



**WATAUGA COUNTY, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**BRYCE HOLDER, CPA, P.A.**  
CERTIFIED PUBLIC ACCOUNTANT  
BOONE, NORTH CAROLINA 28607



# WATAUGA COUNTY, NORTH CAROLINA

## BOARD OF COUNTY COMMISSIONERS

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Vincent Gable, Vice Chairman

James Deal

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Tim Futrelle

## COUNTY OFFICIALS

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Margaret Pierce

Finance Director

Stacy C. Eggers, IV

County Attorney

JoAnn Townsend

Register of Deeds

Kelvin Byrd

Tax Administrator

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## FINANCIAL SECTION

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## Independent Auditor's Report

To the Board of County Commissioners  
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watauga County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the AppalCART or the Watauga County District U Tourism Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the AppalCART and the Watauga County District U Tourism Development Authority is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of Watauga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Law Enforcement Officers' Special Separation Allowance and Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages i through viii and 40 thru 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watauga County basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of federal and state awards is presented as for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules, and the accompanying schedule of federal and State awards have 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. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and State awards are stated in all material respects in relation to the basic financial statements as a whole.

*Bryce Holder, CPA, PA*

November 5, 2012



## Watauga County

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Year Ended June 30, 2012

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, 2012. We encourage readers 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 \$114,159,071.
- The County's total net assets increased by \$3,352,145 primarily due to an increase in revenues and expenditures less than budgeted amounts, along with the refinance of the high school debt.
- The County's unassigned fund balance for the general fund was \$13,483,680 at the end of the year, representing 28.54% of total General Fund expenditures net of the refinancing loan payoffs of \$60,251,201. This is an increase of \$1,603,324 in unassigned fund balance over the previous year. The loan payoffs were not included in percentage calculations as they were onetime refinance expenditures and inclusion would give a distorted view of the percentage.
- Watauga County refinanced loans related to the construction of the new high school at an average annual saving of \$170,000 and overall savings in excess of \$2.9 million on the full term of the loans.
- As part of the loan refinance, Moody's Investors Services, Inc. and Standard & Poor's Ratings Services assigned independent ratings of "Aa3" and "AA-", respectively, to the Series 2012A limited obligation bonds sold. These ratings are indicative of the strong financial health of the County.

### Overview of the Financial Statements

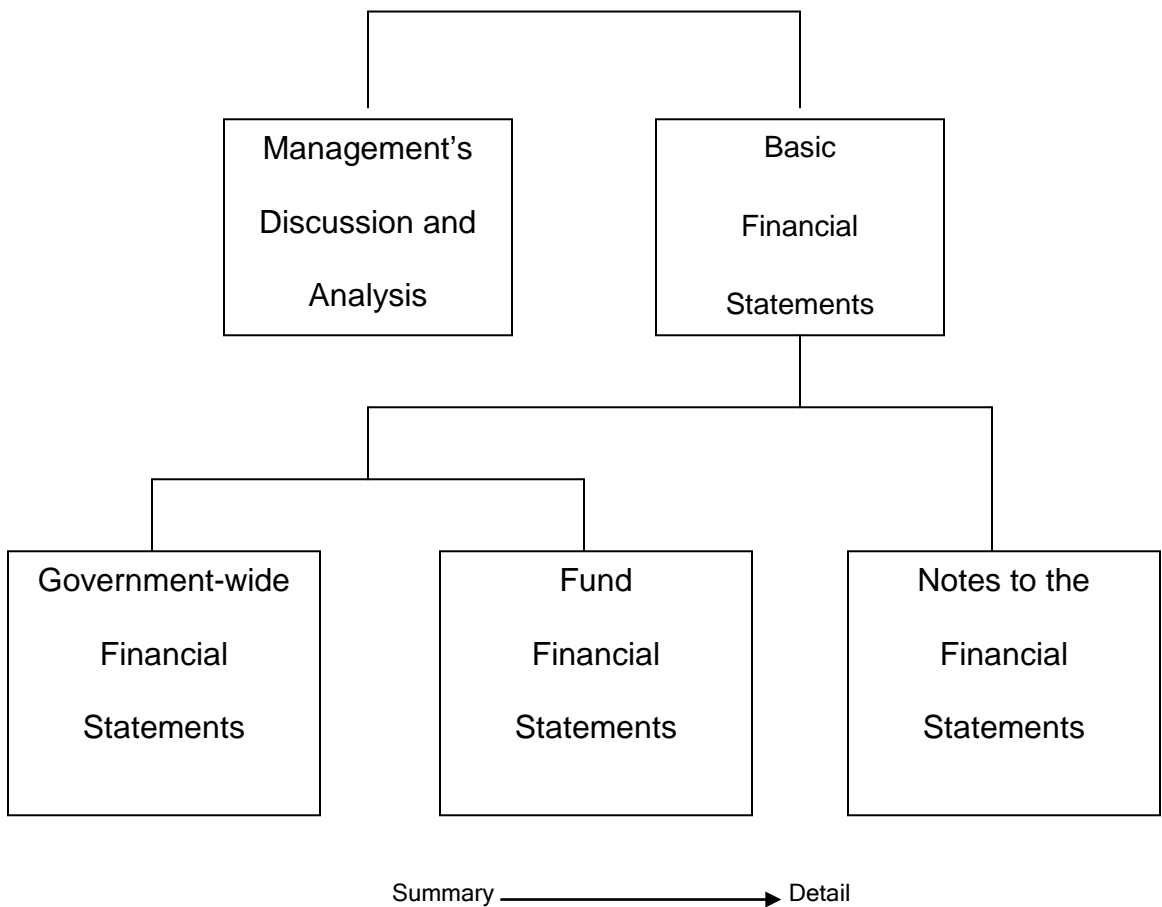
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This discussion and analysis is intended to serve as an introduction to Watauga County's basic financial statements. The County's basic financial statements consist of three components, 1) government-wide financial statements, 2) fund financial statements, 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 **required supplemental information**. This section contains funding information about the County's pension plan and the other postemployment benefits plan.

After the required supplemental information, **supplemental information** is provided to show details about the County's non-major governmental 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 assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to 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 seven-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 government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the final budget as amended by the board, 2) the actual resources, charges to appropriations, and ending balances in the General Fund, and 3) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** - Watauga County has one proprietary 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 Assets 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 nine fiduciary funds, two of which are pension trust funds and the other seven are agency funds.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 13 of this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information can be found beginning on page 40 of this report.

Government-Wide Financial Analysis

**Watauga County's Net Assets**  
**Figure 2**

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 28,563,130	30,558,927	3,763,548	3,440,674	32,326,678	33,999,601
Capital assets	<u>148,003,342</u>	<u>148,671,293</u>	<u>5,341,586</u>	<u>5,320,180</u>	<u>153,344,928</u>	<u>153,991,473</u>
Total asset	<u>176,566,472</u>	<u>179,230,220</u>	<u>9,105,134</u>	<u>8,760,854</u>	<u>185,671,606</u>	<u>187,991,074</u>
Long-term liabilities, outstanding	59,057,764	69,011,109	108,488	166,948	59,166,252	69,178,057
Other liabilities	<u>11,975,382</u>	<u>7,635,494</u>	<u>370,901</u>	<u>370,597</u>	<u>12,346,283</u>	<u>8,006,091</u>
Total liabilities	<u>71,033,146</u>	<u>76,646,603</u>	<u>479,389</u>	<u>537,545</u>	<u>71,512,535</u>	<u>77,184,148</u>
Net assets:						
Invested in capital assets, net of related debt	89,000,011	80,730,959	5,272,997	5,184,890	94,273,008	85,915,849
Restricted	3,492,687	4,894,785	-	-	3,492,687	4,894,785
Unrestricted	<u>13,040,628</u>	<u>16,957,873</u>	<u>3,352,748</u>	<u>3,038,419</u>	<u>16,393,376</u>	<u>19,996,292</u>
Total net assets	\$ <u>105,533,326</u>	<u>102,583,617</u>	<u>8,625,745</u>	<u>8,223,309</u>	<u>114,159,071</u>	<u>110,806,926</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$114,159,071 at June 30, 2012. The County's net assets increased by \$3,352,145 for the fiscal year ended June 30, 2012. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$94,273,008, Restricted net assets of \$3,492,687 and Unrestricted net assets of \$16,393,376.

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2012, the increase in this category of net assets is due to current year debt reductions with the loan refinance causing a significant increase in net investment in capital assets.

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

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

Several particular aspects of the County's financial operations affected the reporting of total unrestricted net assets:

- Refinance of the high school debt into limited obligation bonds at a premium created a liability in the government-wide statements of over \$5 million and a reduction in unrestricted net assets with a corresponding increase in capital asset net of related debt
- Continued diligent management of the operational budget expenditures and use of grant revenues as available

**Watauga County Changes in Net Assets  
Figure 3**

	Government Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	1,229,275	1,325,776	4,047,422	4,359,122	5,276,697	5,684,898
Operating grants and contributions	5,000,932	5,149,321	156,484	116,621	5,157,416	5,265,942
Capital grants	382,903	2,610,110	-	-	382,903	2,610,110
General revenues:						
Property taxes	30,571,565	30,432,819	-	-	30,571,565	30,432,819
Other taxes	12,564,370	11,040,295	-	-	12,564,370	11,040,295
Grant and contributions not restricted to specific programs	22,986	22,719	-	-	22,986	22,719
Donations	-	-	-	-	-	-
Other	549,970	648,118	71,921	39,905	621,891	688,023
Total revenues	50,322,001	51,229,158	4,275,827	4,515,648	54,597,828	55,744,806
Expenses:						
General government	9,080,312	13,637,404	-	-	9,080,312	13,637,404
Public safety	11,511,254	10,718,270	-	-	11,511,254	10,718,270
Economic and physical development	898,594	1,595,618	-	-	898,594	1,595,618
Environment protection	366,422	251,799	-	-	366,422	251,799
Humans services	7,602,785	7,432,718	-	-	7,602,785	7,432,718
Cultural and recreation	1,612,304	1,199,593	-	-	1,612,304	1,199,593
Education	13,238,159	13,082,464	-	-	13,238,159	13,082,464
Interest on long-term debt	2,663,252	2,767,163	-	-	2,663,252	2,767,163
Solid Waste	-	-	3,812,981	3,882,603	3,812,981	3,882,603
Total expenses	46,973,082	50,685,029	3,812,981	3,882,603	50,786,063	54,567,632
Increase (decrease) in net assets before transfers and special items	3,348,919	544,129	462,846	633,045	3,811,765	1,177,174
Transfers	60,410	67,535	(60,410)	(67,535)	-	-
Special item, transfer to schools	-	-	-	-	-	-
Increase (decrease) in net assets	3,409,329	611,664	402,436	565,510	3,811,765	1,177,174
Net assets, July 1	102,583,617	101,971,953	8,223,309	7,657,799	110,806,926	109,629,752
Prior period adjustments	(459,620)	-	-	-	(459,620)	-
Net assets, June 30	105,533,326	102,583,617	8,625,745	8,223,309	114,159,071	110,806,926

**Governmental activities:** Governmental activities increased the County's net assets by \$3,409,329 thereby accounting for 89.44% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Increased gross collections of property tax revenue above budgeted amounts, proven by the County increasing the tax collection percentage to 97.75%, which is above to the 2011 statewide average of 97.19% and well above the average collection percentage of 96.08% for counties with populations of 50,000 to 99,999.
- Decrease in expenditures due to frozen positions and diligent budget management.

**Business-type activities:** Business-type activities increased Watauga County's net assets by \$402,436. Key elements of this increase are as follows:

- Decrease in operating expenditures primarily due to reduction in waste removal expenses
- Increase in revenue from solid waste operations due to enhanced recycling activities
- Increase in revenue from sale of fixed assets surplussed and sold during the year

**Financial Analysis of the County's Funds**

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

**Governmental Funds** - The focus of Watauga County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Funds increased to \$13,483,680 while total fund balance decreased to \$17,239,863. 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 28.54 percent of total General Fund expenditures adjusted for the one time loan payoffs as part of the refinance, while total fund balance represents 36.49 percent of that same amount.

At June 30, 2012, the governmental funds of Watauga County reported a combined fund balance of \$25,432,261, a 7.12 percent decrease over last year. The primary reason for this decrease is the transfer of over \$4 million to the Capital Projects Fund for future debt service needs, purchases of a new answering system for the communication center and other public safety related purchases from the Emergency Telephone System fund balance.

**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 \$63,154,070 with \$60,251,201 of the amendments related to the two loans refinanced. The actual operating revenues for the General Fund were \$1,750,372 more than the budgeted amount. Actual operating expense was less than budgeted by \$1,866,844.

**Proprietary Funds** - Watauga County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Fund at the end of the fiscal year amounted to \$3,352,748. The total increase in proprietary net assets was \$402,436.

**Capital Asset and Debt Administration**

**Capital Assets:** Watauga County's investment in capital assets for its governmental and business type activities as of June 30, 2012, totals \$153,344,928 (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 departments
- Continued improvement of 45+ acres of land at Rocky Knob for recreational use

**Watauga County's Capital Assets  
Figure 4  
(net of depreciation)**

Land	\$ 12,655,435	975,497	\$ 13,630,932
Buildings	50,696,492	3,339,394	54,035,886
Other improvements	2,215,203	52,607	2,267,810
Equipment	2,585,405	599,347	3,184,752
Vehicles	392,203	191,730	583,933
Construction in progress	79,458,604	183,011	79,641,615
<b>Total</b>	<b>\$ 148,003,342</b>	<b>5,341,586</b>	<b>\$ 153,344,928</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, 2012, Watauga County had bonded debt outstanding of \$3,570,000 all of which is backed by the good faith and credit of the County.

**Watauga County's Outstanding Debt  
General Obligation Bonds  
Figure 5**

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	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 3,570,000	4,795,000
Installment purchase	\$ 60,035,549	69,101,584

Watauga County's total debt decreased by \$9,066,035 or (13.12%) during the past fiscal year due to debt service payments and refinance of the two high school loans. As part of the loan refinance, Watauga County received a bond rating by Standard and Poor's of AA- and a rating of Aa3 from Moody's Investor Services on the Series A portion of the transaction. This bond rating is a good indication of the sound financial condition of Watauga County. A good bond rating also helps keep interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Watauga County as of June 30, 2012 is \$704,668,390.

Additional information regarding Watauga County's long-term debt can be found in note 3.7.b, beginning on page 34 of this report.

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

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

- The County continues to experience minor growth in tourism and has seen continued revenue increases for the past two years related to tourism
- The County is experiencing an unemployment rate of 8.3%, somewhat below the state average of 9.6%, but still higher than historical rates before the economic downturn of the past few years
- 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
- New construction and real estate sales have continued to remain relatively flat, consistent with state and national trends
- The property revaluation to be effective January 1, 2014 may result in reductions in overall property values due to the large second home owner population

**Budget Highlights for the Fiscal Year Ending June 30, 2013**

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**Governmental activities** -The County's property tax rate is maintained at the rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate, generating approximately \$2,999,160 in property tax revenue, is earmarked for debt service and capital needs for the public school system. Sales tax revenue is projected with a minor increase.

Budgeted expenditures in the General Fund include decreased funding of outside agencies, department budgets with minor increases and continued limited capital purchases. No set aside for future capital projects is included in the budget.

**Businesses-type Activities**- Budgeted revenues for greenbox and landfill fees have increased slightly in the Solid Waste Fund. Tipping fees are projected to decline due to a decrease in the waste stream and increased recycling. Budgeted expenditures include funding for an increase in waste hauling expenses due to CPI increases anticipated.

**Administrative Information**

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**Delay in filing** - The delay in filing the County report for Fiscal Year ending June 30, 2012 stemmed from AppalCART, a County component unit. AppalCART and their auditors, Bowman, Pegg, and Starr, encountered numerous issues which required clarification before AppalCART's report could be filed. The report was received by Watauga County on January 24, 2013. Watauga County management has reviewed with AppalCART possible steps to avoid delays in future reporting.

**Requests for Information** - This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Watauga County Finance Director, 814 West King Street, Room 216, Boone, NC 28607.



## BASIC FINANCIAL STATEMENTS

**Watauga County, North Carolina**  
 Statement of Net Assets  
 June 30, 2012

	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	\$ 23,737,597	3,432,644	27,170,241	317,618	781,011
Receivables (net)	1,894,844	304,630	2,199,474	15,041	-
Due from other governments	2,354,008	26,274	2,380,282	700,156	85,605
Prepaid expenses	-	-	-	3,714	-
Inventories	-	-	-	106,353	-
Deferred charges - issuance cost	26,190	-	26,190	-	-
Deferred charges - refunding	101,565	-	101,565	-	-
Intangible asset - advanced funding of pension obligation	448,926	-	448,926	-	-
Capital assets:					
Land and construction in progress	92,114,038	1,158,508	93,272,546	7,084,659	-
Other capital assets, net of depreciation	55,889,304	4,183,078	60,072,382	3,436,924	-
Total capital assets	<u>148,003,342</u>	<u>5,341,586</u>	<u>153,344,928</u>	<u>10,521,583</u>	<u>-</u>
Total assets	<u>176,566,472</u>	<u>9,105,134</u>	<u>185,671,606</u>	<u>11,664,465</u>	<u>866,616</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	795,089	101,598	896,687	298,359	34,332
Unearned revenue	254,459	161,094	415,553	18,819	-
Accrued interest payable	49,157	-	49,157	-	-
Customer deposits	150	-	150	-	-
Due to other governments	134,741	-	134,741	-	-
Net OPEB Liability	-	39,620	39,620	-	-
Deferred liability for bond premiums	5,204,425	-	5,204,425	-	-
Long-term liabilities:					
Due within one year	5,537,361	68,589	5,605,950	-	8,200
Due in more than one year	59,057,764	108,488	59,166,252	-	644
Total liabilities	<u>71,033,146</u>	<u>479,389</u>	<u>71,512,535</u>	<u>317,178</u>	<u>43,176</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	89,000,011	5,272,997	94,273,008	10,521,583	-
Restricted for:					
Stabilization by State Statute	2,947,328	-	2,947,328	-	85,605
Public safety	390,034	-	390,034	-	-
Register of Deeds	146,772	-	146,772	-	-
Economic and physical development	5,955	-	5,955	-	-
Environmental protection	2,598	-	2,598	-	-
Unrestricted (deficit)	13,040,628	3,352,748	16,393,376	825,704	737,835
Total net assets	<u>\$ 105,533,326</u>	<u>8,625,745</u>	<u>114,159,071</u>	<u>11,347,287</u>	<u>823,440</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, 2012

**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	\$ 9,080,312	591,876	11,661	95,000
Public safety	11,511,254	327,639	813,088	-
Economic and physical development	898,594	750	357,085	-
Environmental Protection	366,422	-	189,985	-
Human service	7,602,785	37,122	3,583,620	-
Cultural and recreation	1,612,304	271,888	45,000	108,392
Education	13,238,159	-	493	179,511
Interest on long-term debt	2,663,252	-	-	-
Total governmental activities	<u>46,973,082</u>	<u>1,229,275</u>	<u>5,000,932</u>	<u>382,903</u>
Business-type activities:				
Solid waste	3,812,981	4,047,422	156,484	-
Total	<u>\$ 50,786,063</u>	<u>5,276,697</u>	<u>5,157,416</u>	<u>382,903</u>
Component units:				
AppalCART	\$ 3,554,062	1,473,474	1,495,697	1,121,972
Watauga County District U Tourism Development Authority	\$ 1,020,575	-	139,087	82,673

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
- Gain on sale of assets
- Transfers
  - Total general revenues, special items, and transfers
  - Change in net assets
- Net assets - beginning
  - Prior year adjustment-Deferred bond amortization
  - Prior year adjustment-NC Lottery funds reverted
- Net assets - ending

Net (Expense) Revenues and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
(8,381,775)	-	(8,381,775)		
(10,370,527)	-	(10,370,527)		
(540,759)	-	(540,759)		
(176,437)	-	(176,437)		
(3,982,043)	-	(3,982,043)		
(1,187,024)	-	(1,187,024)		
(13,058,155)	-	(13,058,155)		
(2,663,252)	-	(2,663,252)		
(40,359,972)	-	(40,359,972)		
-	390,925	390,925		
(40,359,972)	390,925	(39,969,047)		
			537,081	
				(798,815)
\$ 30,571,565	-	30,571,565	-	-
11,751,071	-	11,751,071	-	-
813,299	-	813,299	-	868,269
22,986	-	22,986	-	-
51,880	6,387	58,267	58	1,071
450,881	-	450,881	-	-
47,209	65,534	112,743	-	-
60,410	(60,410)	-	-	-
43,769,301	11,511	43,780,812	58	869,340
3,409,329	402,436	3,811,765	537,139	70,525
102,583,617	8,223,309	110,806,926	10,810,148	752,915
(192,467)	-	(192,467)	-	-
(267,153)	-	(267,153)	-	-
\$ 105,533,326	8,625,745	114,159,071	11,347,287	823,440

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

## Watauga County, North Carolina

Balance Sheet

June 30, 2012

	General	Capital Projects Fund	Watauga High School	Other Governmental Funds	Total Governmental Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,443,600	7,198,652	518,480	576,865	23,737,597
Taxes receivable, net	1,095,694	-	-	225,152	1,320,846
Due from other governments	2,328,188	-	277	25,543	2,354,008
Accounts receivable, net	253,198	-	-	-	253,198
Total assets	\$ 19,120,680	7,198,652	518,757	827,560	27,665,649
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 664,444	-	-	130,645	795,089
Unearned revenue	64,789	-	-	-	64,789
Deferred revenue	1,096,884	-	-	141,735	1,238,619
Performance bond deposits	150	-	-	-	150
Due to other governments	550	-	-	134,191	134,741
Total liabilities	1,826,817	-	-	406,571	2,233,388
Fund balances:					
Restricted for:					
Stabilization for State Statute	2,947,328	-	-	-	2,947,328
Public Safety	-	-	-	390,034	390,034
Register of Deeds	146,772	-	-	-	146,772
Grant Requirements	2,598	-	-	5,955	8,553
Committed					
Capital Projects	-	7,198,652	518,757	-	7,717,409
Assigned					
Subsequent Year's expenditures	713,485	-	-	25,000	738,485
Unassigned	13,483,680	-	-	-	13,483,680
Total fund balances	17,293,863	7,198,652	518,757	420,989	25,432,261
Total liabilities and fund balances	\$ 19,120,680	7,198,652	518,757	827,560	27,665,649

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	25,432,261
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the funds.	448,926
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	148,003,342
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	320,799
Liabilities for earned but deferred revenues in fund statements.	1,048,950
Deferred charges based on refunding issues.	127,755
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 (Note 3).	(69,848,707)
Net assets of governmental activities	\$ 105,533,326

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, 2012

	General	Capital Projects Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Ad valorem taxes	\$ 27,953,698	-	-	2,713,486	30,667,184
Local option sales taxes	10,824,231	-	-	-	10,824,231
Other taxes and licenses	813,299	-	-	926,840	1,740,139
Unrestricted intergovernmental	22,986	-	-	-	22,986
Restricted intergovernmental	4,724,809	-	-	520,962	5,245,771
Permits and fees	680,703	-	-	-	680,703
Sales and services	595,780	-	-	-	595,780
Investment earnings	41,262	9,874	744	1,392	53,272
Donations	136,673	-	-	-	136,673
Miscellaneous	322,088	-	10,909	117,884	450,881
Total revenues	<u>46,115,529</u>	<u>9,874</u>	<u>11,653</u>	<u>4,280,564</u>	<u>50,417,620</u>
<b>EXPENDITURES</b>					
Current:					
General government	7,518,570	-	-	887,140	8,405,710
Public safety	8,106,391	-	-	3,681,694	11,788,085
Economic and physical development	700,726	-	-	184,742	885,468
Environmental protection	364,453	-	-	-	364,453
Human services	7,415,850	-	-	-	7,415,850
Cultural and recreational	1,388,531	-	-	-	1,388,531
Intergovernmental:					-
Education	13,238,159	-	-	-	13,238,159
Capital outlay	-	-	27,064	134,658	161,722
Debt service:					-
Principal	65,336,035	-	-	-	65,336,035
Interest	3,426,246	-	-	-	3,426,246
Total expenditures	<u>107,494,961</u>	<u>-</u>	<u>27,064</u>	<u>4,888,234</u>	<u>112,410,259</u>
Excess (deficiency) of revenues over expenditures	<u>(61,379,432)</u>	<u>9,874</u>	<u>(15,411)</u>	<u>(607,670)</u>	<u>(61,992,639)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	734,714	4,139,370	-	-	4,874,084
Transfers to other funds	(4,139,370)	(674,304)	-	-	(4,813,674)
Proceeds of Limited Obligation Bonds	60,251,201	-	-	-	60,251,201
Total other financing sources and uses	<u>56,846,545</u>	<u>3,465,066</u>	<u>-</u>	<u>-</u>	<u>60,311,611</u>
Net change in fund balance	(4,532,887)	3,474,940	(15,411)	(607,670)	(1,681,028)
Prior Year Adjustment-Lottery Funds Reverted	(267,153)	-	-	-	(267,153)
Fund balances-beginning	22,093,903	3,723,712	534,169	1,028,658	27,380,442
Fund balances-ending	<u>\$ 17,293,863</u>	<u>7,198,652</u>	<u>518,758</u>	<u>420,988</u>	<u>25,432,261</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, 2012

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

Net changes in fund balances - total governmental funds	\$	(1,681,028)
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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		(667,951)
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis until due, rather than as it accrues. This adjustment combines the net changes for five balances.

Other postemployment benefits	76,307	
Compensated absences	(68,432)	
Advance funding of LEO pension obligation	5,206	
Accrued interest expense	788,302	
Taxes receivable	(95,619)	
Combined adjustment	705,764	705,764

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		5,052,544
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Total changes in net assets of governmental activities	\$	3,409,329
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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 -  
Budget and Actual - General Fund  
For the Year Ended June 30, 2012

<b>General Fund</b>				
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 27,062,085	27,062,085	27,953,698	891,613
Local option sales tax	9,721,500	9,721,500	10,824,231	1,102,731
Other taxes and licenses	706,000	706,800	813,299	106,499
Unrestricted intergovernmental	20,000	20,000	22,986	2,986
Restricted intergovernmental	4,153,364	5,105,136	4,724,809	(380,327)
Permits and fees	639,327	640,077	680,703	40,626
Sales and services	636,814	636,814	595,780	(41,034)
Investment earnings	100,500	100,500	41,262	(59,238)
Donations	16,000	25,500	136,673	111,173
Miscellaneous	263,685	346,745	322,088	(24,657)
Total revenues	<u>43,319,275</u>	<u>44,365,157</u>	<u>46,115,529</u>	<u>1,750,372</u>
<b>Expenditures:</b>				
Current:				
General government	7,382,607	8,278,170	7,518,570	759,600
Public safety	8,069,718	8,170,238	8,106,391	63,847
Economic & Physical Development	453,766	739,387	700,726	38,661
Environmental Protection	361,246	375,659	364,453	11,206
Human services	7,398,666	7,940,442	7,415,850	524,592
Cultural & Recreation	1,418,509	1,421,408	1,388,531	32,877
Education	12,612,144	13,674,220	13,238,159	436,061
Debt service:				
Principal retirement	5,806,623	65,336,035	65,336,035	-
Interest and other charges	2,704,456	3,426,246	3,426,246	-
Total expenditures	<u>46,207,735</u>	<u>109,361,805</u>	<u>107,494,961</u>	<u>1,866,844</u>
Revenues over (under) expenditures	<u>(2,888,460)</u>	<u>(64,996,648)</u>	<u>(61,379,432)</u>	<u>3,617,216</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	734,714	734,714	734,714	-
Transfers to other funds	(4,139,370)	(4,139,370)	(4,139,370)	-
Limited Obligation Bonds issued	-	60,251,201	60,251,201	-
Fund balance appropriated	6,293,116	8,150,103	-	(8,150,103)
Total other financing sources (uses)	<u>2,888,460</u>	<u>64,996,648</u>	<u>56,846,545</u>	<u>(8,150,103)</u>
Revenues and other sources over (under) expenditures and other uses	-	-	(4,532,887)	(4,532,887)
Fund balances, beginning of year	-	-	22,093,903	-
Prior Year Adjustment-Lottery Funds Reverted	-	-	(267,153)	-
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>17,293,863</u>	<u>-</u>

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



**Watauga County, North Carolina**  
Statement of Net Assets  
Proprietary Funds  
June 30, 2012

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	3,432,644
Receivables, net		304,630
Due from other governments		26,274
Total current assets		<u>3,763,548</u>
Capital assets:		
Land and construction in progress		1,158,508
Other capital assets, net of depreciation		4,183,078
Total capital assets		<u>5,341,586</u>
Total assets		<u>9,105,134</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable		101,598
Installment purchase payable		68,589
Total current liabilities		<u>170,187</u>
Noncurrent liabilities:		
Deferred Revenue		161,094
Compensated absences		108,488
Accrued other post employment benefit		39,620
Total noncurrent liabilities		<u>309,202</u>
Total liabilities		<u>479,389</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		5,272,997
Unrestricted		3,352,748
Total net assets	\$	<u><u>8,625,745</u></u>

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

**Watauga County, North Carolina**  
 Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2012

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
		<u>Fund</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$	4,047,422
Restricted intergovernmental revenues		156,484
		<hr/>
Total operating revenues		4,203,906
		<hr/>
<b>OPERATING EXPENSES:</b>		
Landfill operations		3,429,284
Recycling operations		90,009
Depreciation		290,779
		<hr/>
Total operating expenses		3,810,072
		<hr/>
Operating income (loss)		393,834
		<hr/>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest and investment revenue		6,387
Interest paid on long term debt		(2,909)
Gain (loss) on sale of assets		65,534
		<hr/>
Total non operating revenue (expenses)		69,012
		<hr/>
Income (loss) before transfers		462,846
		<hr/>
Transfers (to) from other funds (net)		(60,410)
		<hr/>
Change in net assets		402,436
		<hr/>
Total net assets - beginning		8,223,309
		<hr/>
Total net assets - ending	\$	<u>8,625,745</u>

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

**Watauga County, North Carolina**  
 Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2012

	<u><b>Solid Waste Fund</b></u>
Cash flows from operating activities:	
Cash received from customers	\$ 4,114,361
Cash paid for goods and services	(2,232,721)
Cash paid to employees for services	(1,298,565)
Other operating revenue	156,484
Net cash provided by (used) operating activities	<u>739,559</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>(60,410)</u>
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	65,534
Acquisition and construction of capital assets	(312,183)
Principal paid on installment purchase contracts	(66,701)
Interest paid on installment purchase contracts	(2,909)
Net cash used by capital and related financing activities	<u>(316,259)</u>
Cash flows from investing activities:	
Interest on investments	<u>6,387</u>
Net increase (decrease) in cash and cash equivalents	369,277
Cash and cash equivalents, July 1	<u>3,063,367</u>
Cash and cash equivalents, June 30	<u>\$ 3,432,644</u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income (loss)	\$ <u>393,834</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	290,779
Changes in assets and liabilities:	
Decrease in accounts receivable	46,402
Increase in deferred revenue	20,537
Decrease in accounts payable and accrued liabilities	(41,867)
Increase in accrued OPEB liability	19,744
Increase in accrued vacation pay	10,130
Total adjustments	<u>345,725</u>
Net cash used by operating activities	<u>\$ 739,559</u>

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

**Watauga County, North Carolina**  
 Statement of Fiduciary Net Assets  
 Fiduciary Funds  
 June 30, 2012

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ <u>724,457</u>	<u>70,514</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u>-</u>	<u>70,514</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>724,457</u>	<u>-</u>

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

**Watauga County, North Carolina**  
 Statement of Changes in Fiduciary Net Assets  
 Fiduciary Funds  
 For the Year Ended June 30, 2012

		<b>Pension Trust Funds</b>
		<u>                    </u>
Additions:		
Employer contributions	\$	219,935
Interest earned		<u>3,047</u>
Total additions		<u>222,982</u>
Deductions:		
Benefits		166,190
Administrative expense		<u>240</u>
Total deductions		<u>166,430</u>
Change in net assets		56,552
Net assets, beginning		<u>667,905</u>
Net assets, ending	\$	<u><u>724,457</u></u>

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, 2012

**Note 1 - Summary of Significant Accounting Policies:**

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

**A. Reporting Entity:**

The County, which is governed by a five-member Board of Commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. The discretely presented component units presented below are reported in a separate column 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 Statement:* The statement of net assets 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. Eliminations

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

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

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

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

The County reports the following major governmental funds:

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

*Capital Projects Fund* – This is a capital projects fund. It accounts for the County's reserves set aside for future capital asset additions.

*Watauga High School Capital Project Fund* – This is a capital project fund. It accounts for the construction of the new high school.

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 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 Special Separation Allowance Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The Other Postemployment Benefit Irrevocable Trust Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees.

*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

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

accounts for moneys deposited with the Department of Social Services for the benefit of certain 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; the Jail 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, and the Motor Vehicle Tax Fund which accounts for the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles, the Deed of Trust Fee Fund to account 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 District Fund, the Occupancy Tax Fund, and the CDBG Scattered Site Housing Fund are reported as non-major special revenue funds. The PARTF Rocky Knob Capital Project Fund is reported as a non-major capital project fund.

**Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the County are maintained during the year using the modified accrual basis of accounting.

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements* – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

*Governmental Fund Financial Statements* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.



**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**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, and Occupancy Tax Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Scattered Site Housing Grant Special Revenue Fund, the Watauga High School Capital Project Fund and the PARTF Rocky Knob Capital Project 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 up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments and one material amendment to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**D. Assets, Liabilities and Fund Equity**

**1. Deposits and Investments**

All deposits of the County, 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.

**WATAUGA COUNTY, NORTH CAROLINA**  
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For the Year Ended June 30, 2012

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.

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 Pension 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. 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, 2012.

**4. Allowances for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

**5. Inventory**

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

**6. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization is \$5,000 for all governmental fund assets. On July 1, 1989, the County established the Solid Waste 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. Plant assets of the County are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss on disposition is not calculated except in extraordinary circumstances. The cost of normal maintenance and repairs that do not add

**WATAUGA COUNTY, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

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 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 provide 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	30 to 50
Improvements	8 to 10
Furniture and equipment	5 to 10
Vehicles	5 to 6

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
Maintenance and shop equipment	8
Vehicles	7 to 12
Land improvements	10

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 equipment	7

**7. Long-term Obligations**

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

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

**8. Compensated Absences**

The vacation policies of the County and AppalCART provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County's government-wide and proprietary funds and AppalCART, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The vacation policy of the Authority provide for the accumulation of up to 15 days earned vacation leave with such leave being fully vested when earned. For the 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 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

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

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

**9. Net Assets/Fund Balances**

**Net Assets**

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

**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 ending inventories, which are not expendable resource.

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

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

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

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

Reserved for No Till Drill – portion of fund balance restricted by grant revenue source for expenditures associated with the 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 balances set aside for future capital project expenditures.

*Assigned Fund Balance* – portion of fund balance the governing board has budgeted in the next fiscal year budget.

Subsequent Year's Expenditures – portion of fund balance not already classified in restricted or committed designated in the board approved next fiscal year's appropriations.

*Unassigned Fund Balance* – portion of the total fund balance is available for appropriation that has

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2012

not been restricted, committed, or assigned to specific purposes or other funds at year-end.

### 1. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The Government Fund Balance Sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the Government-Wide Statement of Net Assets. The net adjustment of consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 170,097,241
Less accumulated depreciation	(22,093,899)
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds	448,926
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	320,799
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	1,048,950
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	127,755
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds and installment financing	(68,809,970)
Compensated absences	(989,580)
Accrued interest payable	(49,157)
Total adjustment	<u>\$ 80,101,065</u>

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Year Ended June 30, 2012

**2. Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities**

The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the Government-Wide Statement of Activities. There are several elements of the total adjustment as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the Statement of Activities	\$ 1,612,206
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the fund statements	(2,280,157)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the Statement of Net Assets in the government-wide	65,336,035
The advance funding of pension obligations	5,206
Expenses reported in the Statement of Activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	788,302
Amortization of refunding costs not recorded on fund statements	(32,290)
Advanced funding of other postemployment benefits	76,307
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(68,432)
New debt issued during the year is record as a source of funds on the fund statements; it has no effect on the Statement of Activities-it affects only the government wide Statement of Net Assets	(60,251,201)
Revenues reported in the Statement of Activities that do not provide current resources are not recorded as revenues in the fund statements:	
Decrease in deferred tax revenue for year ended 6/30/12	(259,056)
Increase in accrued interest receivable on taxes for year ended 6/30/12	163,437
Total adjustment	\$ <u>5,090,357</u>

**Note 2 - Stewardship, Compliance, and Accountability**

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

**Noncompliance with North Carolina General Statutes**

There were no instances of noncompliance with North Carolina Statutes.

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

**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's 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. The State Treasurer enforces 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.

At June 30, 2012, the County's deposits had a carrying amount of \$25,441,945 and a bank balance of \$25,775,881. Of the bank balance, \$1,000,000 was covered by federal depository insurance, and \$4,353,896 in non-interest bearing deposits and \$21,088,049 in interest bearing deposits were covered by collateral held under the Pooling Method. At June 30, 2012 Watauga County had \$2,646 cash on hand.

At June 30, 2012, the AppalCART's deposits had a carrying amount of \$111,130 and a bank balance of \$204,566. Of the bank balance, \$204,566 was covered by federal depository insurance, and \$0 in interest bearing deposits were covered by collateral held under the pooling method. At June 30, 2012, AppalCART had \$150 cash on hand.

At June 30, 2012, the Authority's deposits had a carrying amount of \$479,785 and a bank balance of \$492,088. Of the balance, \$250,000 was covered by federal depository insurance and \$242,088 in interest bearing deposits was covered by collateral held under the pooling method. The Authority had no cash on hand.

**2. Investments**

At June 30, 2012, the County's investments consisted of \$514,744 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's and \$2,005,952 in the North Carolina Capital Management Trust's Term Portfolio, which is unrated. The term portfolio is authorized to invest obligations of the US governmental agencies and high grade money market instruments as permitted under NC General Statute 159-30 as amended. The County has no policy on credit risk.

At June 30, 2012, AppalCART's investments consisted of \$206,338 in the North Carolina Capital Management Trust's Cash Portfolio. AppalCART has no policy on credit risk.

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

At June 30, 2012, the Authority's investments consisted of \$301,226 in the North Carolina Capital Management Trust's Cash Portfolio. The Authority has no policy on credit risk.

**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.

Year Levied	Tax	Interest	Total
2009	\$ 623,093	176,023	799,116
2010	630,436	121,359	751,795
2011	623,181	63,876	687,057
2012	<u>625,044</u>	<u>0</u>	<u>625,044</u>
Total	\$ <u>2,501,754</u>	<u>361,258</u>	<u>2,863,012</u>

**4. Receivables**

Receivables at the government-wide level at June 30, 2012, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 253,198	1,565,866	2,328,188	\$ 4,147,252
Other Governmental	<u>-</u>	<u>253,732</u>	<u>25,820</u>	<u>279,522</u>
Total receivables	253,198	1,819,598	2,354,008	4,426,804
Allowance for doubtful accounts	<u>-</u>	<u>(498,752)</u>	<u>-</u>	<u>(498,752)</u>
Total-governmental activities	\$ <u>253,198</u>	<u>1,320,846</u>	<u>2,354,008</u>	\$ <u>3,928,052</u>
Business-type activities				
Solid Waste	\$ 388,996	-	26,274	\$ 415,270
Allowance for doubtful accounts	<u>(84,366)</u>	<u>-</u>	<u>-</u>	<u>(84,366)</u>
Total-business-type activities	\$ <u>304,630</u>	<u>-</u>	<u>26,274</u>	\$ <u>330,904</u>

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

Home and Community Block Grant	\$ 2,210
Grant reimbursements/NCDOT	153,392
Local Option Sales Tax	1,624,705
June DMV fees for tag office	6,992
Grant reimbursement/NC Emergency Mgmt	16,084
HAVA grant reimbursement	4,160
Town of Blowing Rock ABC taxes due	352
Town of Boone Tax collection fee	15,358



**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Year Ended June 30, 2012

Town of Boone ABC taxes due	1,173
POA reimbursements	2,172
Court fees	43,083
Paving reimbursement- Brookshire project	25,665
DSS reimbursements	207,580
JCPC gang violence prevention grant	20,031
Wireless revenues	25,543
Solid Waste Disposal Tax	6,146
Scrap Tire Tax	16,061
White Goods Tax	4,067
Medicaid reimbursements	35,581
Sales Tax Refunds	169,927
Total:	<u><u>\$ 2,380,282</u></u>

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 12,560,435	95,000	-	\$ 12,655,435
Construction in progress	79,347,520	228,340	117,256	79,458,604
Total capital assets not being depreciated	<u>91,907,955</u>	<u>323,340</u>	<u>117,256</u>	<u>92,114,039</u>
<b>Capital assets being depreciated:</b>				
Buildings	67,296,379	-	69,333	67,227,046
Other improvements	2,561,144	117,256	-	2,678,400
Equipment	5,042,818	1,168,176	96,309	6,114,685
Vehicles and motorized equipment	1,980,067	162,904	179,897	1,963,074
Total capital assets being depreciated	<u>76,880,408</u>	<u>1,448,336</u>	<u>345,539</u>	<u>77,983,205</u>
Less accumulated depreciation for:				
Buildings	15,215,352	1,342,319	27,117	16,530,554
Other improvements	209,690	253,507	-	463,197
Equipment	3,107,941	517,648	96,309	3,529,280
Vehicles and motorized equipment	1,584,085	166,683	179,897	1,570,871
Total accumulated depreciation	<u>20,117,068</u>	<u>2,280,157</u>	<u>303,327</u>	<u>22,093,902</u>
Total capital assets being depreciated, net	<u>56,763,340</u>			<u>55,889,303</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 148,671,295</u></u>			<u><u>\$ 148,003,342</u></u>

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2012

### Primary Government

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

General government	\$ 904,849
Public safety	607,174
Education	13,585
Economic and physical development	1,969
Human services	414,982
Cultural and recreational	<u>337,598</u>
Total depreciation expense	<u>\$ 2,280,157</u>

	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	<u>129,398</u>	<u>53,614</u>	-	<u>183,011</u>
Total capital assets not being depreciated	<u>1,104,895</u>	<u>53,614</u>	-	<u>1,158,508</u>
<b>Capital assets being depreciated:</b>				
Improvements	557,476	-	-	557,476
Buildings	4,123,207	-	-	4,123,207
Equipment	1,454,670	374,269	332,330	1,496,610
Vehicles	<u>1,382,443</u>	<u>25,756</u>	<u>143,538</u>	<u>1,264,661</u>
Total capital assets being depreciated	<u>7,517,796</u>	<u>400,025</u>	<u>475,868</u>	<u>7,441,954</u>
Less accumulated depreciation for:				
Improvements	492,760	12,109	-	504,869
Building	699,346	84,467	-	783,813
Equipment	1,153,913	75,680	332,330	897,263
Vehicles	<u>956,490</u>	<u>144,279</u>	<u>27,838</u>	<u>1,072,931</u>
Total accumulated depreciation	<u>3,302,509</u>	<u>316,535</u>	<u>360,168</u>	<u>3,258,876</u>
Total capital assets being depreciated, net	<u>4,215,286</u>			<u>4,183,078</u>
<b>Solid Waste Fund capital assets, net</b>	<u>\$ 5,320,180</u>			<u>\$ 5,341,586</u>

### Construction commitments

The government has active construction projects as of June 30, 2012. The projects include a new high school and soccer fields. At June 30, 2012, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Rocky Knob Park	\$ 664,723	\$ 75,000
Watauga High School	<u>79,328,343</u>	<u>476,177</u>
Total	<u>\$ 79,993,066</u>	<u>\$ 551,177</u>

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Year Ended June 30, 2012

**Discretely presented component units**

Capital asset activity for the AppalCART for the year ended June 30, 2012, 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	<u>4,852,512</u>	<u>1,117,905</u>	-	<u>5,970,417</u>
Total capital assets not being depreciated	<u>5,966,754</u>	<u>1,117,905</u>	-	<u>7,084,659</u>
<b>Capital assets being depreciated:</b>				
Land improvements	159,662	-	-	159,662
Office furniture and equipment	211,138	9,168	-	220,306
Shop equipment	315,811	51,919	-	367,730
Vehicles	<u>5,981,512</u>	<u>19,150</u>	-	<u>6,000,662</u>
Total capital assets being depreciated	<u>6,668,123</u>	<u>80,237</u>	-	<u>6,748,360</u>
Less accumulated depreciation for:				
Land improvements	146,921	2,810	-	149,731
Office furniture and equipment	119,330	10,978	-	130,308
Shop equipment	126,620	21,628	-	148,248
Vehicles	<u>2,318,884</u>	<u>564,265</u>	-	<u>2,883,149</u>
Total accumulated depreciation	<u>2,711,755</u>	<u>599,681</u>	-	<u>3,311,436</u>
Total capital assets being depreciated, net	<u>3,956,368</u>			<u>3,436,924</u>
<b>AppalCART capital assets, net</b>	<u>\$ 9,923,122</u>			<u>\$10,521,583</u>

Capital asset activity for the Watauga County District U Tourism Development Authority for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets being depreciated:</b>				
Furniture and fixtures	\$ 3,636	-	-	3,636
Computer equipment	<u>13,778</u>	-	-	<u>13,778</u>
Total Capital assets being depreciated	<u>17,414</u>	-	-	<u>17,414</u>
Less accumulated depreciation for:				
Furniture and fixtures	2,321	1,315	-	3,636
Computer equipment	<u>12,378</u>	<u>1,400</u>	-	<u>13,778</u>
Total accumulated depreciation	<u>14,699</u>	<u>2,715</u>	-	<u>17,414</u>
Total capital assets being depreciated, net	\$ <u>2,715</u>			<u>-</u>

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2012, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$ 768,306	-	49,157	-	817,463
Capital projects	26,782	-	-	-	26,782
Other governmental	-	-	-	-	-
Total-governmental activities	<u>795,088</u>	<u>-</u>	<u>49,157</u>	<u>-</u>	<u>844,245</u>
Business-type activities:					
Solid Waste	\$ <u>101,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,598</u>

**2. Pension Plan Obligations**

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

*Plan Description.* Watauga County contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.00% and 7.05%, respectively, of annual covered payroll. The contribution requirements of members and of Watauga County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$1,175,760, \$1,157,868, and \$1,144,160, respectively. The contributions made by the County equaled the required contributions for each year.

**b. Law Enforcement Officers' Special Separation Allowance**

**1. Plan Description**

Watauga County administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in this report as a fiduciary fund.

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active plan members	<u>48</u>
Total	<u>52</u>

**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 \$50,337, or 2.34% 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 paid by the County.

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.

Annual Required Contribution	\$ 44,535
Interest on net pension obligation	(3,084)
Adjustment to annual required contribution	<u>3,680</u>
Annual pension cost	45,131
Contributions made	<u>50,337</u>
Increase in net pension obligation	(5,206)
Net pension obligation, beginning of year	<u>(61,686)</u>
Net pension obligation, end of year	<u>\$ (66,892)</u>

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefits increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 26,294	111.54 %	\$ (81,793)
2011	53,168	62.18	(61,686)
2012	45,131	111.54	(66,892)

**4. Funded Status and Funding Progress**

As of December 31, 2011, the most recent actuarial valuation date, the plan was 40.58 percent funded. The actuarial accrued liability for benefits was \$476,644, and the actuarial value of assets was \$193,407, resulting in an unfunded actuarial accrued liability (UAAL) of \$283,237.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,824,693, and the ratio of the UAAL to the covered payroll was 15.52 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, 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, 2012 were \$97,154, which consisted of \$89,288 from the County and \$7,866 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, 2012 to these plans were \$691,704 which consisted of \$498,662 from the County and \$193,042 from employees.

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

*Plan Description.* Watauga County also contributes to the Register of Deeds' Supplemental Pension Fund, a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2012

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. 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, or by calling (919) 981-5454.

*Funding Policy.* On a monthly basis, the County remits to the Department of State Treasurer an amount equal to one and one-half percent (1.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2012, the County's required and actual contributions were \$5,758.

### 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 100%, with a \$400 monthly maximum paid toward premium, until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. The HCB Plan is reported in the County's report as a fiduciary fund.

On January 1, 2011, the County transitioned to a high deductible health care plan (HDHC) with a health savings account (HSA) option. The Board of Commissioners, as part of the annual insurance renewal, determines if County funding may be provided to eligible employees and retiree into the HSA to assist in offsetting the deductibles.

Membership of the HCB Plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

	General Employees:	Sanitation:
Retirees and dependents receiving benefits	24	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan Members	<u>209</u>	<u>44</u>
Total	<u>233</u>	<u>45</u>

*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 2.01% of annual covered payroll. For the current year, the County contributed \$169,359 or 1.80% of annual covered payroll. The County obtains healthcare coverage through private insurers.

## WATAUGA COUNTY, NORTH CAROLINA

### Notes to the Financial Statements For the Year Ended June 30, 2012

*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	\$ 189,788
Interest on net OPEB obligation	(11,434)
Adjustment to annual required contribution	<u>10,923</u>
Annual OPEB cost (expense)	189,277
Contributions made	<u>(245,839)</u>
Increase (decrease) in net OPEB obligation	(56,562)
Net OPEB obligation, beginning of year	<u>(285,852)</u>
Net OPEB obligation, end of year	\$ <u>(342,414)</u>

Under GASB Statements No. 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 annual OPEB contributions for medical and prescription drug costs that are determined on a combined basis for actives and retirees (in this case the pre-65 retirees) has been increased to include the impact of the 36% implicit subsidy. The total contribution of \$245,839 includes \$76,480 due to the impact of the 36% implicit subsidy and actual cash contributions of \$169,359 paid by the employer.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2012 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 117,341	55.7%	\$ 113,162
2011	161,583	346.9	(285,852)
2012	189,277	129.9	(342,414)

*Funded Status and Funding Progress.* As of December 31, 2011, the most recent actuarial valuation date, the plan was 18.0 percent funded. The actuarial accrued liability for benefits was \$2,648,536, and the actuarial value of assets was \$476,515, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,172,031. The covered payroll (annual payroll of active employees covered by the plan) was \$9,419,789, and the ratio of UAAL to the covered payroll



**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

was 23.1%.

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 information about the actuarial value of plan assets and the actuarial 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, 2011 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 9.50 percent and 5.00 percent. 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, 2011 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 may not be less than \$25,000 and no more than \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the County made contributions to the State for death benefits of \$12,321.70. The County's required contributions for employees represented .14% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

**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 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.

**4. Deferred/Unearned Revenues**

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

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid user fees not yet earned (General)	\$ 64,790	64,790
Prepaid taxes not yet earned (General)	46,745	185,787
Prepaid taxes not yet earned (Special Revenue)	-	3,882
Prepaid user fees not yet earned (Enterprise)	161,094	161,094
Taxes receivable, net (General)	1,048,949	-
Taxes receivable, net (Special Revenue)	<u>225,152</u>	<u>-</u>
Total	\$ 1,546,730	415,553

**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 \$156.4 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence 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

**WATAUGA COUNTY, NORTH CAROLINA**  
Notes to the Financial Statements  
For the Year Ended June 30, 2012

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 carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is 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. The County also is eligible to and has purchased commercial flood insurance for another \$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 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.

AppalCART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical malpractice. AppalCART carries commercial insurance for these risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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. These are the same pools that the County participates in.

**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 lessee.

**b. Installment Purchase**

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

**WATAUGA COUNTY, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

The County has five installment purchases serviced by the general fund. The first installment purchase was executed on November 1, 1997, for the construction and renovation of the Human Services Center. On October 24, 2007, the loan terms were amended to reduce the interest rate from 5.2 percent to 3.84 percent annually for the remainder of the loan term. This installment purchase was paid in full on October 14, 2011.

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

The third and fourth installment purchase agreements were executed on April 10, 2008 to finance 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. Series B is for \$10 million with a term of three years and a set rate of 1.81 percent.

The fifth installment purchase was executed on August 15, 2008 for the purchase of land for the Tweetsie Incentive Project. This installment purchase calls for quarterly principal payments of \$65,000 plus interest at 5.942 percent.

The County also has one installment purchase serviced by the Solid Waste Fund. The installment purchase was executed on November 19, 2010 for the purchase of equipment. The installment purchase calls for four biannual payments of \$34,805 at an interest rate of 1.98 percent.

For Watauga County, the future minimum payments as of June 30, 2012, including \$20,727,124 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2013	4,322,361	2,132,310	68,589	1,020
2014	4,257,361	2,200,630	-	-
2015	4,182,361	2,110,398	-	-
2016	4,117,361	2,014,441	-	-
2017	4,082,361	1,886,342	-	-
2018-2022	18,193,744	7,105,158	-	-
2023-2028	<u>20,880,000</u>	<u>3,276,825</u>	-	-
Principal payments	\$ <u>60,035,549</u>	\$ <u>20,726,104</u>	<u>68,589</u>	<u>1,020</u>
Total interest payments				

**c. General Obligation Indebtedness**

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

The County's general obligation bonds payable at June 30, 2012 are comprised of the following individual issues:

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Year Ended June 30, 2012

Serviced by the County's General Fund:

\$7,500,000 1993 School Facility Serial Bonds, due in semi-annual installments through June 1, 2014; interest at 4.40 percent	\$	750,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.0-4.25 percent		1,310,000
\$4,275,000 2004 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent		<u>1,510,000</u>
<b>Total</b>	<b>\$</b>	<b><u>3,570,000</u></b>

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

Year Ending	Governmental Activities	
	Principal	Interest
June 30		
2013	\$ 1,215,000	\$ 142,700
2014	1,200,000	92,795
2015	<u>1,155,000</u>	<u>43,125</u>
<b>Total</b>	<b>\$ <u>3,570,000</u></b>	<b>\$ <u>278,620</u></b>

At June 30, 2012, Watauga County had a legal debt margin of \$704,668,390.

**d. Advance Refunding**

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

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

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Year Ended June 30, 2012

### 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, 2012:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 4,795,000	-	1,225,000	3,570,000	1,215,000
Installment purchases	69,101,584	55,045,000	64,111,035	60,035,549	4,322,361
Compensated absences	921,148	653,080	584,649	989,579	-
Total governmental activities	<u>\$ 74,817,732</u>	<u>55,698,080</u>	<u>65,920,684</u>	<u>64,595,128</u>	<u>5,537,361</u>
Business-type activities:					
Installment purchases	\$ 135,290	-	66,701	68,589	\$ 68,589
Compensated absences	98,359	68,299	58,170	108,488	-
Other postemployment benefits	19,875	19,745	-	39,620	-
Total business-type activities	<u>\$ 253,524</u>	<u>88,044</u>	<u>124,871</u>	<u>216,697</u>	<u>\$ 68,589</u>
Discretely presented component units:					
Compensated absences – AppalCART	<u>\$ 67,315</u>	<u>52,122</u>	<u>57,628</u>	<u>61,809</u>	<u>\$ 61,809</u>
Compensated absences – Watauga County Dist U TDA	<u>\$ 9,625</u>	<u>10,192</u>	<u>10,973</u>	<u>8,844</u>	<u>\$ 8,200</u>

For Watauga County and the Authority, compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned. For AppalCART, compensated absences are accounted for on the FIFO basis, assuming that employees are taking leave time that has been previously earned.

### C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2012, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$ 4,139,370
From the Capital Projects Fund to the General Fund	674,304
From the Solid Waste Fund to the Debt Service Fund for debt service payments owed to the General Fund	<u>60,410</u>
Total	<u>\$ 4,874,084</u>

### D. 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, flowed 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, 2012

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

Total fund balance – General Fund	\$ 17,293,863
Less:	
Stabilization for State Statute	2,947,328
Register of Deeds	146,772
Grant Requirements	2,598
Appropriated Fund Balance in 2013 budget	713,485
Remaining fund balance	\$ 13,483,680

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 - \$335,012      Non-Major funds - \$75,000

### **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, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$495,000 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2012. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$541,127 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 \$810,980 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 that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

**WATAUGA COUNTY, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

	<u>Federal</u>	<u>State</u>
Temporary assistance to needy families	\$ 72,112	-
Medicaid	17,814,293	10,355,624
Supplemental Nutrition Assistance Program	5,223,557	-
Adoption assistance	157,072	42,153
Adoption subsidy	-	85,817
Adult assistance	-	280,311
Title IV-E, Foster care	39,512	9,016
Links	4,160	-
Total	<u>23,310,706</u>	<u>10,772,921</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 - Interest on Unpaid Motor Vehicle Taxes**

In 2005, the North Carolina General Assembly enacted House Bill #1779, which increased the first month interest due on delinquent motor vehicle taxes from 2 percent to 5 percent, beginning January 1, 2006. The additional interest was to be collected by the counties which levied the taxes and remitted to the Department of State Treasurer the 10<sup>th</sup> of every month, for use by the Division of Motor Vehicles to create a combined registration and collection system.

The following reports the total collections and disbursements of the interest collected by Watauga County for the fiscal year ending June 30, 2012:

Beginning balance	\$ 561
Total interest collected:	11,800
Total interest remitted	<u>11,139</u>
Amount due to Department of State Treasurer as of June 30, 2012	\$ <u>1,222</u>

**Note 9 - Prior Period Adjustments**

During the current fiscal year, the Watauga County School System cancelled a project to redo the roof at Cove Creek School which was funded through the NC Lottery. The revenue for the project was recognized in Fiscal Year 2010-2011 and with the cancellation funds reverted to the state during this fiscal year. An adjustment to the fund balance of \$267,153 was necessary to correct the revenue overstatement in Fiscal Year 2010-2011.

In Fiscal Year 2003-2004, the County issued refunding bonds that had deferred charges of \$325,000 and issuance costs of \$83,800. The auditor did a calculation for amortization expense for each of these on a prorated basis (3 months) based on 15 years. The actual calculation should have been for 12 years. In the years since, only the prorated portion of deferred charges and issuance costs has been taken. Therefore a prior period adjustment is needed on the government-wide statements for a decrease of \$192,467 (196,352 - 43,336 + 50,627 - 11,176). From now until the bonds mature, the amortization expense should be \$27,083 for the deferred charges and \$6,983 for the issuance costs.



## 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

**Watauga County, North Carolina**  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information  
 Schedule of Funding Progress

**Schedule 1**

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)
12/31/2006	\$ 131,075	\$ 305,327	\$ 174,252	42.93 %	\$ 1,456,052	11.97 %
12/31/2007	146,330	253,515	107,185	57.72	1,493,567	7.18
12/31/2008	160,403	244,637	84,234	65.57	1,727,417	4.88
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

**Watauga County, North Carolina**  
Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Schedule of Employer Contributions

**Schedule 2**

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	
2007	\$ 32,874	119	%
2008	30,943	129	
2009	24,577	207	
2010	27,043	109	
2011	52,879	73	
2012	44,535	114	

**Watauga County, North Carolina**  
Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Notes to the Required Schedules

**Schedule 3**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2011
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	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 and  
 Schedule of Employer Contributions

Schedule 4

**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 Percentage of Covered Payroll ( (b-a) / c )
12/31/2007	\$ -	\$ 1,432,288	\$ 1,111,838	22.4%	\$ 9,979,587	11.1%
12/31/2009	\$ -	\$ 1,899,693	\$ 1,899,693	0%	\$10,936,838	17.4%
12/31/2011	\$ 476,515	\$ 2,648,536	\$ 2,172,021	18%	\$ 9,419,789	23.1%

**Schedule of Employer Contributions:**

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2009	112,776	45.7%
2010	112,776	58.0%
2011	160,959	348.1%
2012	189,788	89.2%

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2011. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
Medical cost trend rate	9.50 - 5.00%
Year of Ultimate trend rate	2018
 *Includes inflation at	 3.00%

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 Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
<b>Revenues:</b>			
Taxes - ad valorem:			
Current year	\$	27,093,503	
Prior years		682,694	
Advertising and interest		177,501	
Total Taxes - ad valorem	27,062,085	27,953,698	891,613
Local Option Sales Taxes:			
Article 39 and 44		4,676,976	
Article 40 one-half of one percent		2,226,081	
Article 42 one-half of one percent		2,594,877	
Medicaid Hold Harmless payment		1,326,297	
Total Taxes - Local Option Sales	9,721,500	10,824,231	1,102,731
Taxes - other:			
Real estate transfer tax		321,046	
ABC Bottle tax		19,056	
Heavy equipment rental tax		3,164	
Gross receipts tax - county		38,169	
Franchise Tax		431,864	
Total Taxes - other	706,800	813,299	106,499
Unrestricted intergovernmental:			
Payments in lieu of taxes		22,986	
Total Unrestricted intergov. rev.	20,000	22,986	2,986
Restricted intergov. revenues:			
Grants-Federal & State		4,415,750	
Public School Building Capital Fund - Lottery		100,554	
Public School Building Capital Fund - ADM		78,957	
Court facilities fees		129,548	
Total Restricted intergov. revenues	5,105,136	4,724,809	(380,327)
Permits and fees:			
Gun storage fees-DV		1,393	
Drug fees awarded by courts		1,836	
Gun permits		36,340	
Serving civil summons		71,773	
Jail and officer fees		24,781	
Planning and inspection fees		177,235	
Register of deeds fees		316,806	
Fire inspection fees		6,351	
Occupancy tax administrative fee		18,871	
Economic Summit		750	
Child Support fees		24,567	
Total Permits and fees	640,077	680,703	40,626
Sales and service:			
POA In-home svc. - soc. serv.		12,555	
Recreation department revenues		271,888	
Sales of tax maps		1,410	
Data processing fees		477	
NC DMV fees		102,542	
NC reimbursement for prisoners		5,571	
Tax collection fees-Towns		107,610	
Jail medical service		4,938	
Passport processing fees		11,603	
Election revenues		26,985	
Sale of fixed assets		47,209	
Animal control fees		2,992	
Total Sales and Service	636,814	595,780	(41,034)
Investment earnings:			
Interest earned on investments	100,500	41,262	(59,238)
Miscellaneous:			
Other		322,088	
Donations		136,673	
Total Miscellaneous	372,245	458,761	86,516
<b>TOTAL REVENUES</b>	<b>44,365,157</b>	<b>46,115,529</b>	<b>1,750,372</b>

**Watauga County, North Carolina**  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
<b>EXPENDITURES:</b>			
<b>General Government</b>			
Governing Body:			
Salaries and benefits		55,231	
Operating expenses		2,282	
Total Governing Body	62,897	57,513	5,384
Administration:			
Salaries and benefits		271,029	
Operating expenses		7,484	
Total Administration	310,541	278,513	32,028
Finance:			
Salaries and benefits		278,610	
Operating expenses		66,944	
Total Finance	351,382	345,554	5,828
Tax Administration:			
Salaries and benefits		962,239	
Operating expenses		117,485	
Capital Outlay		146,508	
Total Tax Administration	1,365,232	1,226,232	139,000
Tax Revaluation:			
Salaries and benefits		48,024	
Operating expenses		469	
Total Tax Revaluation	144,460	48,493	95,967
Tag office:			
Salaries and benefits		139,427	
Operating expenses		7,783	
Total Tag office	156,058	147,210	8,848
Legal Services:			
Operating expenses	82,000	81,464	536
Court facilities:			
Operating expenses	2,400	1,492	908
Elections:			
Salaries and benefits		187,204	
Operating expenses		81,086	
Total Elections	281,233	268,290	12,943
Register of Deeds:			
Salaries and benefits		384,037	
Operating expenses		171,943	
Total Register of Deeds	562,687	555,980	6,707
General administration:			
Operating expenses		1,584,260	
Capital outlay		99,000	
Total General Administration	1,931,083	1,683,260	247,823
Information technologies:			
Salaries and benefits		353,339	
Operating expenses		309,139	
Capital outlay		60,077	
Total Information technologies	802,663	722,555	80,108
Maintenance:			
Salaries and benefits		924,751	
Operating expenses		36,751	
Total Maintenance	962,703	961,502	1,201
Public Buildings			
Courthouse:			
Operating expenses		106,936	
Capital Outlay		37,963	
Total Courthouse	144,933	144,899	34



**Watauga County, North Carolina**  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
East Annex:			
Operating expenses		56,542	
Capital Outlay		9,550	
Total East Annex	67,876	66,092	1,784
Administration Building:			
Operating expenses	20,115	20,110	5
Emergency Management:			
Operating expenses	4,600	3,019	1,581
Hannah:			
Operating expenses	6,495	6,473	22
Animal Shelter:			
Operating expenses	2,542	2,428	114
Health Department:			
Operating expenses	65,743	63,433	2,310
AppalCART:			
Operating expenses	1,745	1,740	5
Library:			
Operating expenses	48,943	47,148	1,795
Tag office:			
Operating expenses	10,710	10,203	507
Old Caldwell College & Tech. Inst:			
Operating expenses	1,865	1,864	1
Western Watauga Comm. Center:			
Operating expenses	37,729	28,374	9,355
Parking Lots:			
Operating expenses	1,700	1,328	372
West Courthouse Annex:			
Operating expenses	58,323	54,950	3,373
Human Services Center:			
Operating expenses	94,205	78,749	15,456
Appalachian Enterprise Center:			
Operating expenses	14,555	13,610	945
Law Enforcement Center:			
Operating expenses	172,499	171,394	1,105
Old Watauga High School:			
Operating expenses	3,689	1,563	2,126
Recreation Administration Center:			
Operating expenses	2,000	1,302	698
Aquatics Center:			
Operating expenses	183,320	140,586	42,734
Opt./Maintenance Facility:			
Operating expenses	34,911	30,797	4,114
Recreation Fields/Parks:			
Operating expenses	40,352	37,358	2,994
Old Cove Creek School:			
Operating expenses	16,815	14,752	2,063
Brookshire Park:			
Operating expenses		66,998	
Capital outlay		108,392	
Total Brookshire Park	180,808	175,390	5,418
Anne Marie Drive Fields:			
Operating expenses	18,925	12,656	6,269
Brookshire Soccer Complex:			
Operating expenses	27,433	10,294	17,139
Total Public Buildings	1,262,831	1,140,512	122,319
<b>Total General Government</b>	<b>8,278,170</b>	<b>7,518,570</b>	<b>759,600</b>

**Watauga County, North Carolina**  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
<b>Public Safety</b>			
Sheriff's department:			
Salaries and benefits		2,729,227	
Operating expenses		326,128	
Capital outlay		58,419	
Total Sheriff's department	3,133,781	3,113,774	20,007
Communications:			
Salaries and benefits		499,031	
Operating expenses		29,553	
Total Communications	538,597	528,584	10,013
Domestic Violence-NCDCCPS:			
Salaries and benefits		12,396	
Operating expenses		87	
Total Domestic Violence-NCDCCPS	13,827	12,483	1,344
Jail:			
Salaries and benefits		1,329,939	
Operating expenses		633,605	
Capital outlay		6,425	
Total Jail	1,970,000	1,969,969	31
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		185,751	
Operating expenses		468,669	
Capital outlay		55,257	
Total Emerg. Mgt. & Fire Protect.	712,853	709,677	3,176
Planning and Inspections:			
Salaries and benefits		585,841	
Operating expenses		38,663	
Total Planning and Inspections	646,040	624,504	21,536
Medical examiner:			
Operating expenses	25,000	24,200	800
Ambulance and rescue squad:			
Operating expenses	963,625	963,547	78
Animal control:			
Salaries and benefits		106,148	
Operating expenses		14,210	
Total Animal control	126,033	120,358	5,675
Forestry:			
Operating expenses	40,482	39,295	1,187
<b>Total Public Safety</b>	<b>8,170,238</b>	<b>8,106,391</b>	<b>63,847</b>
<b>Economic &amp; Physical Development</b>			
Transportation:			
Operating expenses	151,539	151,539	-
Special Appropriations:	477,723	462,727	14,996
Economic Development:			
Operating expenses	110,125	86,460	23,665
<b>Total Economic &amp; Physical Development</b>	<b>739,387</b>	<b>700,726</b>	<b>38,661</b>
<b>Environmental Protection</b>			
Cooperative extension:			
Salaries and benefits		228,670	
Operating expenses		14,398	
Total Cooperative extension	248,386	243,068	5,318
Soil conservation:			
Salaries and benefits		111,068	
Operating expenses		10,317	
Total Soil conservation	127,273	121,385	5,888
<b>Total Environmental Protection</b>	<b>375,659</b>	<b>364,453</b>	<b>11,206</b>

**Watauga County, North Carolina**  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
<b>Human Services</b>			
Public health:			
Operating expenses	541,127	541,127	-
Mental health:			
Operating expenses	304,633	304,389	244
Social services - admin.:			
Salaries and benefits		2,652,186	
Operating expenses		405,840	
Capital outlay		251,568	
Total Social services - admin.	3,385,844	3,309,594	76,250
Beneficiary payments:	1,087,854	788,705	299,149
State foster care and daycare			
Room and board		234,456	
Daycare		945,050	
Total State foster care and daycare	1,242,278	1,179,506	62,772
Project on Aging:			
Salaries and benefits		915,318	
Operating expenses		261,314	
Capital outlay		1,011	
Total Project on Aging	1,263,808	1,177,643	86,165
Veterans services:			
Salaries and benefits		112,252	
Operating expenses		2,634	
Total Veterans services	114,898	114,886	12
<b>Total Human Services</b>	<b>7,940,442</b>	<b>7,415,850</b>	<b>524,592</b>
<b>Education</b>			
Public Schools - current		11,840,138	
Public Schools - capital outlay		587,041	
Community College - current		800,980	
Community College - capital outlay		10,000	
<b>Total Education</b>	<b>13,674,220</b>	<b>13,238,159</b>	<b>436,061</b>
<b>Cultural &amp; Recreational</b>			
Library:			
Operating expenses	495,000	495,000	-
Recreation:			
Salaries and benefits		578,178	
Operating expenses		124,775	
Total Recreation	711,350	702,953	8,397
Aquatics:			
Salaries and benefits		179,721	
Operating expenses		10,857	
Total Aquatics	215,058	190,578	24,480
<b>Total Cultural and recreational</b>	<b>1,421,408</b>	<b>1,388,531</b>	<b>32,877</b>
<b>Debt Service</b>			
Principal retirement		65,336,035	
Interest & fees		3,426,246	
<b>Total Debt Service</b>	<b>68,762,281</b>	<b>68,762,281</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>109,361,805</b>	<b>107,494,961</b>	<b>1,866,844</b>

**Watauga County, North Carolina**  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
Excess (deficiency) of revenues over expenditures	(64,996,648)	(61,379,432)	3,617,216
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers to Capital Projects Fund	(4,139,370)	(4,139,370)	-
Transfers from Capital Projects Fund	674,304	674,304	-
Transfers from Solid Waste Fund	60,410	60,410	-
Proceeds from Limited Obligation Bonds	60,251,201	60,251,201	-
Fund Balance Appropriated	8,150,103	-	(8,150,103)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>64,996,648</b>	<b>56,846,545</b>	<b>(8,150,103)</b>
Excess (deficiency) of revenues over expenditures & other sources (uses)	\$ -	(4,532,887)	(4,532,887)
Fund balances at beginning of year		22,093,903	
Prior period adjustment-reverted NC Lottery Funds		(267,153)	
Fund balances at end of year		\$ 17,293,863	

**Watauga County, North Carolina**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2012

**Statement 2**

	Special Revenue Funds						Capital Project Funds			
	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Funds	Occupancy Tax Fund	CDBG Scattered Site Housing Fund	Total Nonmajor Special Revenue Funds	PARTF Rocky Knob Park Capital Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>ASSETS:</b>										
Cash and cash equivalents	\$ 63,418	49,459	323,991	22,506	774	14,935	475,083	101,782	101,782	576,865
Due from other governments			25,543				25,543	-	-	25,543
Accounts receivable, net	-	-	-			-	-	-	-	-
Taxes receivable, net	-	-	-	141,735	83,417	-	225,152	-	-	225,152
<b>Total assets</b>	<b>\$ 63,418</b>	<b>49,459</b>	<b>349,534</b>	<b>164,241</b>	<b>84,191</b>	<b>14,935</b>	<b>725,778</b>	<b>101,782</b>	<b>101,782</b>	<b>827,560</b>
<b>LIABILITIES AND FUND BALANCE</b>										
Liabilities:										
Accounts payable and accrued liabilities	-	531	71,846	22,506	-	8,980	103,863	26,782	26,782	130,645
Deferred revenue	-	-	-	141,735	-	-	141,735	-	-	141,735
Due to other governments	-	-	-	-	84,191	-	84,191	50,000	50,000	134,191
<b>Total Liabilities</b>	<b>-</b>	<b>531</b>	<b>71,846</b>	<b>164,241</b>	<b>84,191</b>	<b>8,980</b>	<b>329,789</b>	<b>76,782</b>	<b>76,782</b>	<b>406,571</b>
Fund Balances:										
Restricted										
for Public Safety	63,418	48,928	277,688				390,034			390,034
for Grant Requirements						5,955	5,955			5,955
Assigned for subsequent yr exp							-	25,000	25,000	25,000
Unassigned										
<b>Total fund balances</b>	<b>63,418</b>	<b>48,928</b>	<b>277,688</b>	<b>-</b>	<b>-</b>	<b>5,955</b>	<b>395,989</b>	<b>25,000</b>	<b>25,000</b>	<b>420,989</b>
<b>Total liabilities and fund balances</b>	<b>\$ 63,418</b>	<b>49,459</b>	<b>349,534</b>	<b>164,241</b>	<b>84,191</b>	<b>14,935</b>	<b>725,778</b>	<b>101,782</b>	<b>101,782</b>	<b>827,560</b>

**Watauga County, North Carolina**  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2012

Statement 3

	Special Revenue Funds						Capital Project Funds			
	Federal Equitable Sharing Fund	State Substance Abuse Tax	Emergency Telephone System	Fire Districts Fund	Occupancy Tax Fund	Scattered Site Housing Fund	Total Nonmajor Special Revenue Funds	PARTF Rocky Knob Park Capital Project	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>										
Ad valorem taxes	\$ -	-	-	2,713,486	-	-	2,713,486	-	-	2,713,486
Other taxes and licenses	-	39,700	-	-	887,140	-	926,840	-	-	926,840
Restricted intergovernmental	33,250	-	306,518	-	-	181,194	520,962	-	-	520,962
Other miscellaneous revenues	-	-	-	-	-	-	-	117,884	117,884	117,884
Investment earnings	111	79	1,202	-	-	-	1,392	-	-	1,392
<b>Total revenues</b>	<u>33,361</u>	<u>39,779</u>	<u>307,720</u>	<u>2,713,486</u>	<u>887,140</u>	<u>181,194</u>	<u>4,162,680</u>	<u>117,884</u>	<u>117,884</u>	<u>4,280,564</u>
<b>EXPENDITURES</b>										
Current:										
General government	-	-	-	-	887,140	-	887,140	-	-	887,140
Public safety	-	29,209	938,999	2,713,486	-	-	3,681,694	-	-	3,681,694
Economic and Physical Development	-	-	-	-	-	184,742	184,742	-	-	184,742
Capital outlay	41,774	-	-	-	-	-	41,774	92,884	92,884	134,658
<b>Total expenditures</b>	<u>41,774</u>	<u>29,209</u>	<u>938,999</u>	<u>2,713,486</u>	<u>887,140</u>	<u>184,742</u>	<u>4,795,350</u>	<u>92,884</u>	<u>92,884</u>	<u>4,888,234</u>
Excess (deficiency) of revenues over expenditures	<u>(8,413)</u>	<u>10,570</u>	<u>(631,279)</u>	<u>-</u>	<u>-</u>	<u>(3,548)</u>	<u>(632,670)</u>	<u>25,000</u>	<u>25,000</u>	<u>(607,670)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Net change in fund balances	(8,413)	10,570	(631,279)	-	-	(3,548)	(632,670)	25,000	25,000	(607,670)
Fund balances - beginning	71,831	38,357	908,967	-	-	9,503	1,028,658	-	-	1,028,658
Fund balances - ending	<u>\$ 63,418</u>	<u>48,927</u>	<u>277,688</u>	<u>-</u>	<u>-</u>	<u>5,955</u>	<u>395,988</u>	<u>25,000</u>	<u>25,000</u>	<u>420,988</u>

**Watauga County, North Carolina**  
 Federal Equitable Sharing Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restricted intergovernmental - Federal		33,250	
Investment Earnings		111	
<b>Total revenues</b>	<u>-</u>	<u>33,361</u>	<u>33,361</u>
<b>Expenditures:</b>			
Public Safety			
Capital Outlay	43,000	41,774	
<b>Total expenditures</b>	<u>43,000</u>	<u>41,774</u>	<u>(1,226)</u>
Excess (deficiency) of revenues over expenditures	<u>43,000</u>	<u>(8,413)</u>	<u>34,587</u>
<b>Other financing sources (uses)</b>			
Appropriated fund balance	43,000	-	(43,000)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>(8,413)</u>	<u>(8,413)</u>
<b>Fund balance at beginning of year</b>		<u>71,831</u>	
<b>Fund balance at end of year</b>		<u>\$ 63,418</u>	

**Watauga County, North Carolina**  
 State Substance Abuse Tax Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Restricted intergovernmental - State	\$	39,700	
Investment Earnings		79	
<b>Total revenues</b>	<u>20,650</u>	<u>39,779</u>	<u>19,129</u>
<b>Expenditures:</b>			
Public Safety			
Operating		29,209	
<b>Total expenditures</b>	<u>29,570</u>	<u>29,209</u>	<u>361</u>
Excess (deficiency) of revenues over expenditures	<u>(8,920)</u>	<u>10,570</u>	<u>19,490</u>
<b>Other financing sources (uses)</b>			
Appropriated fund balance	<u>8,920</u>	<u>-</u>	<u>(8,920)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>10,570</u>	<u>10,570</u>
<b>Fund balance at beginning of year</b>		<u>38,357</u>	
<b>Fund balance at end of year</b>		<u>\$ 48,927</u>	



**Watauga County, North Carolina**  
 Emergency Telephone System Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$	306,518	
Investment earnings		1,202	
<b>Total revenues</b>	<u>390,212</u>	<u>307,720</u>	<u>(82,492)</u>
<b>Expenditures:</b>			
Public safety:			
Implementation services		66,053	
Training		824	
Hardware		362,732	
Software		35,121	
Telephones		90,040	
Furniture		5,897	
Other Public Safety Needs		378,332	
<b>Total expenditures</b>	<u>743,684</u>	<u>938,999</u>	<u>(195,315)</u>
Excess (deficiency) of revenues over expenditures	<u>(353,472)</u>	<u>(631,279)</u>	<u>(277,807)</u>
<b>Other financing sources (uses):</b>			
Appropriated fund balance	<u>353,472</u>	<u>-</u>	<u>(353,472)</u>
<b>Total Other Financing sources (uses):</b>	<u>353,472</u>	<u>-</u>	<u>(353,472)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>(631,279)</u>	<u>(631,279)</u>
<b>Fund balance at beginning of year</b>		<u>908,967</u>	
<b>Fund balance at end of year</b>		<u>\$ 277,688</u>	

**Watauga County, North Carolina**  
 Fire Districts Funds  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Ad valorem taxes	\$ 2,752,158	2,713,486	(38,672)
<b>Total revenues</b>	<b>2,752,158</b>	<b>2,713,486</b>	<b>(38,672)</b>
<b>Expenditures:</b>			
Public safety:			
Beaver Dam Fire District	113,231	113,755	(524)
Blowing Rock Fire District	460,264	460,478	(214)
Boone Fire District	633,271	623,647	9,624
Cove Creek Fire District	235,441	234,630	811
Deep Gap Fire District	192,409	183,473	8,936
Foscoe Fire District	466,424	465,714	710
Meat Camp Fire District	139,893	126,867	13,026
Shawneehaw Fire District	96,514	94,246	2,268
Stewart Simmons Fire District	154,687	154,307	380
Todd Fire District	65,325	62,984	2,341
Zionville Fire District	114,598	114,491	107
Beech Mountain Fire Service District	2,152	2,098	54
Cove Creek Fire Service District	302	301	1
Foscoe Fire Service District	72,289	71,183	1,106
Shawneehaw Fire Service District	5,358	5,312	46
<b>Total expenditures</b>	<b>2,752,158</b>	<b>2,713,486</b>	<b>38,672</b>
Excess (deficiency) of revenues over expenditures	\$ -	-	-
<b>Fund balance at beginning of year</b>	-	-	
<b>Fund balance at end of year</b>	-	-	

**Watauga County, North Carolina**  
Occupancy Tax Fund  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Other taxes and licenses	\$ 860,000	887,140	27,140
<b>Total revenues</b>	860,000	887,140	27,140
<b>Expenditures:</b>			
Tourism Development		868,269	
Administrative fee		18,871	
<b>Total expenditures</b>	860,000	887,140	(27,140)
Excess (deficiency) of revenues over expenditures	\$ -	-	-
<b>Fund balance at beginning of year</b>		-	
<b>Fund balance at end of year</b>		\$ -	

**Watauga County, North Carolina**  
 CDBG Scattered Site Housing  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental Program Revenues	\$ 400,000 19,335	218,651 19,335	181,194 -	399,845 19,335	(155) -
<b>Total revenues</b>	<u>419,335</u>	<u>237,986</u>	<u>181,194</u>	<u>419,180</u>	<u>(155)</u>
<b>Expenditures:</b>					
Residence rehabilitation Local option/Emergency Grant administration	313,000 59,335 47,000	155,165 36,025 37,293	157,835 17,200 9,707	313,000 53,225 47,000	- 6,110 -
<b>Total expenditures</b>	<u>419,335</u>	<u>228,483</u>	<u>184,742</u>	<u>413,225</u>	<u>6,110</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	<u>9,503</u>	<u>(3,548)</u>	<u>5,955</u>	<u>5,955</u>
<b>Fund balance at beginning of year</b>			<u>9,503</u>		
<b>Fund balance at end of year</b>		\$	<u>5,955</u>		

**Watauga County, North Carolina**  
**PARTF - Rocky Knob Project**  
Statement of Revenues and Expenditures and Changes in  
Fund Balance - Budget and Actual  
From Inception and For the Fiscal Year Ended June 30, 2012

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted Intergovernmental	\$ 500,000	450,000	-	450,000	(50,000)
Other revenues	575,600	121,839	117,884	239,723	(335,877)
<b>Total Revenues</b>	<u>1,075,600</u>	<u>571,839</u>	<u>117,884</u>	<u>689,723</u>	<u>(385,877)</u>
<b>Expenditures:</b>					
Principal		495,000	-	495,000	
Interest		26,463	-	26,463	
Capital Projects		50,376	92,884	143,260	
<b>Total Expenditures</b>	<u>1,075,600</u>	<u>571,839</u>	<u>92,884</u>	<u>664,723</u>	<u>410,877</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
<b>Fund balance at beginning of year</b>			<u>-</u>		
<b>Fund balance at end of year</b>			<u>\$ 25,000</u>		

**Watauga County, North Carolina**  
Watauga High School Capital Project  
Statement of Revenues and Expenditures and Changes in  
Fund Balance - Budget and Actual  
From Inception and For the Fiscal Year Ended June 30, 2012

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Investment earnings	\$ 746,000	612,386	744	613,130	(132,870)
NC Lottery Funds	350,000	350,000	-	350,000	-
Other revenues	1,288,400	1,452,942	10,909	1,463,851	175,451
<b>Total Revenues</b>	<u>2,384,400</u>	<u>2,415,328</u>	<u>11,653</u>	<u>2,426,981</u>	<u>42,581</u>
<b>Expenditures:</b>					
Capital Projects	79,804,520	79,301,279	27,064	79,328,343	476,177
Excess (deficiency) of revenues over expenditures	<u>(77,420,120)</u>	<u>(76,885,951)</u>	<u>(15,411)</u>	<u>(76,901,362)</u>	<u>518,758</u>
<b>Other financing sources (uses):</b>					
Operating transfers - in (out):					
From Capital Projects Fund	1,548,881	1,548,881	-	1,548,881	--
From General Fund	5,871,239	5,871,239	-	5,871,239	--
Loan proceeds	70,000,000	70,000,000	-	70,000,000	--
<b>Total other financing sources (uses)</b>	<u>77,420,120</u>	<u>77,420,120</u>	<u>-</u>	<u>77,420,120</u>	<u>--</u>
Increase (decrease) in fund balance	<u>\$ --</u>	<u>534,169</u>	<u>(15,411)</u>	<u>518,758</u>	<u>518,758</u>
<b>Fund balance at beginning of year</b>			<u>534,169</u>		
<b>Fund balance at end of year</b>			<u>\$ 518,758</u>		

**Watauga County, North Carolina**  
 Capital Projects Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2012

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Investment earnings	\$ -	9,874	9,874
<b>Expenditures:</b>			
General government	4,139,370	-	4,139,370
Excess (deficiency) of revenues over expenditures	(4,139,370)	9,874	4,149,244
<b>Other Financing Sources (Uses):</b>			
Transfer from other funds	4,139,370	4,139,370	-
Transfer to other funds	(674,304)	(674,304)	-
Appropriated fund balance	674,304	-	(674,304)
Total other financing sources	4,139,370	3,465,066	(674,304)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ -	3,474,940	3,474,940
<b>Fund balance at beginning of year</b>		3,723,712	
<b>Fund balance at end of year</b>		\$ 7,198,652	

**Watauga County, North Carolina**  
Solid Waste Fund  
Statement of Revenues and Expenditures Budget and Actual (NON-GAAP)  
For the Fiscal Year Ended June 30, 2012

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Operating revenues:			
Landfill charges	\$	4,112,956	
Restricted intergovernmental revenues		156,484	
Total	<u>4,037,034</u>	<u>4,269,440</u>	<u>232,406</u>
Non-operating revenues:			
Investment earnings	<u>7,000</u>	<u>6,387</u>	<u>(613)</u>
Total revenues	<u>4,044,034</u>	<u>4,275,827</u>	<u>231,793</u>
<b>Expenditures:</b>			
Landfill operations:			
Salaries and employee benefits		1,248,168	
Other operating expenditures		2,151,241	
Total landfill operations	<u>3,460,241</u>	<u>3,399,409</u>	<u>60,832</u>
Recycling operations:			
Salaries and employee benefits		50,396	
Other operating expenses		39,613	
Total recycling operations	<u>92,464</u>	<u>90,009</u>	<u>2,455</u>
Budgetary appropriations			
Interest paid		2,909	
Debt principal		66,701	
Capital outlay		312,183	
Total budgetary appropriations	<u>519,715</u>	<u>381,793</u>	<u>137,922</u>
Total expenditures	<u>4,072,420</u>	<u>3,871,211</u>	<u>201,209</u>
Revenues under/(over) expenditures	<u>(28,386)</u>	<u>404,616</u>	<u>433,002</u>
<b>Other financing sources (uses):</b>			
Transfers to general fund for debt payment	(60,410)	(60,410)	-
Appropriated fund balance	88,796	-	(88,796)
Total other financing sources (uses):	<u>28,386</u>	<u>(60,410)</u>	<u>(88,796)</u>
Revenues over expenditures and other sources (uses)	\$ <u>-</u>	<u>344,206</u>	<u>344,206</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		312,183	
Depreciation		(290,779)	
Payment of debt principal		66,701	
Increase in accrued vacation pay		(10,130)	
Increase in accrued OPEB		(19,745)	
Total reconciling items		<u>58,230</u>	
Change in net assets		\$ <u>402,436</u>	



**Watauga County, North Carolina**  
 Combining Statement of Fiduciary Net Assets  
 Pension Trust Funds  
 For the Year Ended June 30, 2012

**Statement 14**

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ <u>203,547</u>	\$ <u>520,910</u>	\$ <u>724,457</u>
<b>Liabilities and Net Assets</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>          -</u>
Total liabilities	<u>          -</u>	<u>          -</u>	<u>          -</u>
Net Assets:			
Assets held in trust for pension benefits	\$ <u>203,547</u>	\$ <u>520,910</u>	\$ <u>724,457</u>

**Watauga County, North Carolina**  
Combining Statement of Changes in Fiduciary Net Assets  
Pension Trust Funds  
For the Year Ended June 30, 2012

**Statement 15**

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Additions:			
Employer contributions	\$ 50,576	\$ 169,359	\$ 219,935
Interest	<u>360</u>	<u>2,687</u>	<u>3,047</u>
Total additions	<u>50,936</u>	<u>172,046</u>	<u>222,982</u>
Deductions:			
Benefits	40,337	125,853	166,190
Administrative expense	<u>240</u>	<u>-</u>	<u>240</u>
Total deductions	<u>40,577</u>	<u>125,853</u>	<u>166,430</u>
Change in net assets	10,359	46,193	56,552
Net assets, beginning	193,188	474,717	667,905
Net assets, ending	<u>\$ 203,547</u>	<u>\$ 520,910</u>	<u>\$ 724,457</u>

**Watauga County, North Carolina**  
**Agency Funds**  
**Combining Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2012**

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b>Social Services:</b>				
Assets:				
Cash and Investments	\$ 22,172	223,232	209,027	36,377
Liabilities:				
Accounts Payable	\$ 22,172	223,232	209,027	36,377
<b>Vehicle Tax-Towns:</b>				
Assets:				
	5,248	104,759	102,115	7,892
Liabilities:				
Accounts Payable	5,248	104,759	102,115	7,892
<b>Town of Boone Ad valorem Taxes:</b>				
Assets:				
	12,210	5,329,959	5,337,645	4,524
Liabilities:				
Accounts Payable	12,210	5,329,959	5,337,645	4,524
<b>Jail Commissary:</b>				
Assets:				
Cash and Investments	11,914	107,793	103,554	16,153
Liabilities:				
Accounts Payable	11,914	107,793	103,554	16,153
<b>Fines and Forfeitures:</b>				
Assets:				
Cash and Investments	(491)	302,950	302,459	-
Liabilities:				
Accounts Payable	(491)	302,950	302,459	-
<b>DMV Tax Interest Fund:</b>				
Assets:				
Cash and Investments	561	11,800	11,139	1,222
Liabilities:				
Accounts Payable	561	11,800	11,139	1,222
<b>Deed of Trust Fee Fund:</b>				
Assets:				
Cash and Investments	-	40,946	36,600	4,346
Liabilities:				
Accounts Payable	-	40,946	36,600	4,346
<b>Total - All Agency Funds</b>				
Assets:				
Cash and Investments	\$ 51,614	6,121,439	6,102,539	70,514
Liabilities:				
Accounts Payable	\$ 51,614	6,121,439	6,102,539	70,514

**Watauga County, North Carolina**  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2012

Fiscal year:	Uncollected Balance June 30, 2011	Additions	Collections and Credits	Uncollected Balance June 30, 2012
2011 - 2012	\$ --	27,718,458	27,093,503	624,955
2010 - 2011	766,281	-	476,885	289,396
2009 - 2010	306,597	-	139,474	167,123
2008 - 2009	171,637	-	52,926	118,711
2007 - 2008	93,067	-	14,715	78,352
2006 - 2007	74,494	-	5,882	68,612
2005 - 2006	60,437	-	5,883	54,554
2004 - 2005	43,830	-	2,812	41,018
2003 - 2004	41,011	-	2,657	38,354
2002 - 2003	40,032	-	1,986	38,046
2001 - 2002	39,079	-	39,079	-
	\$ 1,636,465	27,718,458	27,835,802	1,519,121
Plus: 2012 - 2013 receivable				46,745
Less: Allowance for uncollectible accounts General Fund				(470,172)
Ad valorem taxes receivable - net General Fund				\$ 1,095,694

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Reconciliation with revenues:

Ad valorem taxes - General Fund		\$ 27,953,698
Reconciling items:		
Advertising and interest collected	(177,501)	
Taxes written off	37,669	
Prior year releases	21,936	
Total reconciling items		(117,896)
Total collections and credits		\$ 27,835,802

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-wide Levy  
 For the Year Ended June 30, 2012

	County-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current year's rate	\$ 8,415,591,693	\$ 0.313	26,340,802	\$ 26,340,802	-
Motor vehicles	379,986,901	0.313	1,189,359	-	1,189,359
Penalties	-		2,595	2,595	-
Total	<u>8,795,578,594</u>		<u>27,532,756</u>	<u>26,343,397</u>	<u>1,189,359</u>
Discoveries:					
Current year taxes	106,018,850	0.313	331,839	331,839	-
Prior year taxes	-		5,089	5,089	-
Penalties	-		947	947	-
Total	<u>106,018,850</u>		<u>337,875</u>	<u>337,875</u>	<u>-</u>
Abatements:	<u>(48,617,572)</u>		<u>(152,173)</u>	<u>(49,988)</u>	<u>(102,185)</u>
Total property valuation	<u>\$ 8,852,979,872</u>				
Net levy			27,718,458	26,631,284	1,087,174
Uncollected taxes at June 30, 2012			<u>624,955</u>	<u>556,796</u>	<u>68,159</u>
Current year's taxes collected			<u>\$ 27,093,503</u>	<u>26,074,488</u>	<u>1,019,015</u>
Current levy collection percentage			<u>97.75%</u>	<u>97.91%</u>	<u>93.73%</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-wide Levy  
 For the Year Ended June 30, 2012

**Secondary Market Disclosures:**

Assessed Valuation:		
Assessment Ratio		100%
Real Property	\$	8,220,513,858
Personal Property		534,764,802
Public Service Companies		<u>80,711,280</u>
Total Assessed Valuation	\$	<u>8,835,989,940</u>
Tax Rate per \$100		0.313
Net Levy (Includes penalties, discoveries, releases and abatements)	\$	<u><u>27,718,458</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, 2012:

Fire Protection District	Tax Rate per \$100		Net Levy
Beaver Dam	0.05	\$	112,462
Beech Mtn Rural	0.05	\$	2,099
Blowing Rock	0.05	\$	464,491
Boone Rural	0.04	\$	613,453
Cove Creek	0.05	\$	228,357
Cove Creek Rural	0.05	\$	301
Deep Gap	0.05	\$	181,643
Foscoe	0.05	\$	461,901
Foscoe Rural	0.05	\$	69,893
Meat Camp	0.03	\$	127,801
Shawneehaw	0.05	\$	93,482
Shawneehaw Rural	0.05	\$	5,322
Stewart Simmons	0.05	\$	153,252
Todd	0.05	\$	62,541
Zionville	0.05	\$	111,035
<b>Total Net Fire Protection District Levies</b>		<b>\$</b>	<b><u><u>2,688,033</u></u></b>

**Watauga County, North Carolina**  
 Ten Largest Taxpayers  
 For the Year Ended June 30, 2012

Taxpayer	Type of Business	2011 Assessed Valuation	Percentage of Total Assessed Valuation	
BR Development Group LLC	Real Estate Development	\$ 78,803,050	0.89	%
Blue Ridge Electric	Electric Utility	63,690,170	0.72	
Dugger Valley Inv Group LLC	Real Estate Development	50,548,500	0.57	
Mountaineer Village LLC	Rental Properties	25,769,700	0.29	
Lowe's Home Centers	Home Supply Center	21,559,300	0.24	
Appalachian South	Rental Properties	20,559,300	0.23	
Horizon Acquisition #2 LLC	Rental Properties	18,906,800	0.21	
Wm Land Boone LTD Ptnrp	Real Estate Development	16,164,500	0.18	
Templeton Properties LP	Commercial Rental Properties	15,621,940	0.18	
Paul Brown Enterprises	Rental Properties	14,112,500	0.16	
		<u>\$ 325,735,760</u>	<u>3.68</u>	%

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 Fire Districts  
 For the Year Ended June 30, 2012

	Beaver Dam Fire District	Beech Mtn. Rural Fire Service District	Blowing Rock Rural Fire District	Boone Rural Fire District	Cove Creek Fire District	Cove Creek Rural Fire Service District	Deep Gap Fire District	Foscoe Fire District
Tax rate	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 112,462	2,099	464,491	613,453	228,357	301	181,643	461,901
Uncollected taxes at June 30, 2012	<u>3,024</u>	<u>2</u>	<u>12,125</u>	<u>12,220</u>	<u>6,559</u>	<u>-</u>	<u>6,373</u>	<u>8,284</u>
Current year's taxes collected	\$ <u>109,438</u>	<u>2,097</u>	<u>452,366</u>	<u>601,233</u>	<u>221,798</u>	<u>301</u>	<u>175,270</u>	<u>453,617</u>
Current levy collection percentage	<u>97.31%</u>	<u>99.92%</u>	<u>97.39%</u>	<u>98.01%</u>	<u>97.13%</u>	<u>100.00%</u>	<u>96.49%</u>	<u>98.21%</u>
	Foscoe Rural Fire Service District	Meat Camp Fire District	Shawnheehaw Fire District	Shawnheehaw Rural Fire Service District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District	
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.07</u>	<u>0.05</u>	
Net levy	\$ 69,893	127,801	93,482	5,322	153,252	62,541	111,035	
Uncollected taxes at June 30, 2012	<u>1,066</u>	<u>4,912</u>	<u>3,078</u>	<u>138</u>	<u>7,593</u>	<u>1,234</u>	<u>2,986</u>	
Current year's taxes collected	\$ <u>68,827</u>	<u>122,889</u>	<u>90,404</u>	<u>5,184</u>	<u>145,659</u>	<u>61,307</u>	<u>108,049</u>	
Current levy collection percentage	<u>98.47%</u>	<u>96.16%</u>	<u>96.71%</u>	<u>97.41%</u>	<u>95.05%</u>	<u>98.03%</u>	<u>97.31%</u>	



## COMPLIANCE SECTION

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## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Board of County Commissioners  
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2012, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated November 5, 2012. We did not audit the financial statements of AppalCART or the Watauga County District U Tourism Development Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART and the Watauga County District U Tourism Development Authority 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 Controller General of the United States.

### **Internal Control over Financial Reporting**

Management of Watauga County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Watauga County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on effectiveness of Watauga County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watauga County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's response, and accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Watauga County in a separate letter dated November 5, 2012.

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

***Bryce Holder, CPA, P.A.***

**November 5, 2012**

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

To the Board of County Commissioners  
Watauga County, North Carolina

### **Compliance**

We have audited the compliance of Watauga County, North Carolina, compliance with the requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County's major federal programs for the year ended June 30, 2012. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the 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, 2012.

### Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 an entity's internal control over compliance 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 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 combination of deficiencies 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 or corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not necessarily identify all deficiencies in internal control 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, as defined above.

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

***Bryce Holder, CPA, P.A.***

***November 5, 2012***

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

To the Board of County Commissioners  
Watauga County, North Carolina

### Compliance

We have audited 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 that could have a direct and material effect on each of Watauga County's major State programs for the year ended June 30, 2012. Watauga County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that could have a direct and material effect to each of its major State programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance 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 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 there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

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

***Bryce Holder, CPA, P.A.***

November 5, 2012

WATAUGA COUNTY, NORTH CAROLINA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial Statements noted \_\_\_\_\_ Yes  X  No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes  X  None reported

Type of auditor's report issued noncompliance for major federal programs: Unqualified

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

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778
Childcare Cluster	93.596 93.575 93.713 93.558 93.714

Dollar threshold used to distinguish Between Type A and Type B Programs: \$ 641,123

Auditee qualified as low-risk auditee \_\_\_\_\_  X  Yes \_\_\_\_\_ No



Watauga County, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012

State Awards

Internal control over major State Programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes      X   None reported

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

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

Identification of major State programs:

Program Name

Title XIX Medicaid

**II. Financial Statement Findings:**

There were no findings or questioned costs.

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

There were no findings or questioned costs.

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

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2012

Finding 2007

Status: The County has hired another person with sufficient expertise to help monitor the auditor's drafting of the financial statements and is in the process of developing a schedule to phase in the procedures of drafting the financial statements in house with the assistance of the auditors.

Finding 2008

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

Finding 2009

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

Finding 2010

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

Finding 2011

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, 2012

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 Grants:</b>					
<b>U.S. Dept. of Agriculture</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Supplemental Nutrition Assistance Program					
State Administrative Matching Grants for the Food Stamp Program	10.561		\$ 211,039	-	211,039
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		26,107	-	-
<b>Total U.S. Dept. of Agriculture</b>			<u>237,146</u>	<u>-</u>	<u>211,039</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	06-C-1541	181,194	-	-
<b>U.S. Dept. of Energy</b>					
Passed-through the N.C. Dept of Commerce					
ARRA State Energy Program	81.041		40,931	-	40,931
<b>U.S. Dept of Homeland Security</b>					
Passed-through the N.C. Dept of Public Safety:					
Emergency Management Performance Grant	97.042		35,261	-	35,261
Interoperable Emergency Communications	97.055		6,223	-	-
Active Shooter Exercise	97.073		25,096	-	-
State Homeland Security Program	97.073		16,084	-	-
<b>Total U.S. Dept of Homeland Security</b>			<u>82,664</u>	<u>-</u>	<u>35,261</u>
<b>U.S. Dept. of Justice</b>					
State Criminal Alien Assistance Program	16.606		16,439	-	-
Bulletproof Vest Partnership Program	16.607		3,325	-	3,325
Public Safety Partnership and Community Policing Grants	16.710		217	-	-
ARRA Equipment Grant	16.804		11,280	-	-
Passed-through the N.C. Dept of Public Safety:					
Domestic Violence Intervention Program	16.588		12,186	-	4,062
<b>Total U.S. Dept of Justice</b>			<u>43,447</u>	<u>-</u>	<u>7,387</u>
<b>U.S. Dept of Transportation</b>					
Passed-through the N.C. Dept. of Transportation					
ARRA Highway Planning and Construction Grants	20.205		153,392	-	-
<b>U.S. Dept. of Health &amp; Human Services</b>					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		2,304	136	271
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		5,756	339	667
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		106,740	6,279	12,558
State Match on Home Delivered Meals Program			-	18,042	2,005
Senior Center			-	16,274	-
Family Caregiver Support Program	93.052		3,779	222	444
Total Aging Cluster			<u>118,579</u>	<u>41,292</u>	<u>15,945</u>
Social Services Block Grant (SSBG)					
In-home Services	93.667		7,098	2,763	5,931
In-home Services - State Match			-	113,578	13,340
Seniors Health Insurance Information Program	93.779		8,803	-	-

**Watauga County, North Carolina**  
 Schedule of Expenditures of Federal and State Awards  
 For the Year Ended June 30, 2012

**Statement 22**  
 (Page 2 of 3)

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Administration for Children and Families</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Family Preservation	93.556		2,594	-	-
Temporary Assistance for Needy Families					
Administration	93.558		225,068	-	170,041
Direct Benefit Payments	93.558		72,112	-	-
Child Support Enforcement	93.563		192,258		99,042
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		332,774	-	-
Child Welfare Services	93.645		11,730	773	4,167
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		-	85,817	14,677
Title IV-E Foster Care	93.658		165,768	10,461	130,799
Foster Care - Direct Benefit Payments	93.658		39,512	9,016	12,142
Adoption Assistance - Direct Benefit Payments	93.659		157,072	42,153	42,153
Social Services Block Grant	93.667		162,396	13,611	56,716
DCD Smart Start			-	21,150	-
Adoption/Foster Care Special Provision			19,941	17,024	5,374
Total Division of Social Services			<u>1,381,225</u>	<u>200,005</u>	<u>535,111</u>
<b>Subsidized Child Care</b>					
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		259,199	-	-
Child Care and Development Fund - Mandatory	93.596		95,129	-	-
Child Care and Development Fund - Match	93.596		227,180	106,504	-
Total Child Care Development Fund Cluster			<u>661,508</u>	<u>106,504</u>	<u>-</u>
Temporary Assistance for Needy Families (TANF)					
Smart Start	93.558		113,308	-	-
State Appropriations			-	541	-
TANF - Maintenance of Effort			-	85,765	-
ARRA - Emergency Contingency for TANF	93.714		17,306	42,233	-
Total Subsidized Child Care (Note 3)			<u>792,122</u>	<u>235,043</u>	<u>-</u>
<b>Health Care Financing Administration</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		17,814,293	10,355,624	3,933
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		505,109	22,044	472,481
Health Choice	93.767		21,083	1,220	5,573
Links	93.674		2,333	583	-
Links- Direct Benefit Payments	93.674		5,117	-	-
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>20,639,861</u>	<u>10,855,811</u>	<u>1,033,043</u>
<b>Total Federal Awards</b>			<u>21,394,536</u>	<u>10,972,152</u>	<u>1,444,002</u>
<b>State Awards:</b>					
<b>N.C. Dept. of Health and Human Services</b>					
Division of Social Services					
State/County Special Assistance for Adults - Direct Benefit Payments			-	280,311	280,311
State Foster Care Benefits Program			-	105,308	105,308
Program Integrity			-	800	-
<b>Total N.C. Dept. of Health and Human Services</b>			<u>-</u>	<u>386,419</u>	<u>385,619</u>
<b>N.C. Dept. of Public Safety</b>					
Division of Administration, Community Programs					
Juvenile Crime Prevention Council Programs-Gang Violence Prevention			-	39,072	-
Juvenile Crime Prevention Council Programs			-	111,097	33,231
<b>Total N.C. Dept. of Public Safety</b>			<u>-</u>	<u>150,169</u>	<u>33,231</u>
<b>N.C. Rural Economic Development Center</b>					
Clean Water Partner Infrastructure Program Supplement Grant			-	141,834	-
N.C. Economic Infrastructure Fund					
Building Reuse and Restoration Development Grant			-	44,843	44,843
<b>Total N.C. Rural Economic Development Center</b>			<u>-</u>	<u>186,677</u>	<u>44,843</u>

**Watauga County, North Carolina**  
 Schedule of Expenditures of Federal and State Awards  
 For the Year Ended June 30, 2012

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>					
Public School Capital Building Fund			-	78,957	-
Public School Lottery Fund			-	100,554	-
Public School National Forest Service			-	493	-
<b>Total N.C. Dept. of Public Instruction</b>			<u>-</u>	<u>180,004</u>	<u>-</u>
<b>N.C. Dept. of Transportation</b>					
Workfirst/Employment Transportation Operating Assistance			-	11,822	-
Elderly and Disabled Transportation Assistance			-	59,004	-
Rural General Public Program			-	60,222	-
<b>Total N.C. Dept. of Transportation</b>			<u>-</u>	<u>131,048</u>	<u>-</u>
<b>N.C. Dept. of Agriculture</b>					
Soil Conservation Assistance			-	3,600	70,169
Soil Conservation Cost Sharing			-	23,808	23,808
<b>Total N.C. Dept. of Agriculture</b>			<u>-</u>	<u>27,408</u>	<u>93,977</u>
<b>N.C. Dept of Environment, Health, and Natural Resources</b>					
Division of Waste Management Trust Fund					
School Recycling Grant			-	5,087	1,357
N.C. Electronics Management Fund			-	3,985	-
<b>Total N.C. Dept of Environment, Health, and Natural Resources</b>			<u>-</u>	<u>9,072</u>	<u>1,357</u>
<b>Clean Water Management Trust Fund</b>					
Brookshire Park Project 2011-407			-	20,743	-
<b>N.C. Dept. of Corrections</b>					
Criminal Justice Partnership Program			-	64,139	-
<b>N.C. Division of Veteran's Affairs</b>					
Veteran's Service Program			-	1,452	113,434
<b>Total State Awards</b>			<u>-</u>	<u>1,157,131</u>	<u>672,461</u>
<b>Total Federal and State Awards</b>			<u>\$ 21,394,536</u>	<u>12,129,283</u>	<u>2,116,463</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 in or used in the preparation of the general purpose financial statements. Benefit payments are paid directly to recipients and are not included in the County's 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
Supplemental Nutrition Assistance Program-noncash	10.551	\$ 5,223,557	-
Temporary Assistance for Needy Families	93.558	72,112	-
Medical Assistance Program	93.778	17,814,293	10,355,624
Child Welfare - Adoption Subsidy	93.645	-	85,817
Foster Care	93.658	39,512	9,016
Adoption Assistance	93.659	157,072	42,153
Adult Assistance		-	280,311
Links	93.674	4,160	

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