



**WATAUGA COUNTY, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

*Misty D. Watson, CPA, PA*

*PO Box 2122*

*Boone, NC 28607*



## WATAUGA COUNTY, NORTH CAROLINA

### BOARD OF COUNTY COMMISSIONERS

Jimmy Hodges, Chairman

David Blust, Vice Chairman

John Welch

Billy Kennedy

Perry Yates

### COUNTY OFFICIALS

Deron T. Geouque

County Manager

Margaret Pierce

Finance Director

Stacy C. Eggers, IV

County Attorney

Amy Shook

Register of Deeds

Larry Warren

Tax Administrator

**Watauga County, North Carolina**

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## FINANCIAL SECTION

**MISTY D WATSON, CPA, P.A.  
CERTIFIED PUBLIC ACCOUNTANT  
PO BOX 2122  
BOONE, NORTH CAROLINA 28607  
TELEPHONE (828) 263-1100**

Independent Auditor's Report

To the Board of County Commissioners  
Watauga County, North Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year then ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Watauga County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of AppalCART, which represents 90.70 percent, 90.80 percent, and 78.36 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report 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 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 from material misstatement. The financial statements of Watauga County District U Tourism Development Authority were not audited in accordance with Governmental Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance, the other Postemployment Benefits Schedules of Funding Progress and Employer Contributions, the Local Government Employees' Retirement System Schedules of the County's Proportionate Share of Net Pension Asset and County Contributions, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of the Net Pension Asset and Schedule of County Contributions on pages 56 to 61 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

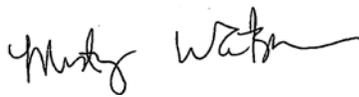
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements, budgetary schedules,

other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of Watauga County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watauga County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Misty Watson". The signature is written in a cursive, flowing style.

Misty D Watson, CPA, P.A.

Boone, NC  
September 30, 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## Watauga County

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Year Ended June 30, 2015

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, 2015. We encourage users to read the information presented here in conjunction with additional information we have furnished in the County's financial statements and notes which follow this narrative.

### Financial Highlights

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- The assets of the County exceeded its liabilities at the close of the fiscal year by \$128,858,190.
- The County's total net position increased by \$7,834,834 primarily due to an increase in cash assets from revenues exceeding budget projections and a reduction in outstanding liabilities coupled with operating expenditures below expected levels.
- The County's unassigned fund balance for the general fund was \$18,192,063 at the end of the year, representing 38.99% of total General Fund expenditures. This is an increase of \$1,443,552 in unassigned fund balance over the previous year.
- The Middlefork Greenway extension project near Mystery Hill was completed.
- Restrooms and paving were completed at Rocky Knob Park.
- A memorial for law enforcement officers who died in the line of duty was completed.
- The fiscal year 2013-14 increase in unassigned fund balance of \$2,094,595 was appropriated to the Capital Project Fund for the County's CIP in addition to the initially budgeted \$300,000 for future school needs.

### Overview of the Financial Statements

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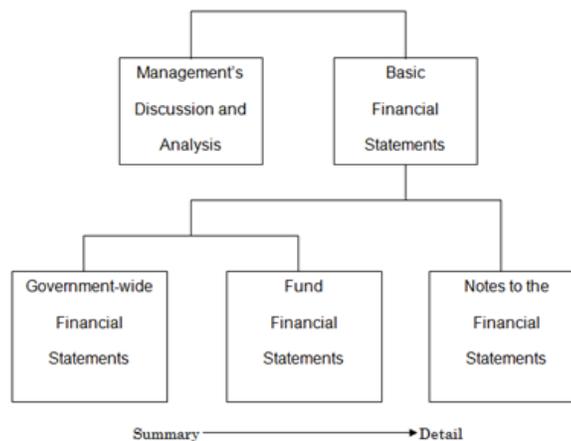
This discussion and analysis is intended to serve as an introduction to Watauga County's basic financial statements. The County's basic financial statements consist of three components, 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

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### Basic Financial Statements

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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 J) 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 statements 3) the proprietary fund statements and 4) the fiduciary fund statements.

The next sections of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Directly following the notes is the **supplemental information**. This section first contains **required supplemental information** about the County's pension plans and the other postemployment benefits plan, followed by additional **supplemental information**. This **supplemental information** is provided to show details about the County's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

### Government-wide Financial Statements

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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 position and how the net position has changed. Net position is the difference between the County's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge 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 solid waste services offered by Watauga County. The final category is the component units. AppalCART is a separate governmental entity, which operates a transportation authority in Watauga County. Watauga County Board of Commissioners appoints the eight member governing body. Watauga County provides some financial support and AppalCART is financially accountable to the County. Effective July 1, 2006, the Watauga County Board of Commissioners levied six percent occupancy tax and created a Tourism Development Authority to administer funds collected to promote tourism in the County. The six voting members of the Authority Board are appointed by the County Board of Commissioners.

### Fund Financial Statements

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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 County funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's 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 which focuses on current financial resources. 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 governmental activities (reported in the Statement of Net Position 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 proprietary fund, the Solid Waste Fund. 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 solid waste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Position and Statement of Activities.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has eight fiduciary funds, two of which are pension trust funds and the other six 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 23 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 and other postemployment benefits. Required supplementary information can be found beginning on page 56 of this report.

**Government-Wide Financial Analysis**

**Watauga County's Net Position**

**Figure 2**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 35,690,173	\$ 31,292,863	\$ 4,897,264	\$ 4,331,569	\$ 40,587,437	\$ 35,624,432
Net capital assets	139,527,310	141,616,318	4,658,480	4,997,665	144,185,790	146,613,983
Total assets	175,217,483	172,909,181	9,555,744	9,329,234	184,773,227	\$ 182,238,415
Total deferred outflows of resources	729,287	728,060	64,737	62,677	794,024	790,737
Long-term liabilities outstanding	48,274,945	52,866,779	98,309	105,010	48,373,254	52,971,789
Other liabilities	5,604,966	8,384,613	169,425	432,998	5,774,391	8,817,611
Total liabilities	53,879,911	61,251,392	267,734	538,008	54,147,645	61,789,400
Total deferred inflows of resources	2,344,468	137,671	216,948	78,725	2,561,416	216,396
Net position:						
Net investment in capital assets	92,898,978	90,114,724	4,658,480	4,997,665	97,557,458	95,112,389
Restricted	6,383,437	4,894,743	-	-	6,383,437	4,894,743
Unrestricted	20,439,976	17,238,711	4,477,319	3,777,513	24,917,295	21,016,224
Total net position	\$ 119,722,391	\$ 112,248,178	\$ 9,135,799	\$ 8,775,178	\$ 128,858,190	\$ 121,023,356

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$128,858,190 at June 30, 2015. The County's net position increased by \$7,834,834 for the fiscal year. Net position is reported in three categories: Net investment in capital assets of \$97,557,458; restricted net position of \$6,383,437; and unrestricted net position of \$24,917,295.

The net investment in capital assets 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2015, the increase in this category of net position correlates to reduced outstanding debt along with increased capital assets.

Another category of net position is restricted net position. This represents resources that are subject to external restrictions on how they may be used. The County has restricted assets due to statutory requirements for Register of Deeds Automation Enhancement Funds, Tax Revaluation, and Stabilization. Grant requirements and special revenues account for the balance.

The final category of net position is unrestricted net position. 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 affected the reporting of total unrestricted net position:

- Higher current assets and reductions in outstanding liabilities;
- Addition of pension assets due to accounting changes with GASB 68 requirements.

### Watauga County Changes in Net Position Figure 3

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,532,806	\$ 1,527,412	\$4,346,485	\$4,269,233	\$ 5,879,291	\$ 5,796,645
Operating grants and contributions	4,973,943	4,772,517	113,697	107,109	5,087,640	4,879,626
Capital grants	707,700	987,886	-	-	707,700	987,886
General revenues:						
Property taxes	30,935,535	31,592,278	-	-	30,935,535	31,592,278
Other taxes	12,260,357	13,348,987	-	-	12,260,357	13,348,987
Grant and contributions not restricted to specific programs	1,961,409	1,226,554	-	-	1,961,409	1,226,554
Other	2,034,114	556,315	22,164	84,428	2,056,278	640,743
Total revenues	54,405,864	54,011,949	4,482,346	4,460,770	58,888,210	58,472,719
<b>Expenses</b>						
General government	9,442,939	9,067,437	-	-	9,442,939	9,067,437
Public safety	12,617,487	12,850,289	-	-	12,617,487	12,850,289
Transportation	167,182	165,742	-	-	167,182	165,742
Economic & physical development	521,052	548,323	-	-	521,052	548,323
Environment protection	355,573	337,553	-	-	355,573	337,553
Humans services	7,536,917	7,822,521	-	-	7,536,917	7,822,521
Cultural and recreation	1,142,379	1,441,150	-	-	1,142,379	1,441,150
Education	13,307,102	13,553,377	-	-	13,307,102	13,553,377
Interest on long-term debt	1,881,412	2,028,373	-	-	1,881,412	2,028,373
Solid Waste	-	-	4,081,333	4,323,410	4,081,333	4,323,410
Total expenses	46,972,043	47,814,765	4,081,333	4,323,410	51,053,376	52,138,175
Increase (decrease) in net position before transfers and special items	7,433,821	6,197,184	401,013	137,360	7,834,834	6,334,544
Transfers	40,392	54,381	(40,392)	(54,381)	-	-
Increase (decrease) in net position after transfer and special items	7,474,213	6,251,565	360,621	82,979	7,834,834	6,334,544
Net position, beginning, previously reported	111,807,321	110,177,373	8,734,589	8,651,610	120,541,910	118,828,983
Restatement	440,857	(4,621,617)	40,589	-	481,446	(4,621,617)
Net position, beginning, restated	112,248,178	105,555,756	8,775,178	8,651,610	121,023,356	114,207,366
Net position, ending	\$119,722,391	\$111,807,321	\$9,135,799	\$8,734,589	\$128,858,190	\$120,541,910

**Governmental activities:** Governmental activities increased the County's net position by \$7,915,070 including prior period restatements, thereby accounting for 95.18% of the total growth in the net position of Watauga County. Key elements of this increase are as follows:

- Sales tax increases due to the improved economic factors, particularly in the tourism industry resulted in revenues above projection along with continue high property tax collections at a rate of 98.37% for FY 14-15, an increase of 18 basis points over last year;
- Close monitoring of expenditures throughout the year with actual expenditures well below budget.

**Business-type activities:** Business-type activities increased Watauga County's net position by \$401,210 (4.82%) including prior period restatements. Key elements of this increase are as follows:

- Revenues in excess of projections for sale of recycled materials due to anticipated volume reductions not materializing;
- Capital expenditures for the household hazardous waste were delayed, creating savings.

### Financial Analysis of the County's Funds

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Watauga County uses fund accounting to ensure and demonstrate compliance with finance-related legal and accounting 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, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Funds increased to \$18,192,063 while total fund balance increased to \$24,030,993. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38.99 percent of total General Fund expenditures (\$46,662,440), while total fund balance represents 51.50 percent of that same amount.

**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, transfers and expenditures by \$2,949,340 with approximately \$2.1 million of the amendments related to funds set aside for future capital needs of the County, \$430,000 for school lottery projects, and approximately \$425,000 for additional projects and grant funding received. The actual operating revenues for the General Fund were \$1,168,460 more than the budgeted amount. Actual operating expenses were less than budgeted by \$4,508,971.

**Proprietary Funds** - Watauga County's proprietary fund is used to provide information on the solid waste enterprise. Unrestricted net position of the Solid Waste Fund at the end of the fiscal year amounted to \$4,477,319. The total increase in proprietary net position was \$360,621.

### Capital Asset and Debt Administration

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**Capital Assets:** Watauga County's investment in capital assets for its governmental and business type activities as of June 30, 2015, totals \$144,185,790 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles and equipment for County governmental departments;
- Completion of the Middlefork greenway extension, Rocky Knob Park restrooms and paving, and the Law Enforcement Memorial for slain officers;
- Continued work on the new ambulance base site and the greenway/underpass at Brookshire Park and Hwy 421;
- Began work on a new building for household hazardous waste collection.

**Watauga County's Capital Assets**  
**Figure 4**

	<b>Governmental</b>	<b>Business</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
	2015	2015	2015
Land	\$ 44,138,126	\$ 975,497	\$ 45,113,623
Buildings	106,839,487	4,110,817	110,950,304
Other improvements	5,444,317	445,921	5,890,238
Leasehold improvements	1,009,463	319,960	1,329,423
Equipment	6,540,284	1,507,531	8,047,815
Vehicles	1,977,542	1,334,909	3,312,451
Construction in progress	421,480	1,750	423,230
Intangible assets	15,600	-	15,600
<b>Total</b>	<b>\$ 166,386,299</b>	<b>\$ 8,696,385</b>	<b>\$ 175,082,684</b>

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, 2015, Watauga County had no bonded debt outstanding or authorized.

**Watauga County's Outstanding Debt**  
**Figure 5**

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2015</u>
General obligation bonds	\$ 1,155,000	\$ -
Installment purchase	\$ 51,120,762	\$ 47,273,471

Watauga County's total debt decreased by \$5,002,291 or (9.57%) during the past fiscal year due to scheduled debt service payments. No new debt was issued. The State of North Carolina limits the amount of 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 as of June 30, 2015 is \$658,298,987. Additional information regarding Watauga County's long-term debt can be found in Note 3.B.7.b of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following key economic factors reflect the fiscal environment the County is working in:

- The County continues to experience growth in tourism and has seen continued revenue increases for more than six years related to tourism;
- The County's unemployment rate of 5.3% as of August 2015 is slightly lower than the state average of 5.9% and just above the federal rate of 5.1% and is consistent with the trends seen before the economic recession;
- Appalachian State University provides continued stability to the local economy as a major employer and source of overall positive economic impact from the student population;
- Construction and real estate sales have continued to show minor increases, consistent with state and national trends with no major projects anticipated in the next fiscal year.

**Budget Highlights for the Fiscal Year Ending June 30, 2016**

**Governmental activities** – The County's property tax rate is maintained at 31.3 cents per \$100 in property valuation for the tenth year in a row. Tax revenues are expected to remain level with minor growth for new construction. Sales tax revenue is projected

with a minor increase based on state projections and more history with the ad valorem method of distribution. Other revenues are expected to maintain current levels with minor increases.

Budgeted expenditures in the General Fund include increased school current capital funding, department budgets with minor increases predominately due to personnel salary and benefit increases. Capital purchases are allocated mainly for vehicle replacements with other projects still limited to primarily repairs and maintenance due to recession cuts. Completion during Fiscal Year 15-16 is expected on the new ambulance base in the western part of the County and the Brookshire/Hwy 421 underpass greenway project. Funds are allocated to be set aside again this year for future capital school projects of \$375,000 (a \$75,000 increase over FY 14-15) and \$450,000 for county projects.

**Businesses-type activities** – Budgeted revenues for solid waste fees are projected at current year amounts with property owners continuing to receive 2,000 pounds of free disposal at the transfer station. Budgeted expenditures include funding for an increase in waste hauling expenses due to potential contracted increases in April 2016. Funds have also been budgeted for a new household hazardous waste collection building to allow for increased opportunities for disposal of these items at an estimated cost of \$80,000 with most of the funding for the building coming from grants, a replacement truck at \$27,000 and replacement of a wheel loader estimated at \$249,000.

### Requests for Information

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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, 814 West King Street, Suite 216, Boone, NC 28607. The report can also be found on our website [www.wataugacounty.org/main/App\\_Pages/Dept/Finance/countyAudits.aspx](http://www.wataugacounty.org/main/App_Pages/Dept/Finance/countyAudits.aspx).

# BASIC FINANCIAL STATEMENTS

**Watauga County, North Carolina**  
Statement of Net Position  
June 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 28,964,615	\$ 4,378,642	\$ 33,343,257	\$ 1,183,528	\$ 1,281,174
Restricted cash and cash equivalents	885,131	-	885,131	-	-
Receivables (net)	1,539,053	337,398	1,876,451	19,791	-
Due from other governments	2,678,376	27,581	2,705,957	415,950	98,178
Inventory	-	-	-	124,974	-
Net pension asset	1,102,124	89,014	1,191,138	-	16,808
Intangible asset for advanced funding of OPEB NOO	520,874	64,629	585,503	-	-
Capital assets:					
Land, intangible, and construction in progress	44,575,206	977,247	45,552,453	1,064,885	-
Other capital assets, net of depreciation	94,952,104	3,681,233	98,633,337	10,809,660	-
Total capital assets	<u>139,527,310</u>	<u>4,658,480</u>	<u>144,185,790</u>	<u>11,874,545</u>	<u>-</u>
Total assets	<u>175,217,483</u>	<u>9,555,744</u>	<u>184,773,227</u>	<u>13,618,788</u>	<u>1,396,160</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pensions-change in proportion and difference between employer contributions and proportionate share of contributions	6,707	77	6,784	-	-
Contributions to pension plan in current fiscal year	702,264	64,660	766,924	-	10,075
Unamortized charge on refunding	20,316	-	20,316	-	-
Total deferred outflows of resources	<u>729,287</u>	<u>64,737</u>	<u>794,024</u>	<u>-</u>	<u>10,075</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	1,042,259	169,425	1,211,684	202,458	7,739
Accrued interest payable	175,826	-	175,826	-	-
Due to other governments	97,966	-	97,966	-	-
Unamortized liability for bond premiums	4,228,261	-	4,228,261	-	-
Liabilities payable from restricted assets	60,654	-	60,654	-	-
Long-term liabilities:					
Due within one year	4,117,361	-	4,117,361	61,241	7,400
Due in more than one year	44,157,584	98,309	44,255,893	-	-
Total liabilities	<u>53,879,911</u>	<u>267,734</u>	<u>54,147,645</u>	<u>263,699</u>	<u>15,139</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Revenue paid in advance	-	-	-	149,382	-
Pension deferrals	2,339,021	216,948	2,555,969	-	53,623
Prepaid taxes and fees	5,447	-	5,447	-	-
Total deferred inflows of resources	<u>2,344,468</u>	<u>216,948</u>	<u>2,561,416</u>	<u>149,382</u>	<u>53,623</u>
<b>NET POSITION</b>					
Net investment in capital assets	92,898,978	4,658,480	97,557,458	11,874,545	-
Restricted for:					
Stabilization by State Statute	5,511,097	-	5,511,097	-	98,178
Public safety	544,507	-	544,507	-	-
Register of Deeds	169,364	-	169,364	-	-
Environmental protection	3,879	-	3,879	-	-
Revaluation	154,590	-	154,590	-	-
Tourism promotion	-	-	-	-	1,239,295
Unrestricted (deficit)	20,439,976	4,477,319	24,917,295	1,331,162	-
Total net position	<u>\$ 119,722,391</u>	<u>\$ 9,135,799</u>	<u>\$ 128,858,190</u>	<u>\$ 13,205,707</u>	<u>\$ 1,337,473</u>

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, 2015

**Program Revenues**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 9,442,939	\$ 650,314	\$ 172,788	\$ -
Public safety	12,617,487	516,135	613,284	-
Transportation	167,182	-	119,019	-
Economic and physical development	521,052	-	-	-
Environmental protection	355,573	-	27,678	10,982
Human services	7,536,917	30,452	4,030,607	-
Cultural and recreational	1,142,379	335,905	10,000	443,464
Education	13,307,102	-	567	253,254
Interest on long-term debt	1,881,412	-	-	-
Total governmental activities	<u>46,972,043</u>	<u>1,532,806</u>	<u>4,973,943</u>	<u>707,700</u>
Business-type activities:				
Solid waste	<u>4,081,333</u>	<u>4,346,485</u>	<u>113,697</u>	<u>-</u>
Total	<u>\$ 51,053,376</u>	<u>\$ 5,879,291</u>	<u>\$ 5,087,640</u>	<u>\$ 707,700</u>
Component units:				
AppalCART	<u>\$ 4,275,913</u>	<u>\$ 2,084,006</u>	<u>\$ 1,705,943</u>	<u>\$ 1,237,115</u>
Watauga County District U Tourism Development Authority	<u>\$ 1,053,217</u>	<u>\$ -</u>	<u>\$ 280,906</u>	<u>\$ -</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

Transfers

- Total general revenues, special items, and transfers
- Change in net position

Net position, beginning previously reported

Restatement

Net position, beginning, restated

Net position, ending

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

Net (Expense) Revenues and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
\$ (8,619,837)	\$ -	\$ (8,619,837)	\$	
(11,488,068)	-	(11,488,068)		
(48,163)	-	(48,163)		
(521,052)	-	(521,052)		
(316,913)	-	(316,913)		
(3,475,858)	-	(3,475,858)		
(353,010)	-	(353,010)		
(13,053,281)	-	(13,053,281)		
(1,881,412)	-	(1,881,412)		
<u>(39,757,594)</u>	<u>-</u>	<u>(39,757,594)</u>		
-	378,849	378,849		
<u>(39,757,594)</u>	<u>378,849</u>	<u>(39,378,745)</u>		
			751,151	
				<u>(772,311)</u>
30,935,535	-	30,935,535	-	-
12,260,357	-	12,260,357	-	-
1,961,409	-	1,961,409	-	1,107,885
1,334,311	-	1,334,311	-	-
78,805	10,784	89,589	26	402
620,998	11,380	632,378	-	-
40,392	(40,392)	-	-	-
<u>47,231,807</u>	<u>(18,228)</u>	<u>47,213,579</u>	<u>26</u>	<u>1,108,287</u>
7,474,213	360,621	7,834,834	751,177	335,976
111,807,321	8,734,589	120,541,910	12,454,530	1,040,432
440,857	40,589	481,446	-	(38,935)
112,248,178	8,775,178	121,023,356	-	1,001,497
<u>\$ 119,722,391</u>	<u>\$ 9,135,799</u>	<u>\$ 128,858,190</u>	<u>\$ 13,205,707</u>	<u>\$ 1,337,473</u>

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

**Watauga County, North Carolina**  
 Governmental Funds  
 Balance Sheet  
 June 30, 2015

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 22,078,768	\$ 6,885,847	\$ -	\$ 28,964,615
Restricted cash and cash equivalents	327,833	-	557,298	885,131
Taxes receivable, net	901,869	-	222,972	1,124,841
Due from other governments	2,631,980	-	46,396	2,678,376
Accounts receivable, net	35,349	-	-	35,349
Due from other funds	6,473	-	-	6,473
Total assets	<u>\$ 25,982,272</u>	<u>\$ 6,885,847</u>	<u>\$ 826,666</u>	<u>\$ 33,694,785</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 983,812	\$ -	\$ -	\$ 983,812
Due to other governments	-	-	97,966	97,966
Due to other funds	-	-	6,473	6,473
Liabilities to be paid from restricted assets	60,654	-	51,974	112,628
Total liabilities	<u>1,044,466</u>	<u>-</u>	<u>156,413</u>	<u>1,200,879</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes receivable	901,869	-	125,243	1,027,112
Prepaid taxes	4,944	-	503	5,447
Total deferred inflows of resources	<u>906,813</u>	<u>-</u>	<u>125,746</u>	<u>1,032,559</u>
<b>FUND BALANCES</b>				
Restricted for:				
Stabilization for State Statute	5,511,097	-	-	5,511,097
Public safety	-	-	544,507	544,507
Register of Deeds	169,364	-	-	169,364
Environmental protection	3,879	-	-	3,879
Revaluation	154,590	-	-	154,590
Committed for:				
Capital projects	-	6,885,847	-	6,885,847
Unassigned	18,192,063	-	-	18,192,063
Total fund balances	<u>24,030,993</u>	<u>6,885,847</u>	<u>544,507</u>	<u>31,461,347</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 25,982,272</u>	<u>\$ 6,885,847</u>	<u>\$ 826,666</u>	<u>\$ 33,694,785</u>

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

Total Fund Balance, Governmental Funds	31,461,347
The intangible assets resulting from advance contributions to the OPEB NOO in excess of the annual required contribution are not financial resources and therefore are not reported in the funds.	520,874
Net pension asset	1,102,124
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	708,971
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	139,527,310
Other long-term assets are not available to pay for current period expenditures and therefore are unavailable in the funds.	372,390
Deferred inflows of resources for taxes receivable.	1,027,112
Pension related deferrals	(2,339,021)
Charges related to advance on refunding bond issues.	20,316
Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	<u>(52,679,032)</u>
Net position of governmental activities	<u>\$ 119,722,391</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, 2015

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Ad valorem taxes	\$ 27,939,146	\$ -	\$ 2,948,609	\$ 30,887,755
Local option sales taxes	12,260,357	-	-	12,260,357
Other taxes and licenses	798,746	-	1,162,663	1,961,409
Unrestricted intergovernmental	1,334,311	-	-	1,334,311
Restricted intergovernmental	5,133,276	-	427,483	5,560,759
Permits and fees	700,646	-	-	700,646
Sales and services	1,056,281	-	-	1,056,281
Investment earnings	62,804	16,001	1,205	80,010
Donations	72,246	-	-	72,246
Miscellaneous	604,310	-	-	604,310
Total revenues	<u>49,962,123</u>	<u>16,001</u>	<u>4,539,960</u>	<u>54,518,084</u>
<b>EXPENDITURES</b>				
Current:				
General government	6,920,442	-	1,129,177	8,049,619
Public safety	9,472,374	-	3,257,766	12,730,140
Transportation	167,182	-	-	167,182
Economic and physical development	470,844	-	33,047	503,891
Environmental protection	369,609	-	-	369,609
Human services	7,322,189	-	-	7,322,189
Cultural and recreational	1,437,048	-	-	1,437,048
Education	13,307,102	-	-	13,307,102
Capital outlay	-	-	17,933	17,933
Debt service:				
Principal	5,002,291	-	-	5,002,291
Interest	2,193,359	-	-	2,193,359
Total expenditures	<u>46,662,440</u>	<u>-</u>	<u>4,437,923</u>	<u>51,100,363</u>
Excess (deficiency) of revenues over expenditures	<u>3,299,683</u>	<u>16,001</u>	<u>102,037</u>	<u>3,417,721</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	1,408,122	2,394,595	-	3,802,717
Transfers to other funds	<u>(2,394,595)</u>	<u>(1,367,730)</u>	<u>-</u>	<u>(3,762,325)</u>
Total other financing sources and uses	<u>(986,473)</u>	<u>1,026,865</u>	<u>-</u>	<u>40,392</u>
Net change in fund balance	2,313,210	1,042,866	102,037	3,458,113
Fund balances, beginning of year	21,717,783	5,842,981	442,470	28,003,234
Fund balances, end of year	<u>\$ 24,030,993</u>	<u>\$ 6,885,847</u>	<u>\$ 544,507</u>	<u>\$ 31,461,347</u>

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

**Watauga County, North Carolina**  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balance of Governmental Funds  
 To the Statement of Activities  
 For the Year Ended June 30, 2015

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

Net changes in fund balances - total governmental funds	\$	3,458,113
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 1,487,333	
Sale of land at book value	(160,000)	
Depreciation expense for governmental assets	<u>(3,416,341)</u>	(2,089,008)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.

702,264

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	<u>47,780</u>	
		47,780

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

Other postemployment benefits	101,649	
Pension expense	(58,804)	
Compensated absences	(562)	
Advance funding of LEO pension obligation	(1,455)	
Amortization of bond premiums and deferred charges	<u>298,305</u>	339,133
Combined adjustment		

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long term debt	5,002,291	
Decrease in accrued interest payable	<u>13,640</u>	<u>5,015,931</u>

Total changes in net position of governmental activities	\$	<u><u>7,474,213</u></u>
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**Watauga County, North Carolina**  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual - General Fund  
For the Year Ended June 30, 2015

	<b>General Fund</b>			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 27,296,370	\$ 27,296,370	\$ 27,939,146	\$ 642,776
Local option sales tax	10,686,133	10,778,173	12,260,357	1,482,184
Other taxes and licenses	688,500	688,500	798,746	110,246
Unrestricted intergovernmental	1,352,500	1,352,500	1,334,311	(18,189)
Restricted intergovernmental	4,733,603	6,605,286	5,133,276	(1,472,010)
Permits and fees	681,446	681,446	700,646	19,200
Sales and services	803,455	811,551	1,056,281	244,730
Investment earnings	60,100	60,100	62,804	2,704
Donations	18,000	115,533	72,246	(43,287)
Miscellaneous	427,557	404,204	604,310	200,106
Total revenues	<u>46,747,664</u>	<u>48,793,663</u>	<u>49,962,123</u>	<u>1,168,460</u>
<b>Expenditures:</b>				
Current:				
General government	7,717,667	9,341,201	6,920,442	2,420,759
Public safety	9,642,120	9,784,368	9,472,374	311,994
Transportation	67,495	167,182	167,182	-
Economic and Physical Development	495,223	534,267	470,844	63,423
Environmental Protection	366,512	409,589	369,609	39,980
Human Services	7,628,761	7,890,613	7,322,189	568,424
Cultural and Recreation	1,455,774	1,467,088	1,437,048	30,040
Education	13,652,868	14,381,452	13,307,102	1,074,350
Debt service:				
Principal retirement	5,002,291	5,002,291	5,002,291	-
Interest and other charges	2,193,360	2,193,360	2,193,359	1
Total expenditures	<u>48,222,071</u>	<u>51,171,411</u>	<u>46,662,440</u>	<u>4,508,971</u>
Revenues over (under) expenditures	<u>(1,474,407)</u>	<u>(2,377,748)</u>	<u>3,299,683</u>	<u>5,677,431</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	1,240,392	1,408,122	1,408,122	-
Transfers to other funds	(300,000)	(2,394,595)	(2,394,595)	-
Fund balance appropriated	534,015	3,364,221	-	(3,364,221)
Total other financing sources (uses)	<u>1,474,407</u>	<u>2,377,748</u>	<u>(986,473)</u>	<u>(3,364,221)</u>
Net change in fund balance	-	-	2,313,210	2,313,210
Fund balance, beginning of year	<u>                    </u>	<u>                    </u>	<u>21,717,783</u>	<u>                    </u>
Fund balance, end of year	<u>\$                    </u>	<u>\$                    </u>	<u>\$ 24,030,993</u>	<u>\$                    </u>

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

**Watauga County, North Carolina**  
Statement of Net Position  
Proprietary Fund  
June 30, 2015

	<b>Enterprise Fund</b>
	<b>Solid Waste Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 4,378,642
Receivables, net	337,398
Due from other governments	27,581
Total current assets	4,743,621
Non-current assets:	
Net pension asset	89,014
Intangible asset for advance funding of OPEB NOO	64,629
Capital assets:	
Land and construction in progress	977,247
Other capital assets, net of depreciation	3,681,233
Subtotal capital assets	4,658,480
Total non-current assets	4,812,123
Total assets	9,555,744
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions-change in proportion and difference between employer contributions and proportionate share of contributions	77
Contributions to pension plan in current fiscal year	64,660
Total deferred outflows of resources	64,737
<b>LIABILITIES</b>	
Accounts payable	169,425
Accrued compensated absences	98,309
Total liabilities	267,734
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	216,948
Total deferred inflows of resources	216,948
<b>NET POSITION</b>	
Net investment in capital assets	4,658,480
Unrestricted	4,477,319
Total net position	\$ 9,135,799

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 Position  
Proprietary Fund  
For the Year Ended June 30, 2015

	<b>Enterprise Fund</b>
	<b>Solid Waste Fund</b>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 4,346,485
Total operating revenues	4,346,485
<b>OPERATING EXPENSES:</b>	
Landfill operations	3,675,923
Recycling operations	64,476
Depreciation	340,934
Total operating expenses	4,081,333
Operating income (loss)	265,152
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest and investment revenue	10,784
Miscellaneous revenues	11,380
Restricted intergovernmental revenues	113,697
Total nonoperating revenues (expenses)	135,861
Income (loss) before transfers	401,013
Transfers (to) from other funds (net)	(40,392)
Change in net position	360,621
Total net position, beginning	8,734,589
Restatement	40,589
Net position, beginning, restated	8,775,178
Total net position, ending	\$ 9,135,799

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

**Watauga County, North Carolina**  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2015

	<b>Enterprise Fund</b>
	<b>Solid Waste Fund</b>
Cash flows from operating activities:	
Cash received from customers	\$ 4,287,966
Cash paid for goods and services	(2,585,265)
Cash paid to employees for services	(1,313,829)
Net cash provided by operating activities	388,872
Cash flows from noncapital financing activities:	
Restricted intergovernmental revenues	113,697
Miscellaneous revenues	11,380
Operating transfers (net)	(40,392)
Net cash provided by noncapital financing activities	84,685
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,750)
Net cash used by capital and related financing activities	(1,750)
Cash flows from investing activities:	
Interest on investments	10,784
Net cash provided by investing activities	10,784
Net increase (decrease) in cash and cash equivalents	482,591
Cash and cash equivalents, July 1	3,896,051
Cash and cash equivalents, June 30	\$ 4,378,642
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income (loss)	\$ 265,152
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	340,934
Pension expense	5,600
Changes in assets, liabilities, deferred outflows and inflows of resources:	
Decrease in accounts receivable	22,217
Increase in due from other governments	(2,011)
Decrease in accounts payable	(78,638)
Decrease in unearned revenue	(78,725)
Increase in deferred outflows of resources for pensions	(64,660)
Increase in intangible asset for advance funding of OPEB NOO	(14,296)
Decrease in accrued compensated absences	(6,701)
Total adjustments	123,720
Net cash provided by operating activities	\$ 388,872

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

**Watauga County, North Carolina**  
 Statement of Fiduciary Net Position  
 Fiduciary Funds  
 June 30, 2015

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,009,870	64,695
Accounts receivable	<u>1,159</u>	<u>24,284</u>
	<u>1,011,029</u>	<u>88,979</u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u>          -</u>	<u>88,979</u>
Net position:		
Assets held in trust	\$ <u>1,011,029</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 Position  
 Fiduciary Funds  
 For the Year Ended June 30, 2015

		<b>Pension Trust Funds</b>
<b>Additions:</b>		
Employer contributions	\$	288,125
Interest earned		6,187
Total additions		294,312
 <b>Deductions:</b>		
Benefits		176,038
Administrative expense		237
Total deductions		176,275
Change in net position		118,037
<b>Net position, beginning</b>		892,992
<b>Net position, ending</b>	\$	1,011,029

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

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

## Note 1 - Summary of Significant Accounting Policies:

The accounting policies of Watauga County and its component units 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 units presented below are reported in separate columns in the County's combined financial statements in order to emphasize that they are 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. Complete financial statements may be obtained from the entity's administrative offices at AppalCART, PO Box 2357, Boone, NC 28607.

### Watauga County District U Tourism Development Authority

The North Carolina General Legislation enacted a law which authorized Watauga County to levy a room occupancy tax; and the Watauga County Commissioners adopted a resolution levying this tax and created the Watauga County District U Tourism Development Authority. The Authority operates within Watauga County's boundaries for the promotion and development of tourism, and the County provides room occupancy tax proceeds as their main source of revenue to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. Watauga County's Board of Commissioners appoints the six voting members of the Authority. The Watauga County District U Tourism Development Authority has a June 30 year end and is presented as if it is a governmental fund. Complete financial statements may be obtained from the entity's administrative offices at Watauga County District U Tourism Development Authority, 815 West King St., Boone, NC 28607.

### B. Basis of Presentation – Basis of Accounting

#### **Basis of Presentation, Measurement Focus – Basis of Accounting**

*Government-wide Statements:* The Statement of Net Position and the Statement of Activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities.

## WATAUGA COUNTY, NORTH CAROLINA

### Notes to the Financial Statements For the Year Ended June 30, 2015

Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different 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 expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, 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 non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies 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 Projects Fund* – This is a capital projects fund. It accounts for the County's reserves set aside for future capital needs.

The County reports the following major enterprise fund:

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

The County reports the following other fund types:

*Pension Trust Funds* – The County maintains two pension trust funds – the Other Post-Employment Benefits Fund and the LEO Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Other Postemployment Benefit Irrevocable Trust Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees. The Special Separation Allowance Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The resources in the LEO Special Separation Allowance Fund have been set aside to pay future obligations of the LEO Special Separation Allowance but are not held in a trust that meets the criteria outlined in GASB Statement 68, paragraph 4.

*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 Trust Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

individuals; the Vehicle 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 but are not revenues to the County; the Inmate Commissary Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain individuals; the Fines and Forfeitures Fund which accounts for various fines and forfeitures that the County is required to remit to the Watauga County Board of Education, the Deed of Trust Fee Fund which accounts for fees collected by the Register of Deeds which are remitted to the State Treasurer on a monthly basis, and the Town of Boone Tax Fund which accounts for property taxes billed and collected by the County on behalf of the Town of Boone.

*Non-major Funds* – The County maintains seven legally budgeted non-major funds. The Federal Equitable Sharing Fund, the State Substance Abuse Tax Fund, the Emergency Telephone System Fund, the Fire Districts Funds, the Occupancy Tax Fund, and the CDBG Scattered Site Housing Fund are all reported as non-major special revenue funds.

### **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.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, 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. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues. 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 positions 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 Principals Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

### **C. Budgetary Data**

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Project Fund, the Federal Equitable Sharing, the State Substance Abuse Tax, the Emergency Telephone System, Fire Districts, Occupancy Tax Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the CDBG Scattered Site Housing Grant 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 multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund not to exceed 10% of the total departmental appropriation of the department whose allocation is reduced; 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, Deferred Inflows and Outflows of Resources, and Fund Equity**

#### **1. Deposits and Investments**

All deposits of the County, AppalCART, and the Watauga County District U Tourism Development Authority are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, AppalCART, and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County, AppalCART, and the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

State law [G.S. 159-30(c)] authorizes the County, AppalCART, and the Authority 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, AppalCART, and the Authority's 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.

## **2. Cash and Cash Equivalents**

The County pools money from several funds, except the Other Post Employment Trust Fund, 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 and the Authority consider 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.

## **3. Restricted Cash**

Money for Tax Revaluation is classified as restricted assets because its use is restricted per NC General Statute 153A-150. Money for the Register of Deeds Automation Enhancement Fund is restricted by NC General Statute 161-50 to pay for the computer equipment and imaging technology for the Register of Deeds' office. The grant for purchase of a no-till drill requires that any rental fees be restricted for maintenance of the equipment. Federal regulations require equitable sharing funds be used for approved law enforcement needs. State substance abuse tax receipts are restricted to law enforcement needs. Emergency Telephone System funds are restricted per NC General Statute 62A-46. Occupancy tax revenues are restricted for disbursement to the Watauga District U Tourism Development Authority. Taxes levied on behalf of the fire districts are restricted as payable to the districts.

### Watauga County Restricted Cash

Governmental Activities		
General Fund	Tax revaluation	\$ 154,590
	Register of Deeds	169,364
	Grant requirements	3,879
Federal Equitable Sharing Fund	Law enforcement	68,288
State Substance Abuse Tax Fund	Law enforcement	69,976
Emergency Telephone Fund	911 eligible expenditures	407,210
Occupancy Tax Fund	Tourism	237
Fire District Funds	Unexpended collections	11,587
Total Governmental Activities		<u>\$ 885,131</u>

## **4. Ad Valorem Taxes Receivable**

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2014.

## **5. Allowances for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

### 6. Inventory

The inventories of AppalCART are maintained for fuel oil, tires, and vehicle parts; valuation is at last in first out (LIFO) basis. The cost of the inventory of AppalCART is recorded as an expense when consumed.

### 7. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization is \$5,000 for all governmental fund assets. On July 1, 1989, the County established the Solid Waste 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 Fund's minimum capitalization cost is \$5,000. Prior to July 1, 2002, the Fund did not have a minimum capitalization cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

The County holds title to a Watauga County Board of Education property that has not been included in capital assets. The property has been deeded to the County to permit installment purchase financing. Lease agreements between the County and the Board of Education give the Board of Education full use of the facility, full responsibility for maintenance of the facility, and stipulate the County will convey title back to the Board of Education once all restrictions of the financing agreements have been met. The property is reflected as a capital asset in the financial statements of the Watauga County Board of Education.

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

	<u>Years</u>
Buildings	10 to 50
Leasehold improvements	10 to 50
Other improvements	8 to 99
Furniture and equipment	5 to 20
Vehicles and motorized equipment	5

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 to 7
Shop equipment	8
Vehicles	7 to 12
Land improvements	10
Buildings	50

Capital assets of the Watauga County District U Tourism Development Authority are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Computer equipment	5
Furniture and fixtures	7

### 8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County has several items that meet this criterion – a charge on refunding, pension related deferrals, and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County has two items that meet the criterion for this category – prepaid taxes and other pension related deferrals.

### **9. 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 on the Statements of Net Position.

### **10. 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. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned in the County's government-wide, proprietary fund and AppalCART statements. The vacation policy of the Authority provides for the accumulation of up to 15 days earned vacation leave with such leave being fully vested when earned. On the Authority's government-wide statement, an expense and liability for compensated absences and salary-related payments are recorded as the leave is earned.

The sick leave policies of the County, the Authority, 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 with the County and the Authority may be used in the determination of length of service for retirement benefit purposes. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made by the County or its component units.

### **11. Net Position/Fund Balances**

#### **Net Position**

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents 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.

#### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

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

## WATAUGA COUNTY, NORTH CAROLINA

### Notes to the Financial Statements For the Year Ended June 30, 2015

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

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

Restricted for Revaluation – portion of fund balance restricted under State Statute [G.S. 153A-150].

Restricted for Register of Deeds – portion of fund balance restricted by revenue source for automation and technology enhancements in the Register of Deeds' office [G.S. 161-11.3].

Restricted for Public Safety – portion of fund balance representing the aggregate of net positions for three special revenue funds: the Emergency Telephone System Fund, the State Substance Abuse Tax Fund, and the Federal Equitable Sharing Fund.

Restricted for Environmental Protection – portion of fund balance restricted by grant revenue source for expenditures associated with the Soil and Water no till drill equipment.

*Committed Fund Balance* – portion of fund balance which can only be used for a specific purpose by a majority vote of Watauga County's governing board (highest body of decision making authority). Any change or removal of specific purpose requires majority action by the governing board.

Committed for Capital Projects – portion of fund balance set aside for future capital project expenditures.

*Assigned Fund Balance* – portion of fund balance the governing board decides to use for a specific purpose.

*Unassigned Fund Balance* – portion of the total fund balance that has not been restricted, committed, or assigned to specific purposes or other funds at year-end.

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

#### **12. Defined Benefit Pension Plans**

The County participates in two cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State: the Local Governmental Employees' Retirement System (LGERS) and the Registers of Deeds' Supplemental Pension Fund (RODSPF) (collectively, the "state-administered defined benefit pension plans"). For the purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net positions of the state-administered defined benefit pension plans and additions to/deductions from the state-administered defined pension plans' fiduciary net positions have been determined on the same basis as they are reported by the state-administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The County's employer contributions are recognized when due and the County has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. Investments are reported at fair value.

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

## Note 2 - Stewardship, Compliance, and Accountability

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

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, AppalCART's, and the Authority'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, AppalCART's, and the Authority'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 the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, AppalCART, and the Authority, 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. 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, AppalCART, or the Authority. Because of the inability to measure the exact amount of collateral pledged for the County, AppalCART, or the Authority, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The County, AppalCART, and the Authority rely on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The County, AppalCART, and the Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2015, the County's deposits had a carrying amount of \$25,242,276 and a bank balance of \$25,634,302. Of the bank balance, \$1,250,000 was covered by federal depository insurance, and \$4,791,751 in non-interest bearing deposits and \$19,592,551 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2015, Watauga County had \$2,900 cash on hand.

At June 30, 2015, AppalCART's deposits had a carrying amount of \$1,177,158 and a bank balance of \$1,177,611. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$927,611 in interest bearing deposits were covered by collateral held under the Pooling Method. At June 30, 2015, AppalCART had \$150 cash on hand.

At June 30, 2015, the Authority's deposits had a carrying amount of \$779,181 and a bank balance of \$610,362. Of the balance, \$250,000 was covered by federal depository insurance and \$360,362 in interest bearing deposits was covered by collateral held under the Pooling Method. The Authority had no cash on hand.

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### 2. Investments

As of June 30, 2015, the County had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1 - 3 Years
US Government Agencies	\$ 5,032,857	\$ -	\$ -	\$ 5,032,857
NC Capital Management Trust- Cash Portfolio	1,985,222	1,985,222	N/A	N/A
NC Capital Management Trust- Term Portfolio*	3,028,214	3,028,214	-	-
Total:	\$ 10,046,293	\$ 5,013,436	\$ -	\$ 5,032,857

\* Because the NC Capital Management Trust Term Portfolio had duration of .19 years, it was presented as an investment with a maturity of less than 6 months.

*Interest Rate Risk.* The County has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's internal investment procedure limits at least half of the County's investment portfolio to maturities of less than 12 months. Also, the County's internal management policy recommends purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than five years.

*Credit Risk.* The County has no formal policy regarding credit risk, but has internal management procedures that limits the County's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The County's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2015. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies with Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank and Federal Home Loan Mortgage Corporation are rated AA+ by Standard & Poor's and AAA by Moody's Investors Service.

At June 30, 2015, AppalCART's investments consisted of \$6,370 in the North Carolina Capital Management Trust's Cash Portfolio. AppalCART has no policy on interest rate risk or credit risk.

At June 30, 2015, the Authority's investments consisted of the following:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Cash Portfolio	\$101,404	N/A	AAAm
NC Capital Management Trust – Term Portfolio	400,589	.19 years	Unrated
	\$501,993		

*Interest Rate Risk.* The Authority has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's internal investment policy limits at least half of the Authority's investment portfolio to maturities of less than 12 months. Also, the Authority's internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

*Credit risk.* The Authority has no formal policy regarding credit risk, but has internal management procedures that limits the Authority's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Authority's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2015. The

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

Authority's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Tax Year Levied	Tax	Interest	Total
2011	\$ 614,039	\$ 173,466	\$ 787,505
2012	622,137	119,761	741,898
2013	629,116	64,484	693,600
2014	673,162	-	673,162
Total	\$ 2,538,454	\$ 357,711	\$ 2,896,165

### 4. Receivables

Receivables at the government-wide level at June 30, 2015, were as follows:

	Accounts	Taxes Receivable	Interest Receivable	Total
<b>Governmental Activities:</b>				
General	\$ 41,822	\$ 1,296,309	\$ 334,862	\$ 1,672,993
Other Governmental	-	259,056	37,528	296,584
Total receivables	4,822	1,555,365	372,390	1,969,577
Allowance for doubtful accounts	-	(430,524)	-	(430,524)
Total-governmental activities	\$ 41,822	\$ 1,124,841	\$ 372,390	\$ 1,539,053
<b>Business-type Activities</b>				
Solid Waste	\$ 431,396	\$ -	\$ -	\$ 431,396
Allowance for doubtful accounts	(93,998)	-	-	(93,998)
Total-business-type activities	\$ 337,398	\$ -	\$ -	\$ 337,398

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

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

Home and Community Block Grant	\$ 24,831
Local Option Sales Taxes	1,732,934
June DMV fees for tag office	10,758
NC Ag Trust Fund grant reimbursement	10,982
Avery County Inmate Housing Fee	1,350
Town of Blowing Rock ABC bottle taxes due	320
NC Dept of Insurance grant reimbursement	3,000
NC Dept of Agriculture grant reimbursement	420
AppalCART reimbursement	119
Town of Blowing Rock sales tax agreement payment	38,986
Town of Seven Devils sales tax agreement payment	8,643
Town of Beech Mountain sales tax agreement payment	54,069
Town of Boone tax collection fee	114
CDBG reimbursements	6,473
Town of Boone ABC bottle taxes due	1,220
DOR Medicaid Hold Harmless	54,290
USDA POA reimbursements	4,574
NC DOR VTS	111,653
Court fees	32,929
NC DOT grant reimbursement	176,446
DSS reimbursements	248,587
US DOJ grant reimbursement	3,208
Emergency Telephone System revenues	27,829
Solid Waste Disposal Tax	5,951
Scrap Tire Tax	17,868
White Goods Tax	3,762
Medicaid POA reimbursements	6,021
Sales Tax Refunds	118,620
Total:	<u>\$ 2,705,957</u>

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### 5. Capital Assets

#### Primary Government:

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 44,168,826	129,300	160,000	\$ 44,138,126
Intangible	15,600	-	-	15,600
Construction in progress	406,733	559,248	544,501	421,480
Total capital assets not being depreciated	<u>44,591,159</u>	<u>688,548</u>	<u>704,501</u>	<u>44,575,206</u>
<b>Capital assets being depreciated:</b>				
Buildings	107,221,581	216,018	598,112	106,839,487
Other improvements	5,104,469	345,928	6,080	5,444,317
Leasehold improvements	-	1,009,463	-	1,009,463
Equipment	6,457,912	119,578	37,206	6,540,284
Vehicles and motorized equipment	2,024,016	256,491	302,965	1,977,542
Total capital assets being depreciated	<u>120,807,978</u>	<u>1,947,478</u>	<u>944,363</u>	<u>121,811,093</u>
Less accumulated depreciation for:				
Buildings	16,341,285	2,177,559	78,437	18,440,407
Other improvements	1,123,860	526,096	6,080	1,643,876
Leasehold improvements	-	120,120	-	120,120
Equipment	4,806,857	495,102	37,206	5,264,753
Vehicles and motorized equipment	1,510,817	181,981	302,965	1,389,833
Total accumulated depreciation	<u>23,782,819</u>	<u>3,500,858</u>	<u>424,688</u>	<u>26,858,989</u>
Total capital assets being depreciated, net	<u>97,025,159</u>			<u>94,952,104</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$141,616,318</u></u>			<u><u>\$139,527,310</u></u>

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

General government	\$ 2,029,191
Public safety	528,140
Environmental protection	2,102
Economic and physical development	17,161
Human services	435,775
Cultural and recreational	403,972
Total depreciation expense	<u><u>\$ 3,416,341</u></u>

Assets were reclassified to leasehold improvements to allow for better classification and this change accounts for the additional increase of \$84,517 in accumulated depreciation above depreciation expense and the added increase in assets of \$460,145 above the actual new assets added of \$1,487,333.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 975,497	-	-	\$ 975,497
Construction in progress	-	1,750	-	1,750
Total capital assets not being depreciated	<u>975,497</u>	<u>1,750</u>	<u>-</u>	<u>977,247</u>
<b>Capital assets being depreciated:</b>				
Improvements	753,491	-	307,570	445,921
Leasehold improvements	-	319,960	-	319,960
Buildings	4,123,207	-	12,390	4,110,817
Equipment	1,507,531	-	-	1,507,531
Vehicles	1,334,909	-	-	1,334,909
Total capital assets being depreciated	<u>7,719,138</u>	<u>319,960</u>	<u>319,960</u>	<u>7,719,138</u>
Less accumulated depreciation for:				
Improvements	552,031	28,341	307,570	272,802
Leasehold improvements	-	312,917	-	312,917
Building	952,747	84,219	5,099	1,031,867
Equipment	1,185,610	105,575	-	1,291,185
Vehicles	1,006,582	122,552	-	1,129,134
Total accumulated depreciation	<u>3,696,970</u>	<u>653,604</u>	<u>312,669</u>	<u>4,037,905</u>
Total capital assets being depreciated, net	<u>4,022,168</u>			<u>3,681,233</u>
<b>Business-type capital assets, net</b>	<u><u>\$ 4,997,665</u></u>			<u><u>\$ 4,658,480</u></u>

Assets were reclassified to leasehold improvements to allow for better classification and this change accounts for the additional increase of \$312,669 in accumulated depreciation above depreciation expense and the added increase in assets of \$319,960 above the actual new assets added of \$1,750.

**Construction commitments**

The County has three active construction projects as of June 30, 2015. The governmental projects include Brookshire underpass project and a new ambulance base in the western area of the County. The business-type activities project is to create a year-round facility to collect household hazardous waste. At June 30, 2015, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Hazardous waste building	\$ 1,750	\$ -
Brookshire underpass	204,255	393,903
Ambulance base #3	217,225	18,720
Total	<u>\$ 423,230</u>	<u>\$ 412,623</u>

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,114,242	\$ -	\$ -	\$ 1,114,242
Construction in progress	99,150	-	-	99,150
Total capital assets not being depreciated	<u>1,213,392</u>	-	-	<u>1,213,392</u>
<b>Capital assets being depreciated:</b>				
Buildings	6,694,081	-	-	6,694,081
Land improvements	159,662	-	148,506	11,156
Office furniture and equipment	287,449	31,386	93,723	225,112
Shop equipment	405,006	3,204	60,826	347,384
Vehicles	7,213,610	1,279,797	521,642	7,971,765
Total capital assets being depreciated	<u>14,759,808</u>	<u>1,314,387</u>	<u>824,697</u>	<u>15,249,498</u>
Less accumulated depreciation for:				
Buildings	142,603	133,918	-	276,521
Land improvements	152,151	1,024	142,020	11,155
Office furniture and equipment	168,216	22,211	89,176	101,251
Shop equipment	215,058	36,728	57,916	193,870
Vehicles	3,906,816	620,374	521,642	4,005,548
Total accumulated depreciation	<u>4,584,844</u>	<u>\$ 814,255</u>	<u>\$ 810,754</u>	<u>4,588,345</u>
Total capital assets being depreciated, net	<u>10,174,964</u>			<u>10,661,153</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$11,388,356</u></u>			<u><u>\$11,874,545</u></u>

Capital asset activity for the Watauga County District U Tourism Development Authority for the year ended June 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets being depreciated:</b>				
Furniture and fixtures	\$ 3,636	-	-	\$ 3,636
Computer equipment	13,778	-	-	13,778
Total Capital assets being depreciated	<u>17,414</u>	-	-	<u>17,414</u>
Less accumulated depreciation for:				
Furniture and fixtures	3,636	-	-	3,636
Computer equipment	13,778	-	-	13,778
Total accumulated depreciation	<u>17,414</u>	-	-	<u>17,414</u>
<b>Total capital assets being depreciated, net</b>	<u><u>\$ -</u></u>			<u><u>\$ -</u></u>

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

## B. Liabilities

### 1. Payables

Payables at the government-wide level at June 30, 2015, were as follows:

	Vendors	Salaries and Benefits	Total
Governmental activities:			
General	\$ 591,070	\$ 392,742	\$ 983,812
Other governmental	58,447	-	58,447
Total-governmental activities	\$ 649,517	\$ 392,742	\$ 1,042,259
Business-type activities:			
Solid Waste	\$ 125,783	\$ 43,642	\$ 169,425

### 2. Pension Plan Obligations

#### a. Local Governmental Employees' Retirement System

*Plan Description.* The County is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the County to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The County's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$761,648 for the year ended June 30, 2015.

*Refunds of Contributions.* County employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2015, the County reported an asset of \$1,048,391 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on a projection of the County's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the County's proportion was 0.178%, which was a decrease of 0.003% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$65,956. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 114,555
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,440,633
Changes in proportion and differences between County contributions and proportionate share of contributions	906	-
County contributions subsequent to the measurement date	761,648	-
Total	\$ 762,554	\$ 2,555,188

\$761,648 reported as deferred outflows of resources related to pensions resulting from County

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2016	\$ (638,642)
2017	(638,642)
2018	(638,642)
2019	(638,357)
2020	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate.* The following presents the County's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the County's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
County's proportionate share of the net pension liability (asset)	\$ 3,558,695	\$ (1,048,391)	\$ (4,927,411)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

## **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. For reporting purposes, the Separation Allowance is presented as a pension trust fund; however, it does not meet the criteria for trust funds outlined in GASB Statement 68.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>46</u>
Total	<u>49</u>

A separate report was not issued for the plan.

### **2. Summary of Significant Accounting Policies:**

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

### **3. Contributions**

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$57,675, or 3.062% of covered payroll. 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 financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return and (b) projected salary increases of 4.25% to 7.85% per year. The inflation component was 3.00%. The assumptions do not include postretirement benefits increases. The actuarial value of assets was market value. The remaining amortization period at December 31, 2014 was 17 years.

The following table shows the components of the County's annual pension cost for the current year, the amount actually contributed to the plan, and changes in the County's net obligation for the Separate Allowance:

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

Annual Required Contribution	\$ 56,965
Interest on net pension obligation	(3,140)
Adjustment to annual required contribution	<u>5,305</u>
Annual pension cost	59,130
Contributions made	<u>57,675</u>
Decrease in net pension obligation	1,455
Net pension obligation, beginning of year	<u>(62,800)</u>
Net pension obligation, end of year	<u><u>\$ (61,345)</u></u>

#### 4. Funded Status and Funding Progress

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 48,452	99.10 %	\$ (66,456)
2014	51,177	92.86	(62,800)
2015	59,130	97.54	(61,345)

As of December 31, 2014, the most recent actuarial valuation date, the plan was 42.99 percent funded. The actuarial accrued liability for benefits was \$522,034, and the actuarial value of assets was \$224,415, resulting in an unfunded actuarial accrued liability (UAAL) of \$297,619. The covered payroll (annual payroll of active employees covered by the plan) was \$1,883,580, and the ratio of the UAAL to the covered payroll was 15.80 percent.

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

#### c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description.* The County contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 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 make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$102,354, which consisted of \$91,542 from the County and \$10,812 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 five percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2015 to these plans were \$655,568 which consisted of \$510,001 from the County and \$145,567 from employees.

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### e. Registers of Deeds' Supplemental Pension Fund

*Plan Description.* Watauga County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF 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. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least 10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

*Contributions.* Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year, and for the foreseeable future, is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the County were \$5,276 for the year ended June 30, 2015.

#### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2015, the County reported an asset of \$142,737 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2014, the County's proportion was .63%, which was a decrease of .03% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of (\$1,552). At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,310	\$ -
Net difference between projected and actual earnings on pension plan investments	-	768
Changes in proportion and differences between County contributions and proportionate share of contributions	4,569	-
County contributions subsequent to the measurement date	5,276	-
Total	\$ 11,155	\$ 768

\$5,276 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$ 2,480
2017	2,480
2018	342
2019	(192)
2020	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 7.75 percent, including inflation and productivity factor
Investment rate of return	5.75 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2014 is 2.5%.

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate.* The following presents the County's proportionate share of the net pension asset calculated using the discount rate of 5.75 percent, as well as what the County's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (4.75 percent) or 1-percentage-point higher (6.75 percent) than the current rate:

	<b>1% Decrease (4.75%)</b>	<b>Discount Rate (5.75%)</b>	<b>1% Increase (6.75%)</b>
County's proportionate share of the net pension liability (asset)	\$ (128,171)	\$ (142,737)	\$ (155,256)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**f. Other Postemployment Benefits – Watauga County**

**Health Benefits**

Under a County resolution as of September 1, 2001 Watauga County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employers defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System and have at least five years of creditable service with the County. The County has elected to partially pay the future overall cost of coverage for these benefits. The HCB Plan is available to qualified retirees at up to 100%, with a \$400 monthly maximum paid toward premium, until the age of 65 or until Medicare eligible, whichever is sooner based on years of service with the County. The Board of Commissioners may amend the benefit provisions. The HCB Plan is in the County's report as a pension trust fund. A separate report was not issued for the Plan.

Membership of the HCB Plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	26	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan Members	<u>222</u>	<u>43</u>
Total	<u>248</u>	<u>44</u>

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

*Funding Policy.* The Board of Commissioners established the contribution requirements of plan members and these requirements may be amended by the Board. Per a County resolution, the County is required to contribute the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Board.

The current ARC rate is 1.61% of annual covered payroll. For the current year, the County contributed \$230,450 or 2.30% of annual covered payroll. The County obtains healthcare coverage through private insurers. There were no contributions made by employees. The County's obligation to contribute to the HCB Plan is established and may be amended by the Board of Commissioners.

*Summary of Significant Accounting Policies.* The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Under a County resolution, the contributions are recognized when due and the County will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements, are reported as cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration costs of the HCB Plan are financed through investment earnings.

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

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

Annual required contribution	\$ 171,685
Interest on net OPEB obligation	(16,329)
Adjustment to annual required contribution	15,599
Annual OPEB cost (expense)	170,955
Contributions made*	286,900
Increase/(decrease) in net OPEB obligation	(115,945)
Net OPEB obligation, beginning of year	(408,213)
Net OPEB obligation, end of year	\$ (524,158)

*\*Under GASB Statements 43 and 45, the OPEB liability may include an implicit subsidy amount based upon age adjusted costs reflecting the higher cost of benefits associated with older participants. For the purpose of determining the Net OPEB Obligation (NOO), the portion of the annual OPEB contributions for medical and prescription drug costs that are determined on a combined basis for actives and retirees (in this case pre-65 retirees) has been increased to include the impact of the 32% subsidy. The total contribution of \$286,900 includes \$56,450 due to the impact of the 32% implicit subsidy and actual cash contributions of \$230,450 paid by the employer. Correspondingly, in the financial statements, the costs associated with active employee medical and prescription drug benefits may need to be decreased by the same dollar amount to reflect that portion of the active employee contribution subsidizing retiree costs.*

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2015 were as follows:

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

3 Year Trend Information			
For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 176,485	120.0%	\$ (377,712)
2014	176,485	116.5%	(408,213)
2015	170,955	167.8%	(524,158)

*Funded Status and Funding Progress.* As of December 31, 2014, the most recent actuarial valuation date, the plan was 27.9% funded. The actuarial accrued liability for benefits was \$2,516,822, and the actuarial value of assets was \$701,855, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,814,967. The covered payroll (annual payroll of active employees covered by the plan) was \$10,028,405, and the ratio of UAAL to the covered payroll was 18.1%.

Actuarial valuations of an ongoing plan involve estimated of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarially accrued liabilities for benefits.

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

In the December 31, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The rate included a 3.00 percent inflation assumption. The medical cost trend rate varied between 7.50% and 5.00%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2014 was 30 years.

## **g. Other Employment Benefits**

### **Death Benefits**

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 will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

and not by the County, the County does not determine the number of eligible participants. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The County considers these contributions to be immaterial.

For the fiscal year ended June 30, 2015, the County made contributions to the State for death benefits of \$10,424. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represents 0.12% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012 for law enforcement officers. Watauga County had a three year reprieve because it has been contributing for more than 20 years. Contributions will resume beginning July 1, 2015.

The County has elected to provide additional death benefits for all eligible employees through a commercial insurance carrier in amounts equal to an employee's salary rounded up to the next \$1,000. Coverage is provided at a maximum of \$80,000 with no minimum value. Benefits in excess of \$50,000 are considered taxable to the employee as a fringe benefit.

### **h. Retirement System – AppalCART and Watauga County District U Tourism Development Authority**

Please see the separately issued financial reports of AppalCART and Watauga County District U Tourism Development Authority for a complete description of each of their pension plans.

### **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 NCDENR 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 a 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.

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### 4. Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Charge on refunding of debt	\$ 20,316	\$ -
Pensions – difference between expected and actual experience	-	114,555
Pensions – difference between projected and actual investment earnings	-	2,441,404
Pensions – change in proportion and difference between employer contributions and proportionate share of contributions	6,784	-
Contributions to pension plan in 2014-15 fiscal year	766,924	-
Prepaid taxes not yet earned (General)	-	4,944
Prepaid taxes not yet earned (Special Revenue)	-	503
Taxes receivable, net (General)		901,869
Taxes receivable, net (Special Revenue)		125,243
Total	\$ 794,024	\$ 3,588,518

### 5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$69,456,290 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2,000,000 per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence and workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. 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. The County provides employee health, dental and life insurance benefits through commercial carriers.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is in an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. Under this program, the County has purchased commercial flood insurance for \$1,123,800 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are covered by performance bonds through a commercial surety bond. The Finance Officer, Tax Administrator, Register of Deeds, and County Manager (as Deputy Finance Officer) are each individually bonded for \$50,000 each. The Sheriff is bonded for \$25,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

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

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

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; and natural disasters. AppalCART is insured with the NC Association of County Commissioners Liability and Property and Worker's Compensation Pools that provides coverage for general liability in the amount of \$2,000,000 with an additional \$3,000,000 in vehicle liability purchased per NC DOT requirements and worker's comp insurance at the statutory limits. These are the same pools that the County is a member.

The Watauga County District U Tourism Development Authority is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured with the NC Association of County Commissioners Liability and Property and Worker's Compensation Pools that provide coverage for general liability in the amount of \$2,000,000 and worker's comp coverage at the statutory limits. These are the same pools that the County is a member.

## **6. Contingent Liabilities**

On October 7, 2011, it was determined the joint agency, New River Service Authority (New River), would have to cease operations due to substantial financial losses over the last several years. The losses became apparent during the 2010-11 fiscal year financial statement preparation and the five counties involved (Alleghany, Ashe, Avery, Watauga and Wilkes) have worked to determine the liabilities and assets. Based on fiscal information received, the counties determined it was necessary to dissolve New River. As of this time, the actual amounts of the liabilities for each County have not been determined, but it could have a material effect on the County's finances.

## **7. Long-term Obligations**

### **a. Capital Leases**

The County has no capital lease agreements as a lessee.

### **b. Installment Purchase**

As authorized by State law [G.S.160A-20 and 153A-158.1], the County financed various transactions 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 five installment purchases serviced by the general fund.

The first installment purchase was executed on April 30, 2004 in the amount of \$5,000,000 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 outstanding balance at June 30, 2015 is \$1,333,333.

The second installment purchase was executed on August 15, 2008 in the amount of \$2,600,000 for the purchase of land for the Tweetsie Incentive Project. This installment purchase calls for 40 quarterly principal payments of \$65,000 plus interest at 5.942 percent. The outstanding balance at June 30, 2015 is \$845,000.

The third installment purchase was executed in the amount of \$1,290,274 for Qualified School Construction Bonds on June 14, 2010 for school renovations. This installment purchase calls for 10 annual principal payments of \$129,028 plus interest at 5.8 percent with a federal interest credit giving an effective rate of zero percent prior to federal sequestration reductions affecting the annual reimbursement of interest. The outstanding balance at June 30, 2015 is \$645,138.

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

The fourth and fifth installment purchase agreements were executed on June 28, 2012 to refinance the construction of the new high school. These installment purchases were refinanced June 28, 2012 into limited obligation bonds. The limited obligation bonds were issued in two series, A and B. Series A is for a principal amount of \$45,045,000 with terms ranging from 2015 to 2028. The Series A bonds have an outstanding balance at June 30, 2015 of \$44,450,000. Series B is for \$10 million with a term of three years and a set rate of 1.81 percent and this series paid out in fiscal year 2014-15.

For Watauga County, the future minimum payments as of June 30, 2015, including \$14,408,021 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,117,361	\$ 2,052,859	-	-
2017	4,082,361	1,917,276	-	-
2018	4,077,361	1,749,144	-	-
2019	3,882,361	1,584,107	-	-
2020	3,479,027	1,434,709	-	-
2021-2025	17,120,000	4,717,775	-	-
2026-2028	<u>10,515,000</u>	<u>952,151</u>	-	-
Total payments	<u>\$ 47,273,471</u>	<u>\$ 14,408,021</u>	<u>-</u>	<u>-</u>

### c. General Obligation Indebtedness

The County has no general obligation debt outstanding or authorized as of June 30, 2015. The final payment on the County's general obligation debt was made during the current fiscal year.

At June 30, 2015, Watauga County had a legal debt margin of \$658,298,987.

### d. Advance Refunding

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). The balance on the charge for refunding is \$20,316 and a credit of \$27,083 for the annual amortization on the economic gain has been applied to the government-wide statements.

In June 2012, the County issued \$55,045,000 in limited obligation bonds to refinance the installment purchase loans for the purchase of land and construction of the new high school. These funds refinanced the original debt remaining of \$61,000,000 plus interest and expenses. This resulted in premiums totaling \$5,206,201 to be amortized over the remaining sixteen year life of the new debt. A liability for the balance of the premium of \$4,228,261 and the annual amortization of \$325,388 is expensed in the government-wide statements.

**Debt Related to Capital Activities** – Of the total Governmental Activities debt listed \$46,628,332 relates to assets the County holds title. There is no unspent restricted cash related to this debt.

## WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### 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, 2015:

	Balance			Balance	Current Portion of
	July 1, 2014	Increases	Decreases		
<b><u>Governmental activities:</u></b>					
General obligation debt	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -	\$ -
Installment purchases	51,120,762	-	3,847,291	47,273,471	4,117,361
Compensated absences	1,000,913	816,484	815,923	1,001,474	-
Total governmental activities	<u>\$ 53,276,675</u>	<u>\$ 816,484</u>	<u>\$ 5,818,214</u>	<u>\$ 48,274,945</u>	<u>\$ 4,117,361</u>
<b><u>Business-type activities:</u></b>					
Compensated absences	\$ 105,010	\$ 58,624	\$ 65,325	\$ 98,309	\$ -
Total business-type activities	<u>\$ 105,010</u>	<u>\$ 58,624</u>	<u>\$ 65,325</u>	<u>\$ 98,309</u>	<u>\$ -</u>
<b><u>Discretely presented component units:</u></b>					
Compensated absences – AppalCART	\$ 58,889	\$ 60,588	\$ 58,236	\$ 61,241	\$ 61,241
Compensated absences – Watauga County TDA	\$ 7,789	\$ 8,469	\$ 8,858	\$ 7,400	\$ 7,400

For Watauga County, AppalCART, and the Authority, compensated absences for governmental activities are 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 at June 30, 2015, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$ 2,394,595
From the Capital Projects Fund to the General Fund for school capital projects	167,730
From the Capital Projects Fund to the General Fund for debt service	1,200,000
From the General Fund to the CDBG Grant Fund as an interfund loan	6,473
From the Solid Waste Fund to the General Fund for debt service	<u>40,392</u>
Total	<u>\$ 3,809,190</u>

### D. Net Investment in Capital Assets

Capital assets	Governmental	Business-type
	\$ 139,527,310	\$ 4,658,480
Less: long-term debt	46,628,332	-
Net investment in capital assets	<u>\$ 92,898,978</u>	<u>\$ 4,658,480</u>

### E. Fund Balance

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

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2015

The following schedule provides management and citizens with information on the portion of General fund balance available for appropriation:

Total fund balance – General Fund	\$ 24,030,993
Less:	
Stabilization by State Statute	5,511,097
Register of Deeds Automation/Enhancement	169,364
Tax Revaluation	154,590
Grant Requirements	3,879
Remaining Fund Balance	\$ <u>18,192,063</u>

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

Encumbrances:      General Fund - \$1,935,426      Non-Major funds - \$178,390

### **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, 2015. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$509,850 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from their 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, 2015. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$568,183 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.

### **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 \$851,709 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.

### **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, which 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.

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2015

	<u>Federal</u>		<u>State</u>
Supplemental Nutrition Assistance Program	\$ 4,677,338	\$	-
Medical Assistance Program	22,242,658		12,080,893
Child Health Insurance Program	591,090		186,732
	<u>\$ 27,511,086</u>	\$	<u>12,267,625</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 - Change in Accounting Principles/Restatement**

The County implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the County to record beginning net pension liability and the effects on net position of contributions made by the County during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$1,171,376 and \$122,258, respectively.

Also during the fiscal year ended June 30, 2015, the County determined that certain asset transactions completed in prior years required restatement under the full accrual method. Adjustments were made to account for these transactions thereby increasing net position for governmental and business-type activities by \$1,612,233 and \$162,847, respectively.

**Note 9 - Subsequent Events**

For the year ended June 30, 2015, the County has evaluated subsequent events for potential recognition and disclosure through September 30, 2015 – the date the financial statements were available to be issued. No events were determined to require recognition or disclosure.

## Required Supplemental Financial Data

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits
- Schedule of County's Proportionate Share of Net Pension Asset (LGERS)
- Schedule of County's Contributions (LGERS)
- Schedule of County's Proportionate Share of Net Pension Asset (RODSPF)
- Schedule of County's Contributions (RODSPF)

**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)
12/31/2009	\$ 172,321	\$ 445,615	\$ 273,294	38.67	\$ 1,888,358	14.47%
12/31/2010	\$ 182,734	\$ 418,911	\$ 236,177	43.62	\$ 1,737,216	13.60%
12/31/2011	\$ 193,407	\$ 476,644	\$ 283,237	40.58	\$ 1,824,693	15.52%
12/31/2012	\$ 203,683	\$ 490,697	\$ 287,014	41.51	\$ 1,743,117	16.47%
12/31/2013	\$ 213,981	\$ 508,028	\$ 294,047	42.12	\$ 1,819,158	16.16%
12/31/2014	\$ 224,415	\$ 522,034	\$ 297,619	42.99	\$ 1,883,580	15.80%

**Schedule of Employer Contributions**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 27,043	108.45%
2011	\$ 52,879	72.85%
2012	\$ 44,535	114.00%
2013	\$ 47,634	101.31%
2014	\$ 49,086	95.82%
2015	\$ 56,965	101.25%

**Notes to the Required Schedules**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2014. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	16 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	5.00%
Projected salary increase*	4.25 - 7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

**Watauga County, North Carolina**  
Other Postemployment Benefits  
Required Supplementary Information

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/2007	\$ -	\$ 1,928,608	\$ 1,928,608	0.00%	\$ 9,979,587	19.30%
12/31/2009	\$ -	\$ 1,899,693	\$ 1,899,693	0.00%	\$ 10,936,838	17.40%
12/31/2011	\$ 476,515	\$ 2,648,536	\$ 2,172,021	17.99%	\$ 9,419,789	23.06%
12/31/2012	\$ 522,755	\$ 2,522,669	\$ 1,999,914	20.70%	\$ 10,011,037	20.00%
12/31/2014	\$ 701,855	\$ 2,516,822	\$ 1,814,967	27.90%	\$ 10,028,405	18.10%

**Schedule of Employer Contributions**

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2011	\$ 160,959	348.06%
2012	\$ 189,788	89.24%
2013	\$ 177,098	119.59%
2014	\$ 177,098	116.08%
2015	\$ 171,685	134.23%

**Notes to the Required Schedules**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2014. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
Medical cost trend rate	7.50 - 5.00%
Year of Ultimate trend rate	2020
*Includes inflation at	3.00%

**Watauga County, North Carolina**  
**Schedule of the County's Proportionate Share of the Net Pension Liability (Asset)**

**Local Government Employees' Retirement System (LGERS)**  
 Last Two Fiscal Years\*

	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	(0.17777)%	0.18070%
County's proportionate share of the net pension liability (asset) \$	\$ (1,048,391)	\$ 2,178,129
County's covered employee payroll	\$ 10,536,590	\$ 10,387,368
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(9.95)%	20.97%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

\*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\*This will be the same percentage for all participant employers in the LGERS plan.

**Watauga County, North Carolina  
County's Contributions  
Required Supplementary Information**

**Local Governmental Employees' Retirement System  
Last Two Fiscal Years**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 761,648	\$ 738,196
Contributions in relation to the contractually required contribution	761,648	738,196
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered employee payroll	\$ 10,536,590	\$ 10,387,368
Contributions as a percentage of covered employee payroll	7.23%	7.11%

**Watauga County, North Carolina**  
**Schedule of the County's Proportionate Share of the Net Pension Liability (Asset)**

**Register of Deeds' Supplemental Pension Fund (RODSPF)**  
 Last Two Fiscal Years\*

	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.6609%	0.6297%
County's proportionate share of the net pension liability (asset) \$	\$ (141,158)	\$ (142,737)
County's covered employee payroll	\$ 65,250	\$ 66,840
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(216.33)%	(213.55)%
Plan fiduciary net position as a percentage of the total pension liability**	193.88%	190.50%

\*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\*This will be the same percentage for all participant employers in the RODSPF plan.

**Watauga County, North Carolina  
County's Contributions  
Required Supplementary Information**

**Register of Deeds' Supplemental Pension Fund (RODSPF)  
Last Two Fiscal Years**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,276	\$ 5,142
Contributions in relation to the contractually required contribution	5,276	5,142
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered employee payroll	\$ 65,250	\$ 66,840
Contributions as a percentage of covered employee payroll	8.09%	7.69%

COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES

**Watauga County, North Carolina**  
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Taxes - ad valorem:			
Current year	\$	\$ 27,159,975	\$
Prior years		587,110	
Advertising and interest		192,061	
Total Taxes - ad valorem	<u>27,296,370</u>	<u>27,939,146</u>	<u>642,776</u>
Local option sales taxes:			
Article 39 and 44		5,254,400	
Article 40 one-half of one percent		2,583,322	
Article 42 one-half of one percent		2,988,222	
Medicaid hold harmless payment		1,434,413	
Total Local option sales taxes	<u>10,778,173</u>	<u>12,260,357</u>	<u>1,482,184</u>
Taxes - other:			
Real estate transfer tax		382,475	
ABC Bottle tax		19,755	
Heavy equipment rental tax		4,673	
Gross receipts tax		46,807	
Franchise tax		345,036	
Total Taxes - other	<u>688,500</u>	<u>798,746</u>	<u>110,246</u>
Unrestricted Intergovernmental:			
Miscellaneous revenues from Towns		1,312,332	
Payments in lieu of taxes		21,979	
Total Unrestricted Intergovernmental	<u>1,352,500</u>	<u>1,334,311</u>	<u>(18,189)</u>
Restricted Intergovernmental:			
Grants-Federal and State		4,750,772	
Public School Building Capital Fund - Lottery		195,544	
Public School Building Capital Fund - ADM		16,086	
Federal Interest Credit		41,624	
Court facilities fees		129,250	
Total Restricted Intergovernmental	<u>6,605,286</u>	<u>5,133,276</u>	<u>(1,472,010)</u>
Permits and Fees:			
Sheriff's office permits and fees		113,649	
Planning and inspection fees		226,931	
Register of deeds fees		286,291	
Fire inspection fees		5,050	
Occupancy tax administrative fee		21,292	
Child Support fees		47,433	
Total Permits and Fees	<u>681,446</u>	<u>700,646</u>	<u>19,200</u>
Sales and Service:			
POA services		21,302	
TDA Financial services		38,000	
Recreation fees		335,905	
NC DMV fees		145,335	
Reimbursement for Inmates		29,647	
Tax collection fees-Towns		116,549	
Passport processing fees		13,175	
Election revenues		25	
Sale of fixed assets		185,838	
Blowing Rock communication services		170,505	
Total Sales and Service	<u>811,551</u>	<u>1,056,281</u>	<u>244,730</u>
Investment earnings:			
Interest earned on investments	<u>60,100</u>	<u>62,804</u>	<u>2,704</u>
Miscellaneous:			
Other		604,310	
Donations		72,246	
Total Miscellaneous	<u>519,737</u>	<u>676,556</u>	<u>156,819</u>
<b>TOTAL REVENUES</b>	<u><b>48,793,663</b></u>	<u><b>49,962,123</b></u>	<u><b>1,168,460</b></u>

## Watauga County, North Carolina

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance
<b>EXPENDITURES:</b>			
<b>General Government</b>			
Governing Body:			
Salaries and benefits	\$	\$ 54,490	\$
Operating expenses		3,947	
Total Governing Body	<u>62,082</u>	<u>58,437</u>	<u>3,645</u>
Administration:			
Salaries and benefits		323,011	
Operating expenses		4,783	
Total Administration	<u>335,737</u>	<u>327,794</u>	<u>7,943</u>
Finance:			
Salaries and benefits		310,735	
Operating expenses		54,685	
Total Finance	<u>376,076</u>	<u>365,420</u>	<u>10,656</u>
Tax Administration:			
Salaries and benefits		929,126	
Operating expenses		147,906	
Total Tax Administration	<u>1,126,269</u>	<u>1,077,032</u>	<u>49,237</u>
Tax Revaluation:			
Salaries and benefits		850	
Operating expenses		625	
Total Tax Revaluation	<u>156,030</u>	<u>1,475</u>	<u>154,555</u>
Tag Office:			
Salaries and benefits		173,385	
Operating expenses		4,825	
Total Tag Office	<u>185,469</u>	<u>178,210</u>	<u>7,259</u>
Legal Services:			
Operating expenses	<u>64,150</u>	<u>64,148</u>	<u>2</u>
Court facilities:			
Operating expenses	<u>2,000</u>	<u>1,429</u>	<u>571</u>
Board of Elections:			
Salaries and benefits		204,053	
Operating expenses		108,209	
Total Board of Elections	<u>335,994</u>	<u>312,262</u>	<u>23,732</u>
Register of Deeds:			
Salaries and benefits		394,075	
Operating expenses		86,504	
Total Register of Deeds	<u>480,580</u>	<u>480,579</u>	<u>1</u>
General Administration:			
Operating expenses		521,936	
Capital outlay		5,930	
Total General Administration	<u>1,073,473</u>	<u>527,866</u>	<u>545,607</u>
Information Technologies:			
Salaries and benefits		369,330	
Operating expenses		320,207	
Capital outlay		58,384	
Total Information Technologies	<u>802,039</u>	<u>747,921</u>	<u>54,118</u>

## Watauga County, North Carolina

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance
Maintenance:			
Salaries and benefits	\$	\$ 1,004,625	\$
Operating expenses		34,789	
Capital outlay		30,324	
Total Maintenance	<u>1,128,232</u>	<u>1,069,738</u>	<u>58,494</u>
Public Buildings			
Courthouse:			
Operating expenses	<u>147,642</u>	<u>133,226</u>	<u>14,416</u>
East Annex:			
Operating expenses	<u>32,317</u>	<u>26,513</u>	<u>5,804</u>
Administration Building:			
Operating expenses	<u>27,414</u>	<u>27,410</u>	<u>4</u>
Emergency Management:			
Operating expenses		5,236	
Capital outlay		100,631	
Total Emergency Management	<u>648,355</u>	<u>105,867</u>	<u>542,488</u>
Hannah:			
Operating expenses	<u>8,995</u>	<u>7,514</u>	<u>1,481</u>
Health Department:			
Operating expenses	<u>71,125</u>	<u>62,797</u>	<u>8,328</u>
AppalCART:			
Operating expenses	<u>5,907</u>	<u>3,688</u>	<u>2,219</u>
Library:			
Operating expenses	<u>66,061</u>	<u>45,682</u>	<u>20,379</u>
Old Caldwell College and Technical Institute:			
Operating expenses	<u>3,750</u>	<u>3,747</u>	<u>3</u>
Western Watauga Comm. Center:			
Operating expenses	<u>49,950</u>	<u>37,210</u>	<u>12,740</u>
Parking Lots:			
Operating expenses	<u>5,991</u>	<u>5,990</u>	<u>1</u>
West Courthouse Annex:			
Operating expenses	<u>155,471</u>	<u>32,873</u>	<u>122,598</u>
Human Services Center:			
Operating expenses	<u>119,706</u>	<u>97,646</u>	<u>22,060</u>
Appalachian Enterprise Center:			
Operating expenses	<u>23,301</u>	<u>20,731</u>	<u>2,570</u>
Law Enforcement Center:			
Operating expenses	<u>265,956</u>	<u>206,127</u>	<u>59,829</u>
Old Watauga High School:			
Operating expenses	<u>475</u>	<u>21</u>	<u>454</u>
NRSA Houses:			
Operating expenses	<u>1,120</u>	<u>1,118</u>	<u>2</u>
Recreation Administration Center:			
Operating expenses	<u>3,020</u>	<u>1,410</u>	<u>1,610</u>

## Watauga County, North Carolina

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance
Aquatics Center:			
Operating expenses	\$ 244,240	\$ 82,480	\$ 161,760
Optimist Facility:			
Operating expenses	36,301	32,344	3,957
Recreation Fields/Parks:			
Operating expenses		75,634	
Capital outlay		285,689	
Total Recreation Fields/Parks	381,194	361,323	19,871
Old Cove Creek School:			
Operating expenses	62,486	25,986	36,500
Brookshire Park:			
Operating expenses		23,109	
Capital outlay		163,046	
Total Brookshire Park	609,794	186,155	423,639
Anne Marie Drive Fields:			
Operating expenses	18,996	17,677	1,319
Brookshire Soccer Complex:			
Operating expenses		8,396	
Capital outlay		16,480	
Total Brookshire Soccer Complex	57,559	24,876	32,683
Rocky Knob Park:			
Operating expenses		29,234	
Capital outlay		128,486	
Total Rocky Knob Park	165,944	157,720	8,224
Total Public Buildings	3,213,070	1,708,131	1,504,939
<b>Total General Government</b>	<b>9,341,201</b>	<b>6,920,442</b>	<b>2,420,759</b>
<b>Public Safety</b>			
Sheriff's Office:			
Salaries and benefits		2,876,323	
Operating expenses		326,170	
Capital outlay		160,902	
Total Sheriff's Office	3,464,017	3,363,395	100,622
Communications:			
Salaries and benefits		665,375	
Operating expenses		35,136	
Total Communications	759,295	700,511	58,784
Detention Center:			
Salaries and benefits		1,407,300	
Operating expenses		585,992	
Capital outlay		26,534	
Total Detention Center	2,109,541	2,019,826	89,715
Emergency Management and Fire Protection:			
Salaries and benefits		304,524	
Operating expenses		1,132,893	
Total Emergency Management and Fire Protection	1,437,420	1,437,417	3
Planning and Inspections:			
Salaries and benefits		574,384	
Operating expenses		17,280	
Capital outlay		19,374	
Total Planning and Inspections	629,869	611,038	18,831

**Watauga County, North Carolina**  
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Medical Examiner:			
Operating expenses	\$ 25,000	\$ 19,200	\$ 5,800
Ambulance and Rescue Squad:			
Operating expenses	1,191,700	1,157,368	34,332
Animal Control:			
Salaries and benefits		109,547	
Operating expenses		11,841	
Total Animal Control	123,645	121,388	2,257
Forestry:			
Operating expenses	43,881	42,231	1,650
<b>Total Public Safety</b>	<u>9,784,368</u>	<u>9,472,374</u>	<u>311,994</u>
<b>Transportation</b>			
Transportation:	167,182	167,182	-
<b>Economic and Physical Development</b>			
Special Appropriations:	454,809	420,552	34,257
Economic Development:	79,458	50,292	29,166
<b>Total Economic and Physical Development</b>	<u>534,267</u>	<u>470,844</u>	<u>63,423</u>
<b>Environmental Protection</b>			
Cooperative Extension:			
Salaries and benefits		232,169	
Operating expenses		13,736	
Total Cooperative Extension	251,902	245,905	5,997
Soil and Water Conservation:			
Salaries and benefits		102,274	
Operating expenses		21,430	
Total Soil and Water Conservation	157,687	123,704	33,983
<b>Total Environmental Protection</b>	<u>409,589</u>	<u>369,609</u>	<u>39,980</u>
<b>Human Services</b>			
Public Health:			
Operating expenses	568,183	568,183	-
Mental Health:			
Operating expenses	171,194	171,194	-
Social Services - administration:			
Salaries and benefits		2,597,118	
Operating expenses		359,668	
Capital outlay		33,092	
Total Social Services - administration	3,086,780	2,989,878	96,902
Beneficiary payments:	2,722,706	2,313,168	409,538
Project on Aging:			
Salaries and benefits		919,060	
Operating expenses		262,379	
Total Project on Aging	1,237,149	1,181,439	55,710
Veterans Services:			
Salaries and benefits		95,902	
Operating expenses		2,425	
Total Veterans Services	104,601	98,327	6,274
<b>Total Human Services</b>	<u>7,890,613</u>	<u>7,322,189</u>	<u>568,424</u>

**Watauga County, North Carolina**  
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Education</b>			
Public Schools - current	\$	\$ 12,063,401	\$
Public Schools - capital outlay		391,992	
Community College - current		841,709	
Community College - capital outlay		10,000	
<b>Total Education</b>	<u>14,381,452</u>	<u>13,307,102</u>	<u>1,074,350</u>
<b>Cultural and Recreational</b>			
Library:			
Operating expenses	<u>509,850</u>	<u>509,850</u>	<u>-</u>
Recreation:			
Salaries and benefits		603,760	
Operating expenses		124,911	
Total Recreation	<u>756,070</u>	<u>728,671</u>	<u>27,399</u>
Aquatics:			
Salaries and benefits		190,195	
Operating expenses		8,332	
Total Aquatics	<u>201,168</u>	<u>198,527</u>	<u>2,641</u>
<b>Total Cultural and Recreational</b>	<u>1,467,088</u>	<u>1,437,048</u>	<u>30,040</u>
<b>Debt Service</b>			
Principal retirement		5,002,291	
Interest and fees		2,193,359	
<b>Total Debt Service</b>	<u>7,195,651</u>	<u>7,195,650</u>	<u>1</u>
<b>TOTAL EXPENDITURES</b>	<u>51,171,411</u>	<u>46,662,440</u>	<u>4,508,971</u>
Excess (deficiency) of revenues over expenditures	<u>(2,377,748)</u>	<u>3,299,683</u>	<u>5,677,431</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers to Capital Projects Fund	(2,394,595)	(2,394,595)	-
Transfers from Capital Projects Fund	1,367,730	1,367,730	-
Transfers from Solid Waste Fund	40,392	40,392	-
Fund Balance Appropriated	<u>3,364,221</u>	<u>-</u>	<u>(3,364,221)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>2,377,748</u>	<u>(986,473)</u>	<u>(3,364,221)</u>
Net change in fund balance	\$ <u>-</u>	2,313,210	<u>2,313,210</u>
Fund balance, beginning of year		<u>21,717,783</u>	
Fund balance, end of year		\$ <u>24,030,993</u>	

**Watauga County, North Carolina**  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2015

**Statement 2**

	<b>Special Revenue Funds</b>						
	<b>Federal Equitable Sharing Fund</b>	<b>State Substance Abuse Tax Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Fire Districts Funds</b>	<b>Occupancy Tax Fund</b>	<b>CDBG Scattered Site Housing Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>ASSETS:</b>							
Cash and cash equivalents	\$ 68,288	\$ 69,976	\$ 407,210	\$ 11,587	\$ 237	\$ -	\$ 557,298
Due from other governments	-	-	27,829	12,094	-	6,473	46,396
Taxes receivable, net	-	-	-	125,243	97,729	-	222,972
Total assets	<u>\$ 68,288</u>	<u>\$ 69,976</u>	<u>\$ 435,039</u>	<u>\$ 148,924</u>	<u>\$ 97,966</u>	<u>\$ 6,473</u>	<u>\$ 826,666</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>							
Liabilities:							
Accounts payable and accrued liabilities	-	826	27,970	23,178	-	-	51,974
Due to other governments	-	-	-	-	97,966	-	97,966
Due to other funds	-	-	-	-	-	6,473	6,473
Total Liabilities	<u>-</u>	<u>826</u>	<u>27,970</u>	<u>23,178</u>	<u>97,966</u>	<u>6,473</u>	<u>156,413</u>
Deferred Inflows of Resources:							
Taxes paid in advance	-	-	-	503	-	-	503
Taxes receivable	-	-	-	125,243	-	-	125,243
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,746</u>	<u>-</u>	<u>-</u>	<u>125,746</u>
Fund Balances:							
Restricted for:							
Public Safety	68,288	69,150	407,069	-	-	-	544,507
Total fund balances	<u>68,288</u>	<u>69,150</u>	<u>407,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>544,507</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 68,288</u>	<u>\$ 69,976</u>	<u>\$ 435,039</u>	<u>\$ 148,924</u>	<u>\$ 97,966</u>	<u>\$ 6,473</u>	<u>\$ 826,666</u>

**Watauga County, North Carolina**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2015

**Statement 3**

**Special Revenue Funds**

	<b>Federal Equitable Sharing Fund</b>	<b>State Substance Abuse Tax Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Fire Districts Fund</b>	<b>Occupancy Tax Fund</b>	<b>CDBG Scattered Site Housing Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>REVENUES</b>							
Ad valorem taxes	\$ -	\$ -	\$ -	\$ 2,948,609	\$ -	\$ -	\$ 2,948,609
Other taxes and licenses	-	33,486	-	-	1,129,177	-	1,162,663
Restricted intergovernmental	60,483	-	333,953	-	-	33,047	427,483
Other miscellaneous revenues	-	-	-	-	-	-	-
Investment earnings	145	160	900	-	-	-	1,205
	<u>60,628</u>	<u>33,646</u>	<u>334,853</u>	<u>2,948,609</u>	<u>1,129,177</u>	<u>33,047</u>	<u>4,539,960</u>
Total revenues							
<b>EXPENDITURES</b>							
Current:							
General government	-	-	-	-	1,129,177	-	1,129,177
Public safety	5,968	23,291	279,898	2,948,609	-	-	3,257,766
Economic and physical development	-	-	-	-	-	33,047	33,047
Capital outlay	17,335	598	-	-	-	-	17,933
	<u>23,303</u>	<u>23,889</u>	<u>279,898</u>	<u>2,948,609</u>	<u>1,129,177</u>	<u>33,047</u>	<u>4,437,923</u>
Total expenditures							
Net change in fund balances	37,325	9,757	54,955	-	-	-	102,037
Fund balances, beginning of year	<u>30,963</u>	<u>59,393</u>	<u>352,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,470</u>
Fund balances, end of year	<u>\$ 68,288</u>	<u>\$ 69,150</u>	<u>\$ 407,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 544,507</u>

**Watauga County, North Carolina**  
 Federal Equitable Sharing Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restricted intergovernmental - Federal	\$	\$ 60,483	\$
Investment Earnings		145	
<b>Total revenues</b>	<u>10,975</u>	<u>60,628</u>	<u>49,653</u>
<b>Expenditures:</b>			
Public Safety		5,968	
Capital Outlay		17,335	
<b>Total expenditures</b>	<u>24,555</u>	<u>23,303</u>	<u>1,252</u>
Excess (deficiency) of revenues over expenditures	<u>(13,580)</u>	<u>37,325</u>	<u>50,905</u>
<b>Other financing sources (uses):</b>			
Appropriated fund balance	<u>13,580</u>	<u>-</u>	<u>(13,580)</u>
<b>Total Other Financing sources (uses):</b>	<u>13,580</u>	<u>-</u>	<u>(13,580)</u>
Net change in fund balance	<u>\$ -</u>	<u>37,325</u>	<u>\$ 37,325</u>
<b>Fund balance, beginning of year</b>		<u>30,963</u>	
<b>Fund balance, end of year</b>		<u>\$ 68,288</u>	

**Watauga County, North Carolina**  
 State Substance Abuse Tax Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restricted intergovernmental - State	\$	\$ 33,486	\$
Investment Earnings		160	
<b>Total revenues</b>	<u>20,000</u>	<u>33,646</u>	<u>13,646</u>
<b>Expenditures:</b>			
Public Safety		23,291	
Capital Outlay		598	
<b>Total expenditures</b>	<u>24,850</u>	<u>23,889</u>	<u>961</u>
Excess (deficiency) of revenues over expenditures	<u>(4,850)</u>	<u>9,757</u>	<u>14,607</u>
<b>Other financing sources (uses):</b>			
Appropriated fund balance	<u>4,850</u>	<u>-</u>	<u>(4,850)</u>
<b>Total Other Financing sources (uses):</b>	<u>4,850</u>	<u>-</u>	<u>(4,850)</u>
Net change in fund balance	<u>\$ -</u>	<u>9,757</u>	<u>\$ 9,757</u>
<b>Fund balance, beginning of year</b>		<u>59,393</u>	
<b>Fund balance, end of year</b>		<u>\$ 69,150</u>	

**Watauga County, North Carolina**  
 Emergency Telephone System Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$	\$ 333,953	\$
Investment earnings		900	
	<u>333,953</u>	<u>334,853</u>	<u>900</u>
<b>Total revenues</b>			
<b>Expenditures:</b>			
Public safety:			
Implementation services		68,904	
Training		4,304	
Hardware		50,105	
Software		90,209	
Telephones		66,376	
Furniture		-	
	<u>333,953</u>	<u>279,898</u>	<u>54,055</u>
<b>Total expenditures</b>			
Net change in fund balance	\$ <u><u>-</u></u>	54,955	\$ <u><u>54,955</u></u>
<b>Fund balance, beginning of year</b>		<u>352,114</u>	
<b>Fund balance, end of year</b>		\$ <u><u>407,069</u></u>	

**Watauga County, North Carolina**  
 Fire Districts Funds  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Ad valorem taxes	\$ _____	\$ 2,948,609	\$ _____
<b>Total revenues</b>	<u>2,979,889</u>	<u>2,948,609</u>	<u>(31,280)</u>
<b>Expenditures:</b>			
Public safety:			
Beaver Dam Fire Department		107,935	
Beech Mountain Fire Department		1,981	
Blowing Rock Fire Department		472,548	
Boone Fire Department		764,542	
Cove Creek Fire Department		248,621	
Creston Fire Department		6,345	
Deep Gap Fire Department		195,288	
Fall Creek Fire Department		9,243	
Foscoe Fire Department		534,280	
Meat Camp Fire Department		213,579	
Shawneehaw Fire Department		101,795	
Stewart Simmons Fire Department		112,568	
Todd Fire Department		63,281	
Zionville Fire Department		116,603	
<b>Total expenditures</b>	<u>2,979,889</u>	<u>2,948,609</u>	<u>31,280</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
<b>Fund balance, beginning of year</b>		<u>-</u>	
<b>Fund balance, end of year</b>		<u>\$ -</u>	

**Watauga County, North Carolina**  
Occupancy Tax Fund  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Other taxes and licenses	\$ _____	\$ 1,129,177	\$ _____
<b>Total revenues</b>	<u>1,129,177</u>	<u>1,129,177</u>	<u>-</u>
<b>Expenditures:</b>			
Tourism Development		1,107,885	
Administrative fee	_____	<u>21,292</u>	_____
<b>Total expenditures</b>	<u>1,129,177</u>	<u>1,129,177</u>	<u>-</u>
Net change in fund balance	\$ <u>          -</u>	-	\$ <u>          -</u>
<b>Fund balance, beginning of year</b>		_____	
<b>Fund balance, end of year</b>		\$ <u>          -</u>	

**Watauga County, North Carolina**  
 CDBG Scattered Site Housing Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>					
Restricted intergovernmental	\$ 225,000	\$ 51,302	\$ 33,047	\$ 84,349	\$ (140,651)
<b>Total revenues</b>	<u>225,000</u>	<u>51,302</u>	<u>33,047</u>	<u>84,349</u>	<u>(140,651)</u>
<b>Expenditures:</b>					
Residence rehabilitation	180,000	33,926	33,047	66,973	113,027
Local option/emergency	22,500	-	-	-	22,500
Grant administration	<u>22,500</u>	<u>17,376</u>	<u>-</u>	<u>17,376</u>	<u>5,124</u>
<b>Total expenditures</b>	<u>225,000</u>	<u>51,302</u>	<u>33,047</u>	<u>84,349</u>	<u>140,651</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund balance, beginning of year</b>			<u>-</u>		
<b>Fund balance, end of year</b>		\$	<u><u>-</u></u>		

**Watauga County, North Carolina**  
 Capital Projects Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Investment earnings	\$ <u>          -</u>	\$ <u>      16,001</u>	\$ <u>      16,001</u>
<b>Expenditures:</b>			
General government	<u>      2,394,595</u>	<u>                  -</u>	<u>      2,394,595</u>
Excess (deficiency) of revenues over expenditures	<u>      (2,394,595)</u>	<u>              16,001</u>	<u>      2,410,596</u>
<b>Other Financing Sources (Uses):</b>			
Transfer from other funds	2,394,595	2,394,595	-
Transfer to other funds	(1,367,730)	(1,367,730)	-
Appropriated fund balance	<u>      1,367,730</u>	<u>                  -</u>	<u>      (1,367,730)</u>
Total other financing sources	<u>      2,394,595</u>	<u>      1,026,865</u>	<u>      (1,367,730)</u>
Net change in fund balance	\$ <u>                  -</u>	1,042,866	\$ <u>      1,042,866</u>
<b>Fund balance, beginning of year</b>		<u>      5,842,981</u>	
<b>Fund balance, end of year</b>		\$ <u>      6,885,847</u>	

**Watauga County, North Carolina**  
Solid Waste Fund  
Statement of Revenues and Expenditures Budget and Actual (NON-GAAP)  
For the Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Operating revenues:			
Landfill charges	\$	\$ 4,346,485	\$
Total	<u>3,670,543</u>	<u>4,346,485</u>	<u>675,942</u>
Non-operating revenues:			
Miscellaneous revenue		11,380	
Investment earnings		10,784	
Restricted intergovernmental revenues		113,697	
Total	<u>107,500</u>	<u>135,861</u>	<u>28,361</u>
Total revenues	<u>3,778,043</u>	<u>4,482,346</u>	<u>704,303</u>
<b>Expenditures:</b>			
Landfill operations:			
Salaries and employee benefits		1,269,947	
Other operating expenditures		2,486,204	
Total landfill operations	<u>4,034,354</u>	<u>3,756,151</u>	<u>278,203</u>
Recycling operations:			
Salaries and employee benefits		43,882	
Other operating expenses		20,423	
Total recycling operations	<u>89,361</u>	<u>64,305</u>	<u>25,056</u>
Budgetary appropriations:			
Capital outlays		1,750	
Total budgetary appropriations	<u>70,880</u>	<u>1,750</u>	<u>69,130</u>
Total expenditures	<u>4,194,595</u>	<u>3,822,206</u>	<u>372,389</u>
Revenues under/(over) expenditures	<u>(416,552)</u>	<u>660,140</u>	<u>1,076,692</u>
<b>Other financing sources (uses):</b>			
Transfers to general fund for debt payment	(40,392)	(40,392)	
Appropriated fund balance	456,944	-	
Total other financing sources (uses)	<u>416,552</u>	<u>(40,392)</u>	<u>(456,944)</u>
Revenues over expenditures and other sources (uses)	\$ <u>-</u>	619,748	\$ <u>619,748</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Pension expense		(5,600)	
Contributions made to the pension plan in the current fiscal year		64,660	
Increase in intangible asset for advance funding of OPEB NOO		14,296	
Capital outlays		1,750	
Depreciation		(340,934)	
Decrease in accrued compensated absences		6,701	
Total reconciling items		<u>(259,127)</u>	
Change in net position		\$ <u>360,621</u>	

**Watauga County, North Carolina**  
Combining Statement of Fiduciary Net Position  
Pension Trust Funds  
For the Year Ended June 30, 2015

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 247,833	\$ 762,037	\$ 1,009,870
Accounts receivable	-	1,159	1,159
	<u>\$ 247,833</u>	<u>\$ 763,196</u>	<u>\$ 1,011,029</u>
<b>Liabilities and Net Position</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net position:			
Assets held in trust for pension benefits	<u>\$ 247,833</u>	<u>\$ 763,196</u>	<u>\$ 1,011,029</u>

**Watauga County, North Carolina**  
Combining Statement of Changes in Fiduciary Net Position  
Pension Trust Funds  
For the Year Ended June 30, 2015

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
<b>Additions:</b>			
Employer contributions	\$ 57,675	\$ 230,450	\$ 288,125
Interest	<u>578</u>	<u>5,609</u>	<u>6,187</u>
Total additions	<u>58,253</u>	<u>236,059</u>	<u>294,312</u>
<b>Deductions:</b>			
Benefits	34,438	141,600	176,038
Administrative expense	<u>237</u>	<u>-</u>	<u>237</u>
Total deductions	<u>34,675</u>	<u>141,600</u>	<u>176,275</u>
Change in net position	23,578	94,459	118,037
Net position, beginning	<u>224,255</u>	<u>668,737</u>	<u>892,992</u>
Net position, ending	<u>\$ 247,833</u>	<u>\$ 763,196</u>	<u>\$ 1,011,029</u>

**Watauga County, North Carolina**  
 Agency Funds  
 Combining Statement of Changes in Assets and Liabilities  
 For the Year Ended June 30, 2015

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>Social Services:</b>				
Assets:	\$ 18,477	\$ 233,492	\$ 208,879	\$ 43,090
Liabilities:	\$ 18,477	\$ 233,492	\$ 208,879	\$ 43,090
<b>Vehicle Tax-Towns:</b>				
Assets:	\$ 976	\$ 127,065	\$ 127,991	\$ 50
Liabilities:	\$ 976	\$ 127,065	\$ 127,991	\$ 50
<b>Town of Boone Ad valorem Taxes:</b>				
Assets:	\$ 176,071	\$ 6,088,571	\$ 6,262,546	\$ 2,096
Liabilities:	\$ 176,071	\$ 6,088,571	\$ 6,262,546	\$ 2,096
<b>Inmate Commissary:</b>				
Assets:	\$ 34,577	\$ 168,471	\$ 183,589	\$ 19,459
Liabilities:	\$ 34,577	\$ 168,471	\$ 183,589	\$ 19,459
<b>Fines and Forfeitures:</b>				
Assets:	\$ 24,765	\$ 251,399	\$ 256,332	\$ 19,832
Liabilities:	\$ 24,765	\$ 251,399	\$ 256,332	\$ 19,832
<b>Deed of Trust Fee Fund:</b>				
Assets:	\$ 3,869	\$ 45,626	\$ 45,043	\$ 4,452
Liabilities:	\$ 3,869	\$ 45,626	\$ 45,043	\$ 4,452
<b>Total - All Agency Funds</b>				
Assets:	\$ 258,735	\$ 6,914,624	\$ 7,084,380	\$ 88,979
Liabilities:	\$ 258,735	\$ 6,914,624	\$ 7,084,380	\$ 88,979

**Watauga County, North Carolina**  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2015

<u>Fiscal year:</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014 - 2015	\$ -	\$ 27,610,405	\$ 27,159,975	\$ 450,430
2013 - 2014	563,863	-	322,818	241,045
2012 - 2013	268,562	-	108,326	160,236
2011 - 2012	178,012	-	63,410	114,602
2010 - 2011	127,754	-	40,470	87,284
2009 - 2010	88,779	-	28,047	60,732
2008 - 2009	67,550	-	12,301	55,249
2007 - 2008	56,113	-	10,002	46,111
2006 - 2007	50,723	-	8,431	42,292
2005 - 2006	43,951	-	5,623	38,328
2004 - 2005	31,462	-	31,462	-
	<u>\$ 1,476,769</u>	<u>\$ 27,610,405</u>	<u>\$ 27,790,865</u>	<u>1,296,309</u>
Less: Allowance for uncollectible accounts General Fund				<u>(394,440)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 901,869</u>

**Reconciliation with revenues:**

Ad valorem taxes - General Fund		\$ 27,939,146
Reconciling items:		
Advertising and interest collected	(192,061)	
Taxes written off	29,968	
Prior year releases	<u>13,812</u>	
Total reconciling items		<u>(148,281)</u>
Total collections and credits		<u>\$ 27,790,865</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-wide Levy  
 For the Year Ended June 30, 2015

	Property Valuation	Rate	Amount of Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original levy:</b>					
Property taxed at current year's rate	\$ 8,359,807,205	\$ 0.313	\$ 26,166,221	\$ 26,166,221	\$ -
Motor vehicles	382,648,937	0.313	1,197,691	-	1,197,691
Penalties	-		2,545	2,545	-
Total	<u>8,742,456,142</u>		<u>27,366,457</u>	<u>26,168,766</u>	<u>1,197,691</u>
<b>Discoveries:</b>					
Property taxed at current year's rate	169,930,760	0.313	531,884	531,884	-
Penalties	-		2,313	2,313	-
Total	<u>169,930,760</u>		<u>534,197</u>	<u>534,197</u>	<u>-</u>
<b>Abatements:</b>	<u>(92,731,176)</u>		<u>(290,249)</u>	<u>(289,796)</u>	<u>(453)</u>
Total property valuation	\$ <u>8,819,655,726</u>				
<b>Net levy</b>			27,610,405	26,413,167	1,197,238
<b>Uncollected taxes at June 30, 2015</b>			<u>450,430</u>	<u>445,203</u>	<u>5,227</u>
<b>Current year's taxes collected</b>			\$ <u>27,159,975</u>	\$ <u>25,967,964</u>	\$ <u>1,192,011</u>
<b>Current levy collection percentage</b>			<u>98.37%</u>	<u>98.31%</u>	<u>99.56%</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-wide Levy  
 For the Year Ended June 30, 2015

**Secondary Market Disclosures:**

Assessed Valuation:		
Assessment Ratio		100%
Real Property	\$ 8,569,132,383	
Personal Property	170,584,443	
Public Service Companies	<u>79,938,900</u>	
Total Assessed Valuation	\$ 8,819,655,726	
Tax Rate per \$100		0.313
Net Levy (Includes penalties, discoveries, releases and abatements)	\$ <u><u>27,610,405</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, 2015:

Fire Protection District	Tax Rate per \$100	Net Levy
Beech Mountain Rural	0.05	\$ 1,866
Blowing Rock	0.05	462,786
Boone Rural	0.05	756,736
Cove Creek	0.05	241,738
Cove Creek Rural	0.05	324
Deep Gap	0.05	192,109
Foscoe	0.05	460,421
Foscoe Rural	0.05	70,351
Meat Camp	0.05	217,803
Northwest Watauga	0.05	115,563
Shawneehaw	0.05	95,915
Shawneehaw Rural	0.05	6,019
Stewart Simmons	0.05	111,954
Todd	0.07	63,155
Zionville	0.05	<u>116,324</u>
<b>Total Net Fire Protection District Levies</b>		<b>\$ <u><u>2,913,064</u></u></b>

**Watauga County, North Carolina**  
 Ten Largest Taxpayers  
 For the Year Ended June 30, 2015

Taxpayer	Type of Business	2014 Assessed Valuation	Percentage of Total Assessed Valuation	
Blue Ridge Electric Membership Coop	Electric Utility	\$ 62,248,100	0.71	%
CCC Boone LLC	Rental Properties	46,046,380	0.52	
Mountaineer Village LLC	Rental Properties	23,537,200	0.27	
Dugger Valley Inv Group LLC	Real Estate Development	23,457,000	0.27	
BR Development Group LLC	Real Estate Development	21,440,300	0.24	
Horizon Acquisition #2 LLC	Rental Properties	17,906,700	0.20	
Blue Ridge Preservation Inc	Real Estate Development	17,355,900	0.20	
Templeton Properties LP	Commercial Rental Properties	15,001,360	0.17	
CNL Blowing Rock I LLC	Real Estate Development	14,667,700	0.17	
Wm Land Boone LTD Ptnrp	Real Estate Development	13,689,900	0.16	
		<u>\$ 255,350,540</u>	<u>2.91</u>	<u>%</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 Fire Districts  
 For the Year Ended June 30, 2015

	<u>Northwest Watauga Fire District</u>	<u>Beech Mtn. Rural Fire Service District</u>	<u>Blowing Rock Rural Fire District</u>	<u>Boone Rural Fire District</u>	<u>Cove Creek Fire District</u>	<u>Cove Creek Rural Fire Service District</u>	<u>Deep Gap Fire District</u>	<u>Foscoe Fire District</u>
<b>Tax rate</b>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
<b>Net levy</b>	\$ 115,563	\$ 1,866	\$ 462,786	\$ 756,736	\$ 241,738	\$ 324	\$ 192,109	\$ 460,421
<b>Uncollected taxes at June 30, 2015</b>	<u>3,135</u>	<u>2</u>	<u>7,631</u>	<u>13,870</u>	<u>5,506</u>	<u>-</u>	<u>5,409</u>	<u>6,032</u>
<b>Current year's taxes collected</b>	\$ <u>112,428</u>	\$ <u>1,864</u>	\$ <u>455,155</u>	\$ <u>742,866</u>	\$ <u>236,232</u>	\$ <u>324</u>	\$ <u>186,700</u>	\$ <u>454,389</u>
<b>Current levy collection percentage</b>	<u>97.29%</u>	<u>99.89%</u>	<u>98.35%</u>	<u>98.17%</u>	<u>97.72%</u>	<u>100.00%</u>	<u>97.18%</u>	<u>98.69%</u>
	<u>Foscoe Rural Fire Service District</u>	<u>Meat Camp Fire District</u>	<u>Shawnheehaw Fire District</u>	<u>Shawnheehaw Rural Fire Service District</u>	<u>Stewart Simmons Fire District</u>	<u>Todd Fire District</u>	<u>Zionville Fire District</u>	
<b>Tax rate</b>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.07</u>	<u>0.05</u>	
<b>Net levy</b>	\$ 70,351	\$ 217,803	\$ 95,915	\$ 6,019	\$ 111,954	\$ 63,155	\$ 116,324	
<b>Uncollected taxes at June 30, 2015</b>	<u>780</u>	<u>7,682</u>	<u>2,044</u>	<u>355</u>	<u>2,057</u>	<u>1,209</u>	<u>3,855</u>	
<b>Current year's taxes collected</b>	\$ <u>69,571</u>	\$ <u>210,121</u>	\$ <u>93,871</u>	\$ <u>5,664</u>	\$ <u>109,897</u>	\$ <u>61,946</u>	\$ <u>112,469</u>	
<b>Current levy collection percentage</b>	<u>98.89%</u>	<u>96.47%</u>	<u>97.87%</u>	<u>94.10%</u>	<u>98.16%</u>	<u>98.09%</u>	<u>96.69%</u>	

## COMPLIANCE SECTION

**MISTY D WATSON, CPA, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**PO BOX 2122**  
**BOONE, NORTH CAROLINA 28607**  
**TELEPHONE (828) 263-1100**

**Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On  
An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

To the Board of Commissioners  
Watauga County, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate 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, 2015, and the related notes to the financial statements, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated September 30, 2015. Our report includes a reference to other auditors who audited the financial statements of AppalCART, as described in our report on the County's financial statements. This report does not include the results of other auditors testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Watauga County District U Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watauga County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watauga County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

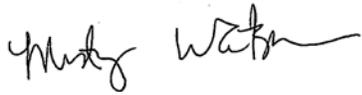
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watauga County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Misty D Watson, CPA, P.A.

Boone, NC

September 30, 2015

**MISTY D WATSON, CPA, P.A.  
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TELEPHONE (828) 263-1100**

**Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act**

**Independent Auditor's Report**

To the Board of Commissioners  
Watauga County, North Carolina

**Report on Compliance for Each Major Federal Program**

We have audited Watauga County, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County's major federal programs for the year ended June 30, 2015. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Watauga County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Watauga County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2. Our opinion on each major federal program is not modified with respect to these matters.

Watauga County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Watauga County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

### **Report on Internal Control Over Compliance**

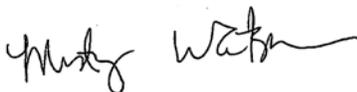
Management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2-that we consider to be significant deficiencies.

Watauga County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Watauga County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Misty D Watson, CPA, P.A.

Boone, NC  
September 30, 2015

**MISTY D WATSON, CPA, P.A.  
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PO BOX 2122  
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TELEPHONE (828) 263-1100**

**Report On Compliance For Each Major State Program; Report on Internal Control Over  
Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation  
Act**

**Independent Auditor's Report**

To the Board of Commissioners  
Watauga County, North Carolina

**Report on Compliance for Each Major State Program**

We have audited the Watauga County, North Carolina compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Watauga County's major state programs for the year ended June 30, 2015. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Watauga County's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, 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 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 on compliance for each major state program. However, our audit does not provide a legal determination of Watauga County's compliance.

**Opinion on Each Major State Program**

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

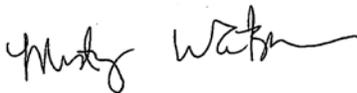
Management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion

on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Misty Watson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Misty D Watson, CPA, P.A.

Boone, NC  
September 30, 2015

**WATAUGA COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2015

**I. Summary of Auditor's Results**

**Financial Statements**

Internal control over financial reporting:

Material weakness identified?  Yes  No

Significant deficiency identified that is not considered to be material weaknesses  Yes  None reported

Noncompliance material to financial statements noted  Yes  No

Type of auditor's report issued: Unmodified

**Federal Awards**

Internal control over major Federal programs:

Material weakness identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  No

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133  Yes  No

Identification of major Federal programs:

**Program Name**

**CFDA#**

Title XIX Medicaid	93.778
Subsidized Childcare Cluster	93.596 93.575 93.558 93.658

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 799,669

Auditee qualified as low-risk auditee  Yes  No

**State Awards**

Internal control over major State programs:

Material weakness identified?  Yes  No

Significant deficiency identified that is not considered to be material weaknesses  Yes  None reported

**WATAUGA COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2015

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act \_\_\_\_\_ Yes      X   No

Identification of major State programs:

     Title XIX Medicaid

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**II. Financial Statement Findings**

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None reported.

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**III. Federal Award Findings and Questioned Costs**

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**FINDING 2015-1**

US DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Passed Through the NC Department of Health and Human Services  
Program Name:   Subsidized Child Care Cluster

CFDA #'s:           93.596, 93.575, 93.558, 93.658

Significant Deficiency

Allowable Cost  
Criteria:

Parent fees and the portion paid by the County should be determined and recorded accurately at initial application and at annual determinations. Income used to arrive at parent fees shall be confirmed and client files should include documentation of this requirement.

Condition:           Two participants paid an incorrect amount for parent fees.

Questioned Costs:   \$31 per month

Context:             There were 25 participant files tested; we noted two instances where parent fees were calculated incorrectly.

Effect:               Parents' fees were calculated higher than should have been.

Recommendation:   Personnel responsible for fee determination and file documentation should accurately record fees at initial determination and annual determination. Supervisory personnel should implement specific periodic review procedures to ensure accurate recording of correct fees and income.

Views of Responsible  
Officials and Planned

Corrective Actions:   The County agrees with the finding and will implement adequate checks and balances to ensure this problem does not recur.

**WATAUGA COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2015

**FINDING 2015-2**

US DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through the NC Department of Health and Human Services

Program Name: Subsidized Child Care Cluster

CFDA #'s: 93.596, 93.575, 93.558, 93.658

Significant Deficiency

Allowable Cost

Criteria:

Parent fees and the portion paid by the County should be determined and recorded accurately at initial application and at annual determinations. Income used to arrive at parent fees shall be confirmed and client files should include documentation of this requirement.

Condition: One participant's annual determination had not been updated on the Child Care Turnaround Worksheet.

Questioned Costs: \$860

Context: There were 25 participant files tested; we noted one instance where parent fees were not updated and the incorrect amount was being paid to the daycare provider.

Effect: The daycare provider was overpaid from February 2015 to June 2015 from the County through subsidy reimbursement.

Recommendation: Personnel responsible for fee determination and file documentation should accurately update the annual determination. Supervisory personnel should implement specific periodic review procedures to ensure accurate recording of correct fees.

Views of Responsible

Officials and Planned

Corrective Actions: The County agrees with the finding and will implement adequate checks and balances to ensure this problem does not recur.

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**IV. State Award Findings and Questioned Costs**

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None reported.

**WATAUGA COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2015  
Corrective Action Plan

**Finding 2015-1**

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director  
Elaine Norris, Human Services Coordinator

Corrective Action: The DSS Director will review the case files with errors with the Human Services Coordinator to ensure clear understanding of findings. The Coordinator will conduct periodic reviews on a selection of case files to ensure compliance and accuracy. Staff will meet on a periodic basis to review procedures. All calculations will be performed twice to reduce calculation errors.

Proposed Completion Date: November 1, 2015

**Finding 2015-2**

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director  
Elaine Norris, Human Services Coordinator

Corrective Action: The DSS Director will review the case files with errors with the Human Services Coordinator to ensure clear understanding of findings. The Coordinator will conduct periodic reviews on a selection of case files to ensure all updates to child care providers are processed in a timely basis.

Proposed Completion Date: November 1, 2015

**WATAUGA COUNTY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
For the Year Ended June 30, 2015

**Finding 2011**

Status: No findings that would have been reported under the criteria provided in the revised circular.

**Finding 2012**

Status: No findings that would have been reported under the criteria provided in the revised circular.

**Finding 2013**

Status: No findings that would have been reported under the criteria provided in the revised circular.

**Finding 2014**

Status: No findings that would have been reported under the criteria provided in the revised circular.

**Watauga County, North Carolina**  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Federal Awards:</b>					
<b>U.S. Dept. of Agriculture</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		\$ 216,817	\$ -	\$ 216,817
<b>Total U.S. Dept. of Agriculture</b>			<u>216,817</u>	<u>-</u>	<u>216,817</u>
<b>U.S. Dept. of Housing and Urban Development</b>					
Passed-through the N.C. Dept. of Commerce:					
Community Development Block Grant	14.228	12-C-2431	33,047	-	-
<b>Total U.S. Dept. of Housing and Urban Development</b>			<u>33,047</u>	<u>-</u>	<u>-</u>
<b>U.S. Dept. of Homeland Security</b>					
Passed-through the N.C. Dept. of Public Safety:					
Homeland Security Training Grant	20.703		10,000	-	-
Emergency Management Performance Grant	98.042		38,220	-	38,220
<b>Total U.S. Dept. of Homeland Security</b>			<u>48,220</u>	<u>-</u>	<u>38,220</u>
<b>U.S. Dept. of Justice</b>					
State Criminal Alien Assistance Program	16.606		4,812	-	-
Operation No Foolin'			1,770	-	-
Bulletproof Vest Partnership Program	16.607		4,618	-	4,618
Drug Court Discretionary Grant	16.585		13,044	-	4,347
<b>Total U.S. Dept. of Justice</b>			<u>24,244</u>	<u>-</u>	<u>8,965</u>
<b>U.S. Dept. of Transportation</b>					
Passed-through the N.C. Dept. of Transportation:					
Federal Aid Highway Grants	20.205		334,770	108,693	5,271
<b>U.S. Dept. of Health &amp; Human Services</b>					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments:					
Home and Community Care Block Grant (HCCBG) -					
Special Programs for the Aging - Title III B - Access Services	93.044		28,268	1,668	3,326
90% State Funds			-	122,233	13,582
Special Programs for the Aging - Title III C - Congregate Meals	93.045		41,029	2,413	4,827
Special Programs for the Aging - Title III C - Home Delivered Meals	93.045		42,901	2,524	5,047
Senior Center			-	15,573	5,191
Nutrition Program for the Elderly (NSIP)	93.053		26,186	-	-
Total Aging Cluster			<u>138,384</u>	<u>144,411</u>	<u>31,973</u>
Passed-through High Country Council of Governments:					
Social Services Block Grant (SSBG)	93.667		10,237	293	1,170
Passed-through N.C. Dept. of Insurance:					
Seniors Health Insurance Information Program	93.779		3,051	-	-
Medicare Improvements for Patients and Providers Act	93.779		1,773	-	-
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Family Preservation	93.556		11,615	-	-
Temporary Assistance for Needy Families					
Administration	93.558		39,950	-	42,923
Direct Benefit Payments	93.558		231,383	-	176,012
Child Support Enforcement	93.563		194,420	-	100,156

**Watauga County, North Carolina**  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Low-Income Home Energy Assistance Block Grant					
Administration	93.568		32,531	-	-
Direct Benefit Payments	93.568		81,044	-	-
Crisis Intervention Payments	93.568		162,960	-	-
Permanency Planning	93.645		13,605	-	4,535
Title IV-E Foster Care	93.658		120,384	22,488	97,160
Foster Care - Direct Benefit Payments	93.658		292,825	75,055	78,211
Adoption Assistance - Direct Benefit Payments	93.659		148,569	38,516	38,516
Social Services Block Grant	93.667		150,881	13,534	52,652
Adoption/Foster Care Special Provision	93.658		10,883	-	21
Total Division of Social Services			1,491,050	149,593	590,186
Subsidized Child Care					
Child Care Development Fund Cluster					
Division of Social Services					
Child Care Development Fund - Administration	93.596		80,000	-	-
Child Care and Development Fund - Discretionary	93.575		207,043	-	-
Child Care and Development Fund - Mandatory	93.596		92,852	-	-
Child Care and Development Fund - Match	93.596		218,277	100,399	-
Total Child Care Development Fund Cluster			598,172	100,399	-
Temporary Assistance for Needy Families (TANF)	93.558		72,421	-	-
Foster Care Title IV-E	93.658		5,478	2,837	-
Smart Start State Maintenance of Effort			-	124,521	-
TANF - Contingency	93.575		58,157	-	-
TANF - Maintenance of Effort			-	3,630	-
Total Subsidized Child Care (Note 3)			734,228	231,387	-
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		22,242,658	12,080,893	119,355
State Children's Insurance Program - NC Health Choice	93.767		591,090	186,732	-
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		741,344	1,482	289,119
Health Choice	93.767		14,508	1,251	3,304
Links	93.674		30,211	2,983	-
Total Division of Medical Assistance			23,619,811	12,273,341	411,778
<b>Total U.S. Department of Health &amp; Human Services</b>			25,998,534	12,799,025	1,035,107
<b>Total Federal Awards</b>			26,655,632	12,907,718	1,304,380
<b>State Awards:</b>					
<b>N.C. Dept. of Health and Human Services</b>					
Division of Social Services					
Adoption Subsidy			-	80,401	26,800
State/County Special Assistance for Adults			-	241,036	241,036
State Foster Care Benefits Program			-	148,600	128,106
<b>Total N.C. Dept. of Health and Human Services</b>			-	470,037	395,942
<b>N.C. Dept. of Public Safety</b>					
Division of Emergency Management					
Tier II Planning				1,104	-
Division of Administration, Community Programs					
Juvenile Crime Prevention Council Programs			-	111,027	33,070
<b>Total N.C. Dept. of Public Safety</b>			-	112,131	33,070

**Watauga County, North Carolina**  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>N.C. Dept. of Public Instruction</b>					
NC Public School Building Capital-Lottery Proceeds			-	195,544	-
NC Public School Building Capital-ADM			-	16,086	5,362
Public School National Forest Service			-	567	-
<b>Total N.C. Dept. of Public Instruction</b>			<u>-</u>	<u>212,197</u>	<u>5,362</u>
<b>N.C. Dept. of Transportation</b>					
Workfirst/Employment Transportation Operating Assistance			-	10,197	-
Elderly and Disabled Transportation Assistance			-	54,078	-
Rural General Public Program			-	54,745	6,083
<b>Total N.C. Dept. of Transportation</b>			<u>-</u>	<u>119,020</u>	<u>6,083</u>
<b>N.C. Dept. of Agriculture and Consumer Services</b>					
Spay and Neuter Program			-	1,965	-
Farmland Preservation			-	10,982	-
Soil Conservation Assistance			-	3,600	71,948
Soil Conservation Technician Cost Sharing			-	24,078	24,078
<b>Total N.C. Dept. of Agriculture</b>			<u>-</u>	<u>40,625</u>	<u>96,026</u>
<b>N.C. Dept. of Environment, Health, and Natural Resources</b>					
Division of Environmental Assistance and Customer Service					
Community Waste Reduction and Recycling			-	4,000	849
<b>Total N.C. Dept. of Environment, Health, and Natural Resources</b>			<u>-</u>	<u>4,000</u>	<u>849</u>
<b>Total State Awards</b>			<u>-</u>	<u>958,010</u>	<u>537,332</u>
<b>Total Federal and State Awards</b>			<u>\$ 26,655,632</u>	<u>13,865,728</u>	<u>1,841,712</u>

**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 or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the County's basic financial statements. However, due to the County's involvement in determining eligibility, they are considered Federal awards to the County and are included on this schedule.

2. 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
Juvenile Crime Prevention Council Programs		\$ -	\$ 111,027
NC Public School Building Capital-Lottery Proceeds		-	195,544
NC Public School Building Capital-ADM		-	16,086
Spay and Neuter Program		-	1,965

3. The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes:  
Subsidized Child Care