept. of Health and Human Services			<u>--</u>	<u>215,843</u>	<u>166,627</u>

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2005

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Office of the Governor					
Department of Juvenile Justice and Delinquency Prevention					
Juvenile Crime Prevention Council Programs			--	121,102	32,257
North Carolina Disaster Relief Fund			--	28,609	--
Total Office of the Governor			--	149,711	32,257
N.C. Dept. of Public Instruction					
Public School Building Capital Fund			--	652,557	217,519
Public School National Forest Service			--	314	--
Total N.C. Dept. of Public Instruction			--	652,871	217,519
N.C. Dept. of Transportation					
Workfirst/Employment Transportation					
Operating Assistance			--	3,654	--
Elderly and Disabled Transportation Assistance Program (E&DTAP)			--	42,455	--
Rural General Public Program			--	29,996	--
Total N.C. Dept. of Transportation			--	76,105	--
N.C. Dept. of Environment, Health, and Natural Resources					
Soil Conservation Assistance			--	4,000	61,308
Soil Conservation Cost Sharing			--	19,673	19,673
Division of Waste Management Scrap Tire Disposal Grant			--	2,153	--
Total N.C. Dept. of Environment, Health, and Natural Resources			--	25,826	80,981
N.C. Dept. of Cultural Resources					
Transportation Equity Act of the 21st Century Grant			--	25,000	6,250
N.C. Dept. of Corrections					
Criminal Justice Partnership Program		95-0704-I-A	--	80,395	--
N.C. Division of Veteran's Affairs					
Veteran's Service Program			--	2,000	109,904
Total State awards			--	1,227,751	613,538
Total federal and State awards			\$ 20,050,211	9,014,903	2,811,155

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 Watauga 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". 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 general purpose 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. Subrecipients

Of the federal and State expenditures presented in the schedule, Watauga County provided federal and state awards to subrecipients as follows:

Program Title	CFDA Number	Federal Expenditures	State Expenditures
Food Stamp Program-noncash	10.551	\$ 1,724,009	--
Temporary Assistance for Needy Families	93.558	115,264	--
Medical Assistance Program	93.778	15,181,959	7,207,606
Low Income Home Energy Assistance Block Grant	93.568	49,746	--
Child Welfare - Adoption Subsidy	93.645	--	22,526
Foster Care	93.658	71,191	15,190
Adoption Assistance	93.659	130,926	37,730
Adult Assistance	--	--	154,262