



WATAUGA COUNTY, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Misty D. Watson, CPA, PA

PO Box 2122

Boone, NC 28607



WATAUGA COUNTY, NORTH CAROLINA

BOARD OF COUNTY COMMISSIONERS

Jimmy Hodges, Chairman

David Blust, Vice Chairman

John Welch

Billy Kennedy

Perry Yates

COUNTY OFFICIALS

Deron T. Geouque

County Manager

Margaret Pierce

Finance Director

Stacy C. Eggers, IV

County Attorney

Amy Shook

Register of Deeds

Larry Warren

Tax Administrator

Watauga County, North Carolina

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Commissioners
Watauga County, North Carolina

Report on the Financial Statements

I 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, 2016 and the related notes to the financial statements, which collectively comprise Watauga County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of AppalCART, which represents 88.3 percent, 88.4 percent, and 74.3 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for AppalCART is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Watauga County District U Tourism Development Authority were not audited in accordance with *Governmental Auditing Standards*.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, based upon my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County as of June 30, 2016, and the respective changes in financial position, and cash flows, where applicable thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 10, the Law Enforcement Officers' Special Separation Allowance Irrevocable Trust's Schedules of the Changes in the Net Pension (Asset) Liability, Net Pension (Asset) Liability and Employer Contributions, on page 58 through 60, respectively, the Other Post Employment Benefits and Schedules of Funding Progress and Employer Contributions on page 61, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension (Asset) Liability and Contributions, on pages 62 through 63, respectively, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of Net Pension Liability (Asset) and Contributions, on pages 64 through 65, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

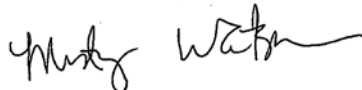
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watauga County's basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 7, 2016 on my consideration of the Watauga County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watauga County's internal control over financial reporting and compliance.

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

Misty D. Watson, CPA, PA
Boone, NC 28607
October 7, 2016

MANAGEMENT DISCUSSION
AND ANALYSIS

Watauga County

Year Ended June 30, 2016

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, 2016. We encourage users to read the information presented here in conjunction with additional information we have furnished in the County's financial statements and notes which follow this narrative.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the fiscal year by \$136,284,553.
- The County's total net position increased by \$7,918,785 primarily due to an increase in cash assets from revenues exceeding budget projections and a reduction in outstanding liabilities coupled with operating expenditures below expected levels.
- The County's unassigned fund balance for the General Fund was \$21,607,950 at the end of the year, representing 46.34% of total General Fund expenditures. This is an increase of \$3,415,887 in unassigned fund balance over the previous year.
- Total County debt decreased by \$4,117,361 in outstanding principal.
- The Brookshire Underpass Greenway extension project under Hwy 421 was opened.
- The household hazardous waste collection facility was completed to allow for 5-7 more disposal dates.
- Moody's Investors Service reaffirmed the County's Aa3 credit rating and stated the County has a very strong financial position.
- For the second year, the County was able to allocate funds to the Capital Projects Fund as part of the original budget ordinance denoting a continued rebound from the recession.
- The fiscal year 2014-15 increase in unassigned fund balance of \$1,443,552 was appropriated to the Capital Project Fund for the County's CIP in addition to the initially budgeted \$825,000.

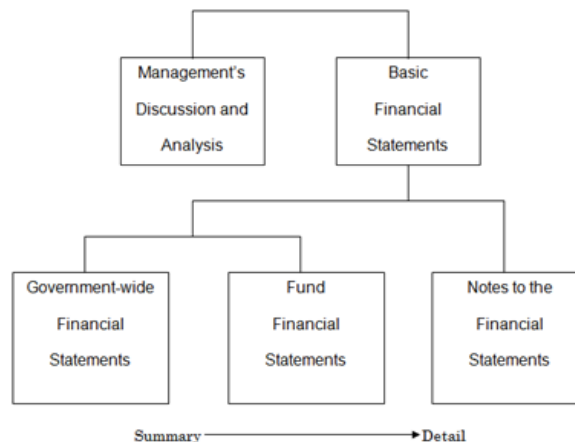
Overview of the Financial Statements

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

The basic financial statements present two different views of the County's finances through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Watauga County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net position and how the net position has changed. Net position is the difference between the County's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the County's financial condition.

Government-wide financial statements may be divided into as many as three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes solid waste services offered by Watauga County. The final category is the component units. AppalCART is a separate governmental entity, which operates a transportation authority in Watauga County. Watauga County Board of Commissioners appoints the eight member governing body. Watauga County provides some financial support and AppalCART is financially accountable to the County. The Watauga County District U Tourism Development Authority (TDA) is a separate governmental entity created to administer occupancy tax 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

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Watauga County, like all governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All County funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's activities are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which focuses on current financial resources. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the

County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the final budget as amended by the board, 2) the actual resources, charges to appropriations, and ending balances in the General Fund, and 3) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has eight fiduciary funds, two of which are pension trust funds and the other six are agency funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information can be found beginning on page 56 of this report.

Government-Wide Financial Analysis

Watauga County's Net Position

Figure 2

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Current and other assets	\$ 35,690,173	\$ 39,533,033	\$ 4,897,264	\$ 5,862,432	\$ 40,587,437	\$ 45,395,465
Net capital assets	139,527,310	137,566,874	4,658,480	4,593,317	144,185,790	142,160,191
Total assets	175,217,483	177,099,907	9,555,744	10,455,749	184,773,227	\$ 187,555,656
Total deferred outflows of resources	729,287	718,757	64,737	60,289	794,024	779,046
Long-term liabilities outstanding	48,274,945	49,333,032	98,309	172,660	48,373,254	49,505,692
Other liabilities	5,604,966	1,834,602	169,425	282,485	5,774,391	2,117,087
Total liabilities	53,879,911	51,167,634	267,734	455,145	54,147,645	51,622,779
Total deferred inflows of resources	2,344,468	394,202	216,948	33,168	2,561,416	427,370
Net position:						
Net investment in capital assets	92,898,978	94,926,875	4,658,480	4,593,317	97,557,458	99,520,192
Restricted	6,383,437	5,136,888	-	-	6,383,437	5,136,888
Unrestricted	20,439,976	26,193,065	4,477,319	5,434,408	24,917,295	31,627,473
Total net position	\$ 119,722,391	\$ 126,256,828	\$ 9,135,799	\$ 10,027,725	\$ 128,858,190	\$ 136,284,553

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$136,284,553 at June 30, 2016. The County's net position increased by a total of \$7,918,785 for the fiscal year. Net position is reported in three categories: Net investment in capital assets of \$99,520,192; restricted net position of \$5,136,888; and unrestricted net position of \$31,627,473.

The net investment in capital assets is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2016, the increase in this category of net position correlates to reduced outstanding debt along with increased capital assets.

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

The final category of net position is unrestricted net position. This balance may be used to meet the government's ongoing obligations to citizens and creditors. Several particular aspects of the County's financial operations affected the reporting of total unrestricted net position:

- Higher current cash and cash equivalent assets;
- Reductions in outstanding liabilities from debt principal paid;
- Reduction in restricted net position increases unrestricted net position.

Watauga County Changes in Net Position

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program revenues:						
Charges for services	\$ 1,532,806	\$ 1,891,176	\$4,346,485	\$4,628,031	\$ 5,879,291	\$ 6,519,207
Operating grants and contributions	4,973,943	5,694,785	113,697	153,795	5,087,640	5,848,580
Capital grants	707,700	1,087,312	-	-	707,700	1,087,312
General revenues:						
Property taxes	30,935,535	30,972,900	-	-	30,935,535	30,972,900
Other taxes	12,260,357	13,445,818	-	-	12,260,357	13,445,818
Grant and contributions not restricted to specific programs	1,961,409	3,278,098	-	-	1,961,409	3,278,098
Other	2,034,114	136,602	22,164	23,689	2,056,278	160,291
Total revenues	54,405,864	56,506,691	4,482,346	4,805,515	58,888,210	61,312,206
Expenses						
General government	9,442,939	10,139,596	-	-	9,442,939	10,139,596
Public safety	12,617,487	12,944,370	-	-	12,617,487	12,944,370
Transportation	167,182	209,838	-	-	167,182	209,838
Economic & physical development	521,052	664,986	-	-	521,052	664,986
Environment protection	355,573	331,923	-	-	355,573	331,923
Humans services	7,536,917	7,735,723	-	-	7,536,917	7,735,723
Cultural and recreation	1,142,379	1,293,315	-	-	1,142,379	1,293,315
Education	13,307,102	14,425,668	-	-	13,307,102	14,425,668
Interest on long-term debt	1,881,412	1,734,413	-	-	1,881,412	1,734,413
Solid Waste	-	-	4,081,333	3,913,589	4,081,333	3,913,589
Total expenses	46,972,043	49,479,832	4,081,333	3,913,589	51,053,376	53,393,421
Increase (decrease) in net position before transfers and special items	7,433,821	7,026,859	401,013	891,926	7,834,834	7,918,785
Transfers	40,392	-	(40,392)	-	-	-
Increase (decrease) in net position after transfer and special items	7,474,213	7,026,859	360,621	891,926	7,834,834	7,918,785
Net position, beginning, previously reported	111,807,321	119,722,391	8,734,589	9,135,799	120,541,910	128,858,190
Restatement	440,857	(492,422)	40,589	-	481,446	(492,422)
Net position, beginning, restated	112,248,178	119,229,969	8,775,178	9,135,799	121,023,356	128,365,768
Net position, ending	\$119,722,391	\$126,256,828	\$9,135,799	\$10,027,725	\$128,858,190	\$136,284,553

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities: Governmental activities increased the County's net position by \$7,026,859 before prior year adjustments, thereby accounting for 88.74% of the total growth in the net position of Watauga County. Key elements of this increase are as follows:

- Sales tax increases due to the improved economic factors, particularly in the tourism industry resulted in revenues above projection;
- Continued high property tax collections at a rate of 98.81% for FY 15-16, an increase of 44 basis points over last year;
- Close monitoring of expenditures throughout the year with actual expenditures well below budget.

Business-type activities: Business-type activities increased Watauga County's net position by \$891,926 (11.26%). Key elements of this increase are as follows:

- Revenues in excess of projections for sale of recycled materials due to anticipated volume reductions not materializing;
- Revenues for solid waste fees were above projections due to higher tax collection rates;
- Contracted increases in the waste hauling contract were below projected increase along with continued fuel escalator credits in excess of anticipated amounts.

Financial Analysis of the County's Funds

Watauga County uses fund accounting to ensure and demonstrate compliance with finance-related legal and accounting requirements.

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

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Fund increased to \$21,607,950 while total fund balance increased to \$26,408,144. 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 45.79 percent of total General Fund expenditures (\$47,189,556), while total fund balance represents 55.96 percent of that same amount.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once more 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 \$4,472,492 with approximately \$1.44 million of the amendments related to funds set aside for future capital needs of the County, \$466,774 for school lottery projects, and approximately \$660,000 for additional projects and grant funding received. The actual operating revenues for the General Fund were \$1,975,005 more than the budgeted amount. Actual operating expenses were less than budgeted by \$3,611,260. Unfinished projects which are budgeted but not completed account for \$1,940,979 (53.75%) of the total amount under budget for expenditures.

Proprietary Funds - Watauga County's proprietary fund is used to provide information on the solid waste enterprise. Unrestricted net position of the Solid Waste Fund at the end of the fiscal year amounted to \$5,434,408. The total increase in proprietary net position was \$891,926. Anticipated rate per ton and fuel escalator increases in the waste hauling contract tied to the national CPI were not realized with the continued recession recovery creating savings.

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, 2016, totals \$142,160,191 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles and equipment for County governmental departments;

- Continued work on the new ambulance base site and the greenway/underpass at Brookshire Park and Hwy 421;
- Completion of a new building for household hazardous waste collection.

Watauga County's Capital Assets, Net of Depreciation
Figure 4

	Governmental	Business	Total
	Activities	Activities	
	2016	2016	2016
Land	\$ 44,213,150	\$ 975,497	\$ 45,188,647
Buildings	81,703,572	3,036,287	84,739,859
Other improvements	3,254,625	144,778	3,399,403
Leasehold improvements	5,428,270	6,795	5,435,065
Equipment	1,144,183	273,713	1,417,896
Vehicles	710,772	156,247	867,019
Construction in progress	1,096,702	-	1,096,702
Intangible assets	15,600	-	15,600
Total	\$ 137,566,874	\$ 4,593,317	\$ 142,160,191

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, 2016, Watauga County had no bonded debt outstanding or authorized.

Watauga County's Outstanding Debt
Figure 5

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Installment purchase	\$ 43,156,110	\$ 47,273,471

Watauga County's total debt decreased by \$4,117,361 or (8.71%) during the past fiscal year due to scheduled debt service payments. No new debt was issued. The State of North Carolina limits the amount of debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries less outstanding debt principal. The legal debt margin for Watauga County as of June 30, 2016 is \$672,414,671. Additional information regarding Watauga County's long-term debt can be found in Note 3.B.7.b of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The County continues to experience growth in tourism and has seen continued revenue increases for more than seven years related to tourism;
- The County's unemployment rate of 4.5% as of July 2016 is slightly lower than the state average of 4.6% and the federal rate of 4.9% and is consistent with the trends seen before the economic recession;
- Appalachian State University provides continued stability to the local economy as a major employer and source of overall positive economic impact from the student population;
- Construction and real estate sales have continued to show increases, consistent with state and national trends.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental activities – The County's property tax rate is maintained at 31.3 cents per \$100 in property valuation for the eleventh year in a row. Tax revenues are expected to remain level with minor growth for new construction. Sales tax revenue is projected with a 3 percent increase based on state projections and more history with the ad valorem method of distribution. Other revenues are expected to maintain current levels with minor increases.

Budgeted expenditures in the General Fund include increased school current expense and capital funding of just over \$409,000, department budgets with minor increases predominately due to personnel salary and benefit increases. Capital purchases are allocated mainly for vehicle replacements with other projects still limited to primarily repairs and maintenance. A major project to replace the roof and HVAC units at the West Annex is planned at \$234,000. Completion during Fiscal Year 16-17 is expected on the new ambulance base in the western part of the County and the Brookshire/Hwy 421 underpass greenway project. Funds are allocated to be set aside again this year for future capital school projects of \$400,000 (a \$25,000 increase over FY 15-16) and \$500,000 for county projects.

Businesses-type activities – Budgeted revenues for solid waste fees are projected at current year amounts with property owners continuing to receive 2,000 pounds of free disposal at the transfer station. Budgeted expenditures include funding for an increase in waste hauling expenses due to potential contracted increases in April 2017. Funds have also been budgeted for capital replacements of a snowplow, pickup truck, tire trailer, recycling containers, road tractor, and a trash truck estimated at \$381,250.

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, Suite 216, Boone, NC 28607. The report can also be found on our website www.wataugacounty.org/main/App_Pages/Dept/Finance/countyAudits.aspx.

BASIC FINANCIAL STATEMENTS

Watauga County, North Carolina
Statement of Net Position
June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
ASSETS					
Cash and cash equivalents	\$ 33,583,709	\$ 5,297,107	\$ 38,880,816	\$ 2,231,237	\$ 1,491,637
Restricted cash and cash equivalents	815,078	-	815,078	-	-
Receivables (net)	1,404,657	456,377	1,861,034	8,514	-
Due from other governments	3,041,172	37,550	3,078,722	169,387	334,400
Inventory	-	-	-	151,043	-
Net pension asset - ROD	152,800	-	152,800	-	-
Intangible asset for advanced funding of OPEB NOO	535,617	71,398	607,015	-	-
Capital assets:					
Land, intangible, and construction in progress	45,325,452	975,497	46,300,949	1,213,392	-
Other capital assets, net of depreciation	92,241,422	3,617,820	95,859,242	10,029,158	-
Total capital assets	<u>137,566,874</u>	<u>4,593,317</u>	<u>142,160,191</u>	<u>11,242,550</u>	<u>-</u>
Total assets	<u>177,099,907</u>	<u>10,455,749</u>	<u>187,555,656</u>	<u>13,802,731</u>	<u>1,826,037</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals-LEOSSA	17,055	-	17,055	-	-
Contributions to pension plan in current fiscal year-LEOSSA	7,663	-	7,663	-	-
Pension deferrals-LGERS and ROD	16,228	481	16,709	-	-
Contributions to pension plan in current fiscal year-LGERS and ROD	677,811	59,808	737,619	-	10,241
Total deferred outflows of resources	<u>718,757</u>	<u>60,289</u>	<u>779,046</u>	<u>-</u>	<u>10,241</u>
LIABILITIES					
Accounts payable and accrued expenses	1,280,042	282,485	1,562,527	169,924	3,674
Accrued interest payable	162,452	-	162,452	-	-
Due to other governments	346,155	-	346,155	-	-
Liabilities payable from restricted assets	45,953	-	45,953	-	-
Unamortized liability for bond premiums	3,902,873	-	3,902,873	-	-
Long-term liabilities:					
Net pension liability - LGERS	717,269	63,814	781,083	-	12,880
Net pension liability - LEOSSA	517,233	-	517,233	-	-
Debt service due within one year	4,082,361	-	4,082,361	-	-
Due in more than one year	40,113,296	108,846	40,222,142	-	7,458
Total liabilities	<u>51,167,634</u>	<u>455,145</u>	<u>51,622,779</u>	<u>169,924</u>	<u>24,012</u>
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	379,946	33,168	413,114	-	17,613
Prepaid taxes and fees	14,256	-	14,256	-	-
Total deferred inflows of resources	<u>394,202</u>	<u>33,168</u>	<u>427,370</u>	<u>-</u>	<u>17,613</u>
NET POSITION					
Net investment in capital assets	94,926,875	4,593,317	99,520,192	11,242,550	-
Restricted for:					
Stabilization by State Statute	4,542,332	-	4,542,332	-	334,400
Public safety	336,694	-	336,694	-	-
Register of Deeds	78,847	-	78,847	-	-
Revaluation	179,015	-	179,015	-	-
Tourism promotion	-	-	-	-	1,460,253
Unrestricted (deficit)	26,193,065	5,434,408	31,627,473	2,390,257	-
Total net position	<u>\$ 126,256,828</u>	<u>\$ 10,027,725</u>	<u>\$ 136,284,553</u>	<u>\$ 13,632,807</u>	<u>\$ 1,794,653</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, 2016

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 10,139,596	\$ 848,431	\$ 335,758	\$ 60,000
Public safety	12,944,370	661,585	686,059	-
Transportation	209,838	-	142,343	-
Economic and physical development	664,986	-	-	-
Environmental protection	331,923	-	27,159	14,081
Human services	7,735,723	74,858	4,502,891	-
Cultural and recreational	1,293,315	306,302	-	453,554
Education	14,425,668	-	575	559,677
Interest on long-term debt	1,734,413	-	-	-
Total governmental activities	<u>49,479,832</u>	<u>1,891,176</u>	<u>5,694,785</u>	<u>1,087,312</u>
Business-type activities:				
Solid waste	<u>3,913,589</u>	<u>4,628,031</u>	<u>153,795</u>	<u>-</u>
Total	<u>\$ 53,393,421</u>	<u>\$ 6,519,207</u>	<u>\$ 5,848,580</u>	<u>\$ 1,087,312</u>
Component units:				
AppalCART	<u>\$ 4,179,067</u>	<u>\$ 2,396,963</u>	<u>\$ 2,002,783</u>	<u>\$ 201,897</u>
Watauga County District U Tourism Development Authority	<u>\$ 1,132,874</u>	<u>\$ -</u>	<u>\$ 240,203</u>	<u>\$ -</u>

General revenues:

Taxes:
Property taxes, levied for general purpose
Local option sales tax
Other taxes and licenses
Grants and contributions not restricted to specific programs
Investment earnings, unrestricted
Miscellaneous, unrestricted
Total general revenues, special items, and transfers
Change in net position
Net position, beginning previously reported
Restatement
Net position, beginning, restated
Net position, ending

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

Net (Expense) Revenues and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
\$ (8,895,407)	\$ -	\$ (8,895,407)	\$	
(11,596,726)	-	(11,596,726)		
(67,495)	-	(67,495)		
(664,986)	-	(664,986)		
(290,683)	-	(290,683)		
(3,157,974)	-	(3,157,974)		
(533,459)	-	(533,459)		
(13,865,416)	-	(13,865,416)		
(1,734,413)	-	(1,734,413)		
<u>(40,806,559)</u>	<u>-</u>	<u>(40,806,559)</u>		
-	868,237	868,237		
<u>(40,806,559)</u>	<u>868,237</u>	<u>(39,938,322)</u>		
			422,576	
				<u>(892,671)</u>
30,972,900	-	30,972,900	-	-
11,166,662	-	11,166,662	-	-
2,279,156	-	2,279,156	-	1,347,531
3,278,098	-	3,278,098	-	-
114,946	15,785	130,731	2,237	2,320
21,656	7,904	29,560	2,287	-
<u>47,833,418</u>	<u>23,689</u>	<u>47,857,107</u>	<u>4,524</u>	<u>1,349,851</u>
7,026,859	891,926	7,918,785	427,100	457,180
119,722,391	9,135,799	128,858,190	13,205,707	1,337,473
(492,422)	-	(492,422)	-	-
<u>119,229,969</u>	<u>9,135,799</u>	<u>128,365,768</u>	<u>13,205,707</u>	<u>1,337,473</u>
<u>\$ 126,256,828</u>	<u>\$ 10,027,725</u>	<u>\$ 136,284,553</u>	<u>\$ 13,632,807</u>	<u>\$ 1,794,653</u>

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

Watauga County, North Carolina
 Governmental Funds
 Balance Sheet
 June 30, 2016

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 24,403,576	\$ 9,180,133	\$ -	\$ 33,583,709
Restricted cash and cash equivalents	257,862	-	557,216	815,078
Taxes receivable, net	766,466	-	222,836	989,302
Due from other governments	3,000,782	-	40,390	3,041,172
Accounts receivable, net	58,774	-	-	58,774
Total assets	<u>\$ 28,487,460</u>	<u>\$ 9,180,133</u>	<u>\$ 820,442</u>	<u>\$ 38,488,035</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,280,042	\$ -	\$ -	\$ 1,280,042
Due to other governments	21,110	-	325,045	346,155
Liabilities to be paid from restricted assets	-	-	45,953	45,953
Total liabilities	<u>1,301,152</u>	<u>-</u>	<u>370,998</u>	<u>1,672,150</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes receivable	766,466	-	110,192	876,658
Prepaid taxes	11,698	-	2,558	14,256
Total deferred inflows of resources	<u>778,164</u>	<u>-</u>	<u>112,750</u>	<u>890,914</u>
FUND BALANCES				
Restricted for:				
Stabilization for State Statute	4,542,332	-	-	4,542,332
Public safety	-	-	336,694	336,694
Register of Deeds	78,847	-	-	78,847
Revaluation	179,015	-	-	179,015
Committed for:				
Capital projects	-	9,180,133	-	9,180,133
Unassigned	21,607,950	-	-	21,607,950
Total fund balances	<u>26,408,144</u>	<u>9,180,133</u>	<u>336,694</u>	<u>35,924,971</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 28,487,460</u>	<u>\$ 9,180,133</u>	<u>\$ 820,442</u>	<u>\$ 38,488,035</u>

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

Total Fund Balance, Governmental Funds	35,924,971
The intangible assets resulting from advance contributions to the OPEB NOO in excess of the annual required contribution are not financial resources and therefore are not reported in the funds.	535,617
Net pension asset - ROD	152,800
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	677,811
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	137,566,874
Other long-term assets are not available to pay for current period expenditures and therefore are unavailable in the funds.	356,581
Deferred inflows of resources for taxes receivable	876,658
Pension related deferrals-all plans	(339,000)
Net pension liability - LGERS	(717,269)
Net pension liability - LEOSSA	(517,233)
Some liabilities, including debt related payables and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	<u>(48,260,982)</u>
Net position of governmental activities	<u>\$ 126,256,828</u>

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

Watauga County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 28,151,345	\$ -	\$ 2,987,818	\$ 31,139,163
Other taxes and licenses	12,026,733	-	1,419,085	13,445,818
Unrestricted intergovernmental	3,278,098	-	-	3,278,098
Restricted intergovernmental	6,015,642	-	438,452	6,454,094
Permits and fees	762,959	-	-	762,959
Sales and services	1,042,046	-	-	1,042,046
Investment earnings	89,212	25,734	1,063	116,009
Donations	103,366	-	-	103,366
Miscellaneous	309,745	-	-	309,745
Total revenues	<u>51,779,146</u>	<u>25,734</u>	<u>4,846,418</u>	<u>56,651,298</u>
EXPENDITURES				
Current:				
General government	7,000,537	-	1,371,244	8,371,781
Public safety	9,652,076	-	3,513,077	13,165,153
Transportation	209,838	-	-	209,838
Economic and physical development	508,661	-	137,873	646,534
Environmental protection	353,323	-	-	353,323
Human services	7,425,331	-	-	7,425,331
Cultural and recreational	1,443,902	-	-	1,443,902
Education	14,425,668	-	-	14,425,668
Capital outlay	-	-	27,937	27,937
Debt service:				
Principal	4,117,361	-	-	4,117,361
Interest	2,052,859	-	-	2,052,859
Total expenditures	<u>47,189,556</u>	<u>-</u>	<u>5,050,131</u>	<u>52,239,687</u>
Excess (deficiency) of revenues over expenditures	<u>4,589,590</u>	<u>25,734</u>	<u>(203,713)</u>	<u>4,411,611</u>
OTHER FINANCING SOURCES (USES)				
Gain/(loss) on disposal of assets	52,013	-	-	52,013
Transfers from other funds	4,100	2,268,552	-	2,272,652
Transfers to other funds	(2,268,552)	-	(4,100)	(2,272,652)
Total other financing sources and uses	<u>(2,212,439)</u>	<u>2,268,552</u>	<u>(4,100)</u>	<u>52,013</u>
Net change in fund balance	2,377,151	2,294,286	(207,813)	4,463,624
Fund balances, beginning of year	24,030,993	6,885,847	544,507	31,461,347
Fund balances, end of year	<u>\$ 26,408,144</u>	<u>\$ 9,180,133</u>	<u>\$ 336,694</u>	<u>\$ 35,924,971</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, 2016

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

Net changes in fund balances - total governmental funds	\$	4,463,624
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 1,485,541	
Sale of assets not fully depreciated	(30,356)	
Depreciation expense for governmental assets	<u>(3,415,620)</u>	(1,960,435)

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

677,811

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

Change in unavailable revenue for tax revenues	<u>(166,263)</u>	(166,263)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Other postemployment benefits	76,088	
Pension expense-LGERS and ROD	(400,262)	
Compensated absences	(38,073)	
Pension expense-LEOSSA	(61,438)	
Amortization of bond premiums and deferred charges	<u>305,072</u>	
Combined adjustment		(118,613)

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

Principal payments on long term debt	4,117,361	
Decrease in accrued interest payable	<u>13,374</u>	
		<u>4,130,735</u>

Total changes in net position of governmental activities	\$	<u><u>7,026,859</u></u>
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Watauga County, North Carolina
 Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual - General Fund
 For the Year Ended June 30, 2016

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 27,508,992	\$ 27,508,992	\$ 28,151,345	\$ 642,353
Other taxes and licenses	11,203,500	11,318,062	12,026,733	708,671
Unrestricted intergovernmental	2,478,350	2,478,350	3,278,098	799,748
Restricted intergovernmental	5,245,538	6,461,026	6,015,642	(445,384)
Permits and fees	707,395	707,395	762,959	55,564
Sales and services	986,087	986,087	1,042,046	55,959
Investment earnings	60,000	60,000	89,212	29,212
Donations	27,500	27,500	103,366	75,866
Miscellaneous	215,119	256,729	309,745	53,016
Total revenues	48,432,481	49,804,141	51,779,146	1,975,005
Expenditures:				
Current:				
General government	7,131,620	8,953,688	7,000,537	1,953,151
Public safety	9,861,576	10,034,352	9,652,076	382,276
Transportation	67,495	209,838	209,838	-
Economic and Physical Development	494,306	546,274	508,661	37,613
Environmental Protection	361,745	391,993	353,323	38,670
Human Services	7,927,224	8,045,262	7,425,331	619,931
Cultural and Recreation	1,492,856	1,495,542	1,443,902	51,640
Education	14,264,834	14,953,647	14,425,668	527,979
Debt service:				
Principal retirement	4,117,361	4,117,361	4,117,361	-
Interest and other charges	2,052,859	2,052,859	2,052,859	-
Total expenditures	47,771,876	50,800,816	47,189,556	3,611,260
Revenues over (under) expenditures	660,605	(996,675)	4,589,590	5,586,265
Other financing sources (uses):				
Gain/(loss) on disposal of assets	35,000	35,000	52,013	17,013
Transfers from other funds	-	4,100	4,100	-
Transfers to other funds	(825,000)	(2,268,552)	(2,268,552)	-
Fund balance appropriated	129,395	3,226,127	-	(3,226,127)
Total other financing sources (uses)	(660,605)	996,675	(2,212,439)	(3,209,114)
Net change in fund balance	-	-	2,377,151	2,377,151
Fund balance, beginning of year	-	-	24,030,993	-
Fund balance, end of year	\$ -	\$ -	\$ 26,408,144	\$ -

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

Watauga County, North Carolina
Statement of Net Position
Proprietary Fund
June 30, 2016

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,297,107
Receivables, net	456,377
Due from other governments	37,550
Total current assets	5,791,034
Non-current assets:	
Intangible asset for advance funding of OPEB NOO	71,398
Capital assets:	
Land and construction in progress	975,497
Other capital assets, net of depreciation	3,617,820
Subtotal capital assets	4,593,317
Total non-current assets	4,664,715
Total assets	10,455,749
DEFERRED OUTFLOWS OF RESOURCES	
Pensions-change in proportion and difference between employer contributions and proportionate share of contributions	481
Contributions to pension plan in current fiscal year	59,808
Total deferred outflows of resources	60,289
LIABILITIES	
Net pension liability	63,814
Accounts payable	282,485
Accrued compensated absences	108,846
Total liabilities	455,145
DEFERRED INFLOWS OF RESOURCES	
Pensions-net difference between projected and actual investment earnings on plan investments	18,168
Pensions-differences between expected and actual experience	15,000
Total deferred inflows of resources	33,168
NET POSITION	
Net investment in capital assets	4,593,317
Unrestricted	5,434,408
Total net position	\$ 10,027,725

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

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2016

	Enterprise Fund
	Solid Waste Fund
OPERATING REVENUES:	
Charges for services	\$ 4,317,534
Sale of recycled materials	310,497
	4,628,031
Total operating revenues	
OPERATING EXPENSES:	
Landfill operations	3,511,294
Recycling operations	83,264
Depreciation	318,039
	3,912,597
Total operating expenses	
Operating income (loss)	715,434
NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	15,785
Miscellaneous revenues	7,904
Gain/(loss) on disposal of assets	(992)
Restricted intergovernmental revenues	153,795
	176,492
Total nonoperating revenues (expenses)	
Change in net position	891,926
Total net position, beginning	9,135,799
Total net position, ending	\$ 10,027,725

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

Watauga County, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

	Enterprise Fund
	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers	\$ 4,499,083
Cash paid for goods and services	(2,222,490)
Cash paid to employees for services	(1,281,743)
Net cash provided by operating activities	994,850
Cash flows from noncapital financing activities:	
Restricted intergovernmental revenues	153,795
Miscellaneous revenues	7,904
Net cash provided by noncapital financing activities	161,699
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	26,839
Acquisition and construction of capital assets	(280,708)
Net cash used by capital and related financing activities	(253,869)
Cash flows from investing activities:	
Interest on investments	15,785
Net cash provided by investing activities	15,785
Net increase (decrease) in cash and cash equivalents	918,465
Cash and cash equivalents, July 1	4,378,642
Cash and cash equivalents, June 30	\$ 5,297,107
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 715,434
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	318,039
Changes in assets, liabilities, deferred outflows and inflows of resources:	
Decrease in net pension asset	89,014
Decrease in deferred outflow of resources - pensions	4,448
Increase in net pension liability	63,814
Decrease in deferred inflow of resources - pensions	(183,780)
Increase in accounts receivable	(118,979)
Increase in due from other governments	(9,969)
Increase in accounts payable	113,061
Increase in intangible asset for advance funding of OPEB NOO	(6,769)
Increase in accrued compensated absences	10,537
Total adjustments	279,416
Net cash provided by operating activities	\$ 994,850

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

Watauga County, North Carolina
 Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2016

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 1,123,594	88,273
Accounts receivable	<u>2,740</u>	<u>20,416</u>
	<u><u>1,126,334</u></u>	<u><u>108,689</u></u>
Liabilities and Net Position		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u> -</u>	<u>108,689</u>
	<u> -</u>	<u>108,689</u>
Net position:		
Assets held in trust	\$ <u><u>1,126,334</u></u>	<u><u> -</u></u>

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

Watauga County, North Carolina
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2016

		Pension Trust Funds
		<u> </u>
Additions:		
Employer contributions	\$	494,996
Interest earned		<u>8,605</u>
Total additions		<u>503,601</u>
 Deductions:		
Benefits		135,427
Administrative expense		<u>5,036</u>
Total deductions		<u>140,463</u>
Change in net position		363,138
Net position, beginning		<u>763,196</u>
Net position, ending	\$	<u><u>1,126,334</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, 2016

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

AppalCART

AppalCART is the local transportation authority for Watauga County. Watauga County's Board of Commissioners appoints the eight-member governing board of AppalCART and AppalCART operates within the County's boundaries for the benefit of the County's residents and Appalachian State University. 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, 305 Hwy 105 Bypass, Boone, NC 28607.

Watauga County District U Tourism Development Authority

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

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The County reports the following major governmental funds:

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

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

The County reports the following major enterprise fund:

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

The County reports the following other fund types:

Trust Funds – The County maintains two pension trust funds – the Other PostEmployment Benefits Fund and the Law Enforcement Officers' Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Other Postemployment Benefit (OPEB) Irrevocable Trust Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees. The LEO Special Separation Allowance (LEOSSA) Irrevocable Trust Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The resources in the LEO Special Separation Allowance Fund have been set aside to pay future obligations of the LEO Special Separation Allowance.

Agency Funds – Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Trust Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are collected by the County for various municipalities within the County but are not

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

revenues to the County; the Inmate Commissary Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain individuals; the Fines and Forfeitures Fund which accounts for various fines and forfeitures that the County is required to remit to the Watauga County Board of Education, the Deed of Trust Fee Fund which accounts for fees collected by the Register of Deeds which are remitted to the State Treasurer on a monthly basis, and the Town of Boone Tax Fund which accounts for property taxes billed and collected by the County on behalf of the Town of Boone.

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, State law altered the procedures for the

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration license plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues, and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

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

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

C. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Project Fund, the Federal Equitable Sharing, the State Substance Abuse Tax, the Emergency Telephone System, Fire Districts, Occupancy Tax Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the CDBG Scattered Site Housing Grant Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund not to exceed 10% of the total departmental appropriation of the department whose allocation is reduced; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Fund Equity

1. Deposits and Investments

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

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 majority of the County, AppalCART, and the Authority's investments are carried at fair value. The NCCMT Cash Portfolio, a SEC-registered 2a-7 external investment pool, is measured at amortized cost, 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 OPEB Irrevocable Trust Fund, the LEOSSA Irrevocable Trust Fund, the DSS Trust Fund, and the Inmate Commissary Fund, to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. AppalCART and the Authority consider demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Restricted Cash

Money for Tax Revaluation is classified as restricted assets because its use is restricted per NC General Statute 153A-150. Money for the Register of Deeds Automation Enhancement Fund is restricted by NC General Statute 161-50 to pay for computer equipment and technology needs for the Register of Deeds' office. Federal regulations require equitable sharing funds be used for approved law enforcement needs. State substance abuse tax receipts are restricted to law enforcement needs. Emergency Telephone System funds are restricted per NC General Statute 62A-46. Occupancy tax revenues are restricted for disbursement to the Watauga District U Tourism Development Authority. Taxes levied on behalf of the fire districts are restricted as payable to the districts.

Watauga County Restricted Cash

Governmental Activities		
General Fund	Tax revaluation	\$ 179,015
	Register of Deeds	78,847
Federal Equitable Sharing Fund	Law enforcement	37,435
State Substance Abuse Tax Fund	Law enforcement	91,695
Emergency Telephone System Fund	911 eligible expenditures	189,367
Occupancy Tax Fund	Tourism	212,401
Fire District Funds	Unexpended collections	26,318
Total Governmental Activities		<u>\$ 815,078</u>

4. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015.

5. 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

6. Inventory

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

7. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2016, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2016, are recorded at their acquisition value. Minimum capitalization is \$2,000 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 \$2,000. Prior to July 1, 2002, the Fund did not have a minimum capitalization cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

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

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

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

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

	<u>Years</u>
Office furniture and equipment	5 to 7
Shop equipment	8
Vehicles	7 to 12
Land improvements	10
Buildings	50

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

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

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

9. Long-term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statements of Net Position.

10. Compensated Absences

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

The sick leave policies of the County, the Authority, and AppalCART provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement with the County and the Authority may be used in the determination of length of service for retirement benefit purposes. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made by the County or its component units.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

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

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

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

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

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

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

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

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

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

12. Defined Benefit Pension Plans

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

Note 2 - Stewardship, Compliance, and Accountability

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

There were no instances of noncompliance with North Carolina General Statutes.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All of the County's, AppalCART's, and the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's, AppalCART's, and the Authority's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, AppalCART, and the Authority, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, AppalCART, or the Authority. Because of the inability to measure the exact amount of collateral pledged for the County, AppalCART, or the Authority, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

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

At June 30, 2016, the County's deposits had a carrying amount of \$12,061,284 and a bank balance of \$12,220,525. Of the bank balance, \$1,250,000 was covered by federal depository insurance, and \$4,709,367 in non-interest bearing deposits and \$7,351,917 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2016, Watauga County had \$2,900 cash on hand.

At June 30, 2016, AppalCART's deposits had a carrying amount of \$722,659 and a bank balance of \$749,308. Of the bank balance, \$369,254 was covered by federal depository insurance, and \$380,054 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2016, the Authority's deposits had a carrying amount of \$587,363 and a bank balance of \$616,028. Of the balance, \$250,000 was covered by federal depository insurance and \$400,255 in interest bearing deposits was covered by collateral held under the Pooling Method. The Authority had no cash on hand.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

2. Investments

As of June 30, 2016, the County had the following investments and maturities:

Investments by Type	Valuation Measurement Method	Fair Value	Less Than 6 Months	6-12 Months	1-5 Years
Certificate of Deposit	Cost	\$ 5,012,718	\$ 5,012,718	\$ -	\$ -
Commercial Paper	Fair Value Level 2	2,980,939	995,031	1,985,908	-
Government Agencies	Fair Value Level 1	5,171,711	-	100,000	5,071,711
NC Capital Management Trust – Cash Portfolio	Amortized Cost	2,622,719	2,622,719	-	-
NC Capital Management Trust – Term Portfolio*	Fair Value Level 1	13,055,490	13,055,490	-	-
Total:		\$ 28,843,577	\$ 21,685,958	\$ 2,085,908	\$ 5,071,711

*Because the NC Capital Management Trust Term Portfolio has a weighted average maturity of less than 90 days, it was presented as an investment with a maturity of less than 6 months.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Ratings are from Standard and Poor's scale.

Level of fair value hierarchy: Level 1: Debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

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

Credit Risk. The County has no formal policy regarding credit risk, but has internal management procedures that limits the County's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the County's investments in commercial paper were rated P1 by Standard & Poor's and A1 by Moody's Investors Service. The County's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2016. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies with Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank and Federal Home Loan Mortgage Corporation are rated AA+ by Standard & Poor's and AAA by Moody's Investors Service. The County does have an elevated credit risk due to safekeeping held in a third party arrangement.

At June 30, 2016, AppalCART's investments stated at fair value, consisted of \$1,508,578 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. AppalCART has no formal policy regarding credit risk on its investments.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

At June 30, 2016, the Authority's investments consisted of the following:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2016	Maturity	Rating
NC Capital Management Trust – Cash Portfolio	Amortized Cost	\$ 301,829	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	602,445	.14 years	Unrated
Total:		<u>\$ 904,274</u>		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Ratings are from Standard and Poor's scale.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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

Credit risk. The Authority has no formal policy regarding credit risk, but has internal management procedures that limits the Authority's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Authority's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2016. The Authority's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

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

Tax Year Levied	Tax	Interest	Total
2012	\$ 622,137	\$ 175,754	\$ 797,891
2013	629,116	121,105	750,221
2014	673,162	68,999	742,161
2015	676,442	-	676,442
Total	<u>\$ 2,600,857</u>	<u>\$ 365,858</u>	<u>\$ 2,966,715</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

4. Receivables

Receivables at the government-wide level at June 30, 2016, were as follows:

	Accounts	Taxes Receivable	Interest Receivable	Total
Governmental Activities:				
General	\$ 58,774	\$ 1,160,756	\$ 318,844	\$ 1,538,374
Other Governmental	-	260,711	37,737	298,448
Total receivables	58,774	1,421,467	356,581	1,836,822
Allowance for doubtful accounts	-	(432,165)	-	(432,165)
Total-governmental activities	\$ 58,774	\$ 989,302	\$ 356,581	\$ 1,404,657
Business-type Activities				
Solid Waste	\$ 538,737	\$ -	\$ -	\$ 538,737
Allowance for doubtful accounts	(82,360)	-	-	(82,360)
Total-business-type activities	\$ 456,377	\$ -	\$ -	\$ 456,377

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

Home and Community Block Grant	\$ 2,234
Local Option Sales Taxes	1,855,967
June DMV fees for tag office	10,791
NC Ag Trust Fund grant reimbursement	25,000
Caldwell County Inmate Housing Fee	3,489
Town of Blowing Rock ABC bottle taxes	308
NC State Treasurer interest on VTS	100
Avery County ambulance services fee	2,000
Town of Blowing Rock sales tax agreement payment	46,972
Town of Boone reimbursement on telephone lines	231
Town of Boone tax collection fee	22,426
Town of Boone ABC bottle taxes	1,303
NC DOR Medicaid Hold Harmless	235,855
USDA POA reimbursements	438
NC DOR VTS	130,953
Watauga County Court fees	34,337
NC DHHS reimbursements	472,021
Emergency Telephone System revenues	25,048
NC DENR grant reimbursement	8,570
Solid Waste Disposal Tax	6,538
Scrap Tire Tax	18,109
White Goods Tax	4,333
Medicaid POA reimbursements	7,775
Sales Tax Refunds	163,924
Total:	<u>\$ 3,078,722</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

5. Capital Assets

Primary Government:

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 44,138,126	75,024	-	\$ 44,213,150
Intangible	15,600	-	-	15,600
Construction in progress	421,480	675,222	-	1,096,702
Total capital assets not being depreciated	<u>44,575,206</u>	<u>750,246</u>	<u>-</u>	<u>45,325,452</u>
Capital assets being depreciated:				
Buildings	106,839,487	25,534	5,688,066	101,176,955
Other improvements	5,444,317	-	24,946	5,419,371
Leasehold improvements	1,009,463	5,599,643	-	6,609,106
Equipment	6,540,284	346,980	286,701	6,600,563
Vehicles and motorized equipment	1,977,542	362,781	295,320	2,045,003
Total capital assets being depreciated	<u>121,811,093</u>	<u>6,334,938</u>	<u>6,295,033</u>	<u>121,850,998</u>
Less accumulated depreciation for:				
Buildings	18,440,407	2,027,609	994,633	19,473,383
Other improvements	1,643,876	523,157	2,287	2,164,746
Leasehold improvements	120,120	1,060,716	-	1,180,836
Equipment	5,264,753	478,328	286,701	5,456,380
Vehicles and motorized equipment	1,389,833	220,048	275,650	1,334,231
Total accumulated depreciation	<u>26,858,989</u>	<u>4,309,858</u>	<u>1,559,271</u>	<u>29,609,576</u>
Total capital assets being depreciated, net	<u>94,952,104</u>			<u>92,241,422</u>
Governmental activity capital assets, net	<u>\$139,527,310</u>			<u>\$137,566,874</u>

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

General government	\$ 2,022,079
Public safety	559,264
Environmental protection	4,067
Economic and physical development	18,452
Human services	403,696
Cultural and recreational	408,062
Total depreciation expense	<u>\$ 3,415,620</u>

Assets were reclassified to leasehold improvements to allow for better classification. This change accounts for the additional \$894,238 in accumulated depreciation above depreciation expense and the addition to assets of \$5,599,643 above the actual new assets of \$1,485,541.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 975,497	-	-	\$ 975,497
Construction in progress	1,750	40,226	41,976	-
Total capital assets not being depreciated	<u>977,247</u>	<u>40,226</u>	<u>41,976</u>	<u>975,497</u>
Capital assets being depreciated:				
Improvements	445,921	-	-	445,921
Leasehold improvements	319,960	-	-	319,960
Buildings	4,110,817	41,976	-	4,152,793
Equipment	1,507,531	210,299	166,990	1,550,840
Vehicles	1,334,909	30,183	25,756	1,339,336
Total capital assets being depreciated	<u>7,719,138</u>	<u>282,458</u>	<u>192,746</u>	<u>7,808,850</u>
Less accumulated depreciation for:				
Improvements	272,802	28,341	-	301,143
Leasehold improvements	312,917	248	-	313,165
Building	1,031,867	84,639	-	1,116,506
Equipment	1,291,185	125,100	139,158	1,277,127
Vehicles	1,129,134	79,711	25,756	1,183,089
Total accumulated depreciation	<u>4,037,905</u>	<u>318,039</u>	<u>164,914</u>	<u>4,191,030</u>
Total capital assets being depreciated, net	<u>3,681,233</u>			<u>3,617,820</u>
Business-type capital assets, net	<u><u>\$ 4,658,480</u></u>			<u><u>\$ 4,593,317</u></u>

Construction commitments

The County has five active construction projects as of June 30, 2016. The governmental projects include Anderson building renovations, Brookshire walking trails, new water line system at the law enforcement complex, Brookshire underpass project, and a new ambulance base in the western area of the County. At June 30, 2016, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Anderson building	\$ 11,930	\$ 210,647
Brookshire walking trails	5,691	11,698
LEC water lines	1,200	-
Brookshire underpass	680,027	22,750
Ambulance base #3	397,854	465,499
Total	<u><u>\$ 1,096,702</u></u>	<u><u>\$ 710,594</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,114,242	\$ -	\$ -	\$ 1,114,242
Construction in progress	99,150	-	-	99,150
Total capital assets not being depreciated	<u>1,213,392</u>	-	-	<u>1,213,392</u>
Capital assets being depreciated:				
Buildings	6,694,081	5,363	-	6,699,444
Land improvements	11,156	-	-	11,156
Office furniture and equipment	225,112	46,511	-	271,623
Shop equipment	347,384	-	-	347,384
Vehicles	7,971,765	133,273	74,461	8,030,577
Total capital assets being depreciated	<u>15,249,498</u>	<u>185,147</u>	<u>74,461</u>	<u>15,360,184</u>
Less accumulated depreciation for:				
Buildings	276,521	134,239	-	410,760
Land improvements	11,155	406	-	11,561
Office furniture and equipment	101,251	18,675	-	119,926
Shop equipment	193,870	33,208	-	227,078
Vehicles	4,005,548	621,750	65,597	4,561,701
Total accumulated depreciation	<u>4,588,345</u>	<u>\$ 808,278</u>	<u>\$ 65,597</u>	<u>5,331,026</u>
Total capital assets being depreciated, net	<u>10,661,153</u>			<u>10,029,158</u>
Business-type activities capital assets, net	<u><u>\$11,874,545</u></u>			<u><u>\$11,242,550</u></u>

Capital asset activity for the Watauga County District U Tourism Development Authority for the year ended June 30, 2016 was as follows:

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2016, were as follows:

	Vendors	Salaries and Benefits	Total
Governmental activities:			
General	\$ 771,433	\$ 508,609	\$ 1,280,042
Other governmental	45,953	-	45,953
Total-governmental activities	\$ 817,386	\$ 508,609	\$ 1,325,995
Business-type activities:			
Solid Waste	\$ 244,104	\$ 38,381	\$ 282,485

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The County's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.79% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$732,167 for the year ended June 30, 2016.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LGERS Pension Plan

At June 30, 2016, the County reported a liability of \$781,083 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension liability was based on a projection of the County's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the County's proportion was 0.174%, which was a decrease of 0.004% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County recognized pension expense of \$358,203. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 183,599
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	222,371
Changes in proportion and differences between County contributions and proportionate share of contributions	5,893	-
County contributions subsequent to the measurement date	732,167	-
Total	\$ 738,060	\$ 405,970

\$732,167 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

Year ended June 30:

2017	\$	(257,509)
2018		(257,509)
2019		(257,230)
2020		372,173
2021		-
Thereafter		-

At June 30, 2016, the Authority reported a liability of \$12,880 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension asset was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Authority's proportion was 0.00285%, which was a decrease of 0.00115% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Authority recognized pension expense of \$3,753. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,028
Net difference between projected and actual earnings on pension plan investments	-	3,667
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	10,918
Authority contributions subsequent to the measurement date	10,241	-
Total	\$ 10,241	\$ 17,613

\$10,241 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	(7,820)
2018		(7,820)
2019		(7,784)
2020		5,811
2021		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
County's proportionate share of the net pension liability (asset)	\$ 5,446,587	\$ 781,081	\$ (3,149,507)
	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Authority's proportionate share of the net pension liability (asset)	\$ 89,814	\$ 12,880	\$ (51,935)

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

b. Law Enforcement Officers' Special Separation Allowance

Plan Description. Watauga County administers a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. In June of 2016, the County established an irrevocable trust, the Law Enforcement Officers' Special Separation Allowance (LEOSSA) Irrevocable Trust Fund, to account for the assets set aside for this purpose. For reporting purposes, the LEOSSA is presented as a pension trust fund as it meets the criteria for trust funds outlined in GASB Statement 68.

Benefits Provided. 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 data required regarding the membership of the Watauga County Law Enforcement Separation Allowance Plan was furnished by the County and the NC Local Governmental Employees' Retirement System. The following table summarizes the membership of the Plan as of December 31, 2015, the valuation date:

Retirees receiving benefits	2
Inactive members entitled to but not receiving benefits	0
Active plan members	<u>43</u>
Total	<u>45</u>

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 \$39,727, or 3.062% of covered payroll. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

Refunds of Contributions. Because all funds are contributed by the County, no refunds are available to members of the plan.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, average, including inflation
Investment rate of return	3.57 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the RP-2014 Healthy Annuitant base rates projected forward generationally for the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Discount rate. The discount rate used to measure the total pension liability was 3.57%. Since the Separation Allowance assets are held in short term investments, a discount rate equal to the 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate was used. The index used for this purpose is the General Obligation 20-year Municipal Bond Index published monthly by the St. Louis Federal Reserve Bank, which was 3.57% as of December 31, 2015.

Projected cash flows. The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution in the future.

Long term rate of return. The long-term expected rate of return on pension plan investments is assumed to be 3.57% annually. Since the Separation Allowance assets are held in short term investments, a discount rate equal to the 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate was used. The index used for this purpose is the General Obligation 20-year Municipal Bond Index published monthly by the St. Louis Federal Reserve Bank, which was 3.57% as of December 31, 2015.

Municipal bond rate. The discount rate uses municipal bond rates of 3.57% as of the measurement date and 3.70% at the beginning of the measurement period.

Periods of projected benefit payments. Projected future benefit payments for all current plan members were projected through 2051.

Assumed Asset Allocation. The target asset allocation is 100% in governmental securities and best estimate of arithmetic real rates of return is 1.25%.

Sensitivity of the net pension asset to changes in the discount rate. The following presents the net pension liability calculated using the discount rate of 3.57 percent, as well as what the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.57 percent) or one percentage point higher (4.57 percent) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	(2.57%)	(3.57%)	(4.57%)
Net pension liability	\$ 607,404	\$ 517,233	\$ 436,225

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the chart below:

	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balance as of December 31, 2014	\$ 726,794	\$ 224,415	\$ 502,379
Changes for the year:			
Service cost	49,129	-	49,129
Interest	26,460	-	26,460
Benefit changes	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions or other inputs	11,037	-	11,037
Contributions – employer	-	71,302	(71,302)
Contributions – member	-	-	-
Net investment income	-	706	(706)
Refunds of contributions	-	-	-
Benefits paid	(23,302)	(23,302)	-
Plan administrative expenses	-	(236)	236
Other changes	-	-	-
Net changes	<u>\$ 63,324</u>	<u>\$ 48,470</u>	<u>\$ 14,854</u>
Balance as of December 31, 2015	<u>\$ 790,118</u>	<u>\$ 272,885</u>	<u>\$ 517,233</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LGERS Pension Plan

December 31, 2015 is the actuarial valuation date upon which the Total Pension Liability (TPL) is based. An expected TPL is determined as of December 31, 2014 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the TPL as of December 31, 2014, as shown in the following table:

Total Pension Liability (TPL) Roll-Forward	TPL Reported as of 12/31/2014 based on 12/31/2015 Valuation Date
(a) Interest Rate (Beginning of Year)	3.70%
(b) Valuation Date for Measurement	December 31, 2015
(c) TPL as of December 31, 2015 with Beginning of Year Interest Rate (3.70%)	\$ 779,081
(d) Entry Age Normal Cost for the period January 1, 2015 – December 31, 2015	47,376
(e) Actual Benefit Payments for the period January 1, 2015 – December 31, 2015	23,302
(f) TPL as of December 31, 2014 [c + [(e x (1 + a x 0.5)) / (1 + a)] – d]	726,794
(g) TPL as of December 31, 2015 with End of Year Interest Rate (3.57%)	790,118
(h) Assumption Change (Gain) / Loss: (g - c)	11,037

The assumed rate of return was decreased from 3.70% to 3.57% to reflect the change in the Municipal Bond Rate. There were no changes in the benefit terms that affected measurement of the total pension liability since the prior measurement period.

There were no changes between the measurement date of the net pension liability and the County's reporting date that are expected to have a significant effect on the net pension liability, and the amount of the expected resultant change in the net pension liability, if known.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

For the year ended June 30, 2016, the County recognized pension expense of \$69,101. Since certain expense items are amortized over closed periods each year, the deferred portion of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of the December 31, 2015 measurement date:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	10,270	-
Net difference between projected and actual earnings on pension plan investments	6,785	-
Changes in proportion and differences between County contributions and proportionate share of contributions	-	-
County contributions subsequent to the measurement date	7,663	-
Total	\$ 24,718	\$ -

\$7,663 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 2,463	\$ -
2018	2,463	-
2019	2,463	-
2020	2,464	-
2021	767	-
2022	767	-
2023	767	-
2024	767	-
2025	767	-
2026	767	-
2027	767	-
2028	767	-
2029	767	-
2030	299	-
Thereafter	-	-

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c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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, 2016 were \$105,050, which consisted of \$93,545 from the County and \$11,505 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, 2016 to these plans were \$678,793 which consisted of \$516,572 from the County and \$162,221 from employees.

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF provides supplemental pension benefits to any eligible county register of deeds that is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

Contributions. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year, and for the

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

foreseeable future, is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the County were \$5,452 for the year ended June 30, 2016.

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

At June 30, 2016, the County reported an asset of \$152,800 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2015, the County's proportion was .66%, which was an increase of .03% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County recognized pension expense of (\$3,329). At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 748	\$ 2,529
Net difference between projected and actual earnings on pension plan investments	7,577	-
Changes in proportion and differences between County contributions and proportionate share of contributions	2,489	4,616
County contributions subsequent to the measurement date	5,452	-
Total	\$ 16,266	\$ 7,145

\$5,452 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 1,294
2018	(864)
2019	1,195
2020	2,045
2021	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2014 is 2.2%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

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

	1% Decrease (4.75%)	Discount Rate (5.75%)	1% Increase (6.75%)
County's proportionate share of the net pension liability (asset)	\$ (137,844)	\$ (152,784)	\$ (165,640)

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

WATAUGA COUNTY, NORTH CAROLINA

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For the Year Ended June 30, 2016

f. Other Postemployment Benefits – Watauga County

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

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	23	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan Members	<u>231</u>	<u>45</u>
Total	<u>254</u>	<u>46</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 1.62% of annual covered payroll. For the current year, the County contributed \$207,436 or 1.97% of annual covered payroll. The County obtains healthcare coverage through private insurers. There were no contributions made by employees. The County's obligation to contribute to the HCB Plan is established and may be amended by the Board of Commissioners.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 171,685
Interest on net OPEB obligation	(20,966)
Adjustment to annual required contribution	<u>20,029</u>
Annual OPEB cost (expense)	170,748
Contributions made*	<u>253,605</u>
Increase/(decrease) in net OPEB obligation	(82,857)
Net OPEB obligation, beginning of year	<u>(524,158)</u>
Net OPEB obligation, end of year	\$ <u>(607,015)</u>

**Under GASB Statements 43 and 45, the OPEB liability may include an implicit subsidy amount based upon age adjusted costs reflecting the higher cost of benefits associated with older participants. For the purpose of determining the Net OPEB Obligation (NOO), the portion of the annual OPEB contributions for medical and prescription drug costs that are determined on a combined basis for actives and retirees (in this case pre-65 retirees) has been increased to include the impact of the 34% subsidy. The total contribution of \$253,605 includes \$53,769 due to the impact of the 34% implicit subsidy and actual cash contributions of \$199,836 paid by the employer. Correspondingly, in the financial statements, the costs associated with active employee medical and prescription drug benefits may need to be decreased by the same dollar amount to reflect that portion of the active employee contribution subsidizing retiree costs.*

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2016 were as follows:

3 Year Trend Information			
For Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 176,485	116.5%	\$ (408,213)
2015	170,955	167.8%	(524,158)
2016	170,748	148.5%	(607,015)

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was 29.9% funded. The actuarial accrued liability for benefits was \$2,553,360, and the actuarial value of assets was \$762,628, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,790,732. The covered payroll (annual payroll of active employees covered by the plan) was \$10,512,790, and the ratio of UAAL to the covered payroll was 17.0%.

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

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

In the December 31, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative

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expenses), which is a blended rate of the expected long-term investment returns on the plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The rate included a 3.00 percent inflation assumption. The medical cost trend rate varied between 7.75% and 5.00%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2015 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 and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers.

For the fiscal year ended June 30, 2016, the County made contributions to the State for death benefits of \$10,551 for general employees and \$2,646 for law enforcement employees. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represents 0.12% and 0.14% of covered payroll, respectively.

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

h. Retirement System – AppalCART

Please see the separately issued financial report of AppalCART for a complete description of their pension plan.

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 approximate cost to date of the assessment and remedial cap is \$3,425,131. Groundwater testing continues, as required by NCDENR. Due to a NCDENR directive, in fiscal year 2004-2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

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Notes to the Financial Statements
For the Year Ended June 30, 2016

4. Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pensions – difference between expected and actual experience	\$ 748	\$ 186,127
Pensions – difference between projected and actual investment earnings	14,362	222,371
Pensions – change in proportion and difference between employer contributions and proportionate share of contributions	8,384	4,616
Change of assumptions	10,270	
Contributions to pension plan in 2015-16 fiscal year	745,282	-
Prepaid taxes not yet earned (General)	-	11,698
Prepaid taxes not yet earned (Special Revenue)	-	2,558
Taxes receivable, net (General)	-	766,466
Taxes receivable, net (Special Revenue)	-	110,192
Total	\$ 779,046	\$ 1,304,028

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$69,597,528 for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2,000,000 per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence and workers' compensation coverage up to the NC 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 retention up to a \$2,000,000 limit for liability coverage and \$1,750,000 of each loss in excess of a \$250,000 per occurrence retention for property, and auto physical damage. For workers' compensation, there is a per occurrence retention of \$750,000. The County provides employee health, dental and life insurance benefits through commercial carriers.

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

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

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; and natural disasters.

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Notes to the Financial Statements For the Year Ended June 30, 2016

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

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

6. Contingent Liabilities

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

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements as a lessee.

b. Installment Purchase

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

The first installment purchase was executed on April 30, 2004 in the amount of \$5,000,000 for the renovation of existing structures to house the County's Law Enforcement Center. This installment purchase requires 60 quarterly principal payments of \$83,333 plus interest at 3.24 percent. The outstanding balance at June 30, 2016 is \$999,999.

The second installment purchase was executed on August 15, 2008 in the amount of \$2,600,000 for the purchase of land for the Tweetsie Incentive Project. This installment purchase calls for 40 quarterly principal payments of \$65,000 plus interest at 5.942 percent. The outstanding balance at June 30, 2016 is \$585,000.

The third installment purchase was executed in the amount of \$1,290,274 for Qualified School Construction Bonds on June 14, 2010 for school renovations. This installment purchase calls for 10 annual principal payments of \$129,028 plus interest at 5.8 percent with a federal interest credit giving an effective rate of zero percent prior to federal sequestration reductions affecting the annual reimbursement of interest. The outstanding balance at June 30, 2016 is \$516,111.

The fourth installment purchase agreement was executed on June 28, 2012 to refinance the construction of the new high school 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

ranging from 2015 to 2028. Series B paid out in FY 2014-15. The Series A bonds have an outstanding balance at June 30, 2016 of \$41,055,000.

For Watauga County, the future minimum payments as of June 30, 2016, including \$12,355,162 of interest, are:

Year Ending June 30	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 4,082,361	\$ 1,917,276
2018	4,077,361	1,749,144
2019	3,882,361	1,584,107
2020	3,479,027	1,434,709
2021	3,370,000	1,269,375
2022-2026	17,215,000	3,939,700
2027-2028	<u>7,050,000</u>	<u>460,851</u>
Total payments	\$ <u>43,156,110</u>	\$ <u>12,355,162</u>

c. General Obligation Indebtedness

The County has no general obligation debt outstanding or authorized as of June 30, 2016.

At June 30, 2016, Watauga County had a legal debt margin of \$672,414,671.

d. Advance Refunding

In April 2004, the County issued \$4,275,000 of general obligation advance refunding bonds to provide resources to purchase U.S. government securities that were placed into an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,950,000 general obligation bonds. The refunding debt consists of \$3,950,000 in 1995 School Facility Serial Bonds (partially refunded for the maturities in the years 2005-2015). The balance on the charge for refunding is \$0 and a final credit of \$20,316 for the annual amortization on the economic gain has been applied to the government-wide statements.

In June 2012, the County issued \$55,045,000 in limited obligation bonds to refinance the installment purchase loans for the purchase of land and construction of the new high school. These funds refinanced the original debt remaining of \$61,000,000 plus interest and expenses. This resulted in premiums totaling \$5,206,201 to be amortized over the remaining sixteen year life of the new debt. A liability for the balance of the premium of \$3,902,873 and the annual amortization of \$325,388 is expensed in the government-wide statements.

Debt Related to Capital Activities – Of the total Governmental Activities debt listed \$42,639,999 relates to assets the County holds title. There is no unspent restricted cash related to this debt. The Qualified School Construction Bond loan done in 2010 was for renovations to school property and the County does not report an asset balance for Mabel Elementary School, which is the collateral for this loan. The QSCB loan outstanding balance of \$516,111 is deducted from the total debt balance of \$43,156,110 leaving \$42,639,999 as debt related to capital activities.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

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, 2016:

	Balance			Current Portion of	
	July 1, 2015	Increases	Decreases	June 30, 2016	Balance
Governmental activities:					
Net pension liability (LGERS)	\$ -	\$ 717,269	\$ -	\$ 717,269	\$ -
Net pension liability (LEOSSA)	502,379	86,862	72,008	517,233	-
Installment purchases	47,273,471	-	4,117,361	43,156,110	4,082,361
Compensated absences	1,001,474	924,942	886,869	1,039,547	-
Total governmental activities	<u>\$ 48,777,324</u>	<u>\$ 1,729,073</u>	<u>\$ 5,076,238</u>	<u>\$ 45,430,159</u>	<u>\$ 4,082,361</u>
Business-type activities:					
Net pension liability (LGERS)	\$ -	\$ 63,814	\$ -	\$ 63,814	\$ -
Compensated absences	98,309	59,168	48,631	108,846	-
Total business-type activities	<u>\$ 98,309</u>	<u>\$ 122,982</u>	<u>\$ 48,631</u>	<u>\$ 172,660</u>	<u>\$ -</u>
Discretely presented component units:					
AppalCART					
Compensated absences	<u>\$ 61,241</u>	<u>\$ 61,101</u>	<u>\$ 55,415</u>	<u>\$ 66,927</u>	<u>\$ 66,927</u>
Watauga County TDA					
Net pension liability (LGERS)	\$ -	\$ 12,880	\$ -	\$ 12,880	\$ -
Compensated absences	7,400	10,642	10,584	7,458	-
Total Watauga County TDA	<u>\$ 7,400</u>	<u>\$ 23,522</u>	<u>\$ 10,584</u>	<u>\$ 20,338</u>	<u>\$ -</u>

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

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$ 2,268,552
From the State Substance Abuse Tax Fund to the General Fund for equipment	<u>4,100</u>
Total	\$ <u>2,272,652</u>

D. Net Investment in Capital Assets

Net investment in capital assets is capital assets net of accumulated depreciation less any related debt and is calculated as follows:

Capital assets	Governmental	Business-type
	\$ 137,566,874	\$ 4,593,317
Less: long-term debt	<u>42,639,999</u>	<u>-</u>
Net investment in capital assets	<u>\$ 94,926,875</u>	<u>\$ 4,593,317</u>

E. Fund Balance

Watauga County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds,

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2016

federal funds, state funds, local non-county funds, county funds. For the purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

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

Total fund balance – General Fund	\$ 26,408,144
Less:	
Stabilization by State Statute	4,542,332
Register of Deeds Automation/Enhancement	78,847
Tax Revaluation	179,015
Remaining Fund Balance	\$ <u>21,607,950</u>

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

Encumbrances: General Fund - \$1,482,775 Non-Major funds - \$1,250

Note 4 - Joint Ventures

The County participates in a joint venture to operate Appalachian Regional Library with Wilkes and Ashe Counties. 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, 2016. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$525,146 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from their offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2016. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$585,228 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 Caldwell County and the community college system of the State of North Carolina. The County appoints two members of its fourteen-member Board of Trustees. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$876,960 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.

The County, in conjunction with seven other counties and nineteen municipalities, established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$24,956 to the Council during the fiscal year ended June 30, 2016. The County was the sub

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2016

recipient of three grants totaling \$297,569. The first grant is for \$255,847 in Home and Community Care Block Grant funds and the second is for \$26,522 in Nutrition Programs for the Elderly funds. Both are from the US Department of Health and Human Services and the Division of Aging of the North Carolina Department of Health and Human Services that was passed through the Council. The third grant is for \$15,200 from the Division of Aging of the North Carolina Department of Health and Human Services that was passed through the Council.

Note 6 - Benefit Payments Issued by the State

The amounts listed below were paid directly to individual recipients by the State from Federal and State moneys. County personnel are involved with certain functions, primarily eligibility determinations, which cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>		<u>State</u>
Supplemental Nutrition Assistance Program	\$ 4,426,336	\$	-
Medical Assistance Program	20,782,916		11,316,462
Child Health Insurance Program	702,506		33,487
	<u>\$ 25,911,758</u>	<u>\$</u>	<u>11,349,949</u>

Note 7 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

The County has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Note 8 - Change in Accounting Principles/Restatement

During the fiscal year ending June 30, 2016, the County created an irrevocable trust for the Law Enforcement Officers' Special Separation Allowance funds. This required reporting under Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. The implementation of the statement required a restatement of net position for the prior fiscal year for beginning net pension liability, deferred outflows of resources and removal of the intangible asset for LEO Net OPEB Obligation (NOO) advance funding. As a result, net position for governmental activities decreased by \$492,422.

Note 9 - Subsequent Events

For the year ended June 30, 2016, the County has evaluated subsequent events for potential recognition and disclosure through September 30, 2016 – the date the financial statements were available to be issued. No events were determined to require recognition or disclosure.

Required Supplemental Financial Data

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

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

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule of the Changes in the Net Pension Liability (Asset)*

	2016
Total pension liability	
Service cost	\$ 49,129
Interest	26,460
Benefit changes	-
Difference between expected and actual experience	-
Changes of assumptions and other inputs	11,037
Benefit payments	(23,302)
Refunds of contributions	-
Net change in total pension liability	\$ 63,324
Total pension liability-beginning	\$ 726,794
Total pension liability-ending (a)	\$ 790,118
Plan net position	
Contributions-employer	\$ 71,302
Contributions-member	-
Net investment income	706
Benefit payments	(23,302)
Administrative expense	(236)
Refund of contributions	-
Other	-
Net change in plan net position	\$ 48,470
Plan net position-beginning	\$ 224,415
Plan net position-ending (b)	\$ 272,885
Net pension liability-ending (a) - (b)	\$ 517,233

**Information is as of the Measurement date of December 31 during the fiscal year noted.*

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule of the Net Pension Liability (Asset) *

	2016
Total pension liability	\$ 790,118
Plan net position	\$ <u>272,885</u>
Net pension liability	\$ 517,233
Ratio of plan net position to total pension liability	34.54%
Covered-employee payroll	1,837,735
Net pension liability as a percentage of covered-employee payroll	28.15%

**Information is as of the Measurement date of December 31 during the fiscal year noted.*

Notes to the Required Schedules

The information presented in the required supplementary schedules for the LEOSSA Trust was determined as part of the actuarial valuation at December 31, 2015. The actuarially determined contribution rates are determined on an annual basis. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Valuation date	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	3.57%, net of pension plan investment expense
Projected salary increase*	3.50 - 7.35%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

Change of benefit terms: None

Changes of assumptions: 2015: The assumed rate of return was decreased from 3.70% to 3.57% to reflect the change in the Municipal Bond Rate.

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule 3

Schedule of Employer Contributions*

	<u>2016</u>
Actuarially determined employer contribution	\$ 60,285
Contributions in relation to the contractually required contribution	39,727
Contribution deficiency (excess)	<u>\$ 20,558</u>
County's covered employee payroll	\$ 1,883,580
Contributions as a percentage of covered employee payroll	2.11%

**Information is as of the Reporting Date of June 30 during the fiscal year noted.*

Watauga County, North Carolina
Other Postemployment Benefits

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/2007	\$ -	\$ 1,928,608	\$ 1,928,608	0.00%	\$ 9,979,587	19.30%
12/31/2009	\$ -	\$ 1,899,693	\$ 1,899,693	0.00%	\$ 10,936,838	17.40%
12/31/2011	\$ 476,515	\$ 2,648,536	\$ 2,172,021	17.99%	\$ 9,419,789	23.06%
12/31/2012	\$ 522,755	\$ 2,522,669	\$ 1,999,914	20.70%	\$ 10,011,037	20.00%
12/31/2014	\$ 701,855	\$ 2,516,822	\$ 1,814,967	27.90%	\$ 10,028,405	18.10%
12/31/2015	\$ 762,628	\$ 2,553,360	\$ 1,790,732	29.90%	\$ 10,512,790	17.00%

Schedule of Employer Contributions

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2011	\$ 160,959	348.06%
2012	\$ 189,788	89.24%
2013	\$ 177,098	119.59%
2014	\$ 177,098	116.08%
2015	\$ 171,685	134.23%
2016	\$ 171,685	120.82%

Notes to the Required Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2015. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
Medical cost trend rate	7.75 - 5.00%
Year of Ultimate trend rate	2022
 *Includes inflation at	 3.00%

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.17404%	(0.17777)%	0.18070%
County's proportionate share of the net pension liability (asset) \$	\$ 781,083	\$ (1,048,391)	\$ 2,178,129
County's covered employee payroll	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	7.31%	(9.95)%	20.97%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

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

**Watauga County, North Carolina
County's Contributions**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 732,167	\$ 761,648	\$ 738,196
Contributions in relation to the contractually required contribution	732,167	761,648	738,196
Contribution deficiency (excess)	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
County's covered employee payroll	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368
Contributions as a percentage of covered employee payroll	6.85%	7.23%	7.11%

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.6593%	0.6297%	0.6609%
County's proportionate share of the net pension liability (asset) \$	\$ (152,800)	\$ (142,737)	\$ (141,158)
County's covered employee payroll	\$ 51,253	\$ 66,840	\$ 65,250
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(278.49)%	(213.55)%	(216.33)%
Plan fiduciary net position as a percentage of the total pension liability	197.29%	193.88%	190.50%

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

**Watauga County, North Carolina
County's Contributions**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,452	\$ 5,276	\$ 5,142
Contributions in relation to the contractually required contribution	5,452	5,276	5,142
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered employee payroll	\$ 51,253	\$ 65,250	\$ 66,840
Contributions as a percentage of covered employee payroll	10.64%	8.09%	7.69%

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance
Revenues:			
Taxes - ad valorem:			
Current year	\$	\$ 27,547,866	\$
Prior years		431,005	
Advertising and interest		172,474	
Total Taxes - ad valorem	<u>27,508,992</u>	<u>28,151,345</u>	<u>642,353</u>
Taxes - other:			
Local option sales taxes		11,166,662	
Real estate transfer tax		446,397	
ABC Bottle tax		20,604	
Heavy equipment rental tax		6,657	
Gross receipts tax		54,460	
Franchise tax		331,953	
Total Taxes - other	<u>11,318,062</u>	<u>12,026,733</u>	<u>708,671</u>
Unrestricted Intergovernmental:			
Miscellaneous revenues from Towns		1,452,067	
Medicaid hold harmless		1,568,253	
NC DMV fees		115,050	
Tax collection fees		116,564	
Payments in lieu of taxes		26,164	
Total Unrestricted Intergovernmental	<u>2,478,350</u>	<u>3,278,098</u>	<u>799,748</u>
Restricted Intergovernmental:			
Grants-Federal and State		5,290,330	
Public School Building Capital Fund - Lottery		435,763	
Public School Building Capital Fund - ADM		123,914	
Federal Interest Credit		34,874	
Court facilities fees		130,761	
Total Restricted Intergovernmental	<u>6,461,026</u>	<u>6,015,642</u>	<u>(445,384)</u>
Permits and Fees:			
Sheriff's office permits and fees		138,568	
Planning and inspection fees		250,562	
Register of deeds fees		295,337	
Fire inspection fees		3,945	
Occupancy tax administrative fee		23,712	
Child Support fees		50,835	
Total Permits and Fees	<u>707,395</u>	<u>762,959</u>	<u>55,564</u>
Sales and Service:			
POA services		13,923	
TDA Financial services		38,000	
Recreation fees		306,302	
Reimbursement for Inmates		21,252	
Rent		417,556	
DMV/passport processing fees		47,684	
Election revenues		26,142	
Blowing Rock communication services		171,187	
Total Sales and Service	<u>986,087</u>	<u>1,042,046</u>	<u>55,959</u>
Investment earnings:			
Interest earned on investments	<u>60,000</u>	<u>89,212</u>	<u>29,212</u>
Miscellaneous:			
Other		309,745	
Donations		103,366	
Total Miscellaneous	<u>284,229</u>	<u>413,111</u>	<u>128,882</u>
TOTAL REVENUES	<u>49,804,141</u>	<u>51,779,146</u>	<u>1,975,005</u>

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance
EXPENDITURES:			
General Government			
Governing Body:			
Salaries and benefits	\$	\$ 54,484	\$
Operating expenses		3,476	
Total Governing Body	<u>62,082</u>	<u>57,960</u>	<u>4,122</u>
Administration:			
Salaries and benefits		332,622	
Operating expenses		5,657	
Total Administration	<u>343,235</u>	<u>338,279</u>	<u>4,956</u>
Finance:			
Salaries and benefits		322,715	
Operating expenses		42,164	
Total Finance	<u>372,975</u>	<u>364,879</u>	<u>8,096</u>
Tax Administration:			
Salaries and benefits		866,743	
Operating expenses		137,382	
Capital outlay		23,755	
Total Tax Administration	<u>1,098,960</u>	<u>1,027,880</u>	<u>71,080</u>
Tax Revaluation:			
Operating expenses		575	
Total Tax Revaluation	<u>25,000</u>	<u>575</u>	<u>24,425</u>
Tag Office:			
Salaries and benefits		173,419	
Operating expenses		3,870	
Total Tag Office	<u>182,533</u>	<u>177,289</u>	<u>5,244</u>
Legal Services:			
Operating expenses	<u>195,300</u>	<u>195,299</u>	<u>1</u>
Court facilities:			
Operating expenses	<u>2,900</u>	<u>2,256</u>	<u>644</u>
Board of Elections:			
Salaries and benefits		197,899	
Operating expenses		155,140	
Total Board of Elections	<u>353,490</u>	<u>353,039</u>	<u>451</u>
Register of Deeds:			
Salaries and benefits		388,845	
Operating expenses		146,278	
Total Register of Deeds	<u>541,350</u>	<u>535,123</u>	<u>6,227</u>
General Administration:			
Operating expenses		479,863	
Capital outlay		75,024	
Total General Administration	<u>794,392</u>	<u>554,887</u>	<u>239,505</u>
Information Technologies:			
Salaries and benefits		385,064	
Operating expenses		305,643	
Capital outlay		81,801	
Total Information Technologies	<u>853,175</u>	<u>772,508</u>	<u>80,667</u>

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance
Maintenance:			
Salaries and benefits	\$	\$ 1,002,606	\$
Operating expenses		28,327	
Capital outlay		18,653	
Total Maintenance	<u>1,144,319</u>	<u>1,049,586</u>	<u>94,733</u>
Public Buildings			
Courthouse:			
Operating expenses	<u>149,614</u>	<u>123,484</u>	<u>26,130</u>
East Annex:			
Operating expenses	<u>33,035</u>	<u>28,157</u>	<u>4,878</u>
Administration Building:			
Operating expenses	<u>24,550</u>	<u>21,332</u>	<u>3,218</u>
Emergency Management:			
Operating expenses		596	
Capital outlay		180,630	
Total Emergency Management	<u>693,485</u>	<u>181,226</u>	<u>512,259</u>
Hannah:			
Operating expenses	<u>9,895</u>	<u>9,783</u>	<u>112</u>
Health Department:			
Operating expenses	<u>60,974</u>	<u>52,990</u>	<u>7,984</u>
Anderson Building:			
Operating expenses		5,909	
Capital outlay		11,930	
Total Anderson Building	<u>440,585</u>	<u>17,839</u>	<u>422,746</u>
Library:			
Operating expenses	<u>50,641</u>	<u>34,382</u>	<u>16,259</u>
Records Storage:			
Operating expenses		8,206	
Capital outlay		16,031	
Total Records Storage	<u>28,330</u>	<u>24,237</u>	<u>4,093</u>
Western Watauga Comm. Center:			
Operating expenses		27,033	
Capital outlay		4,673	
Total Western Watauga Community Center	<u>41,494</u>	<u>31,706</u>	<u>9,788</u>
Parking Lots:			
Operating expenses	<u>2,255</u>	<u>2,178</u>	<u>77</u>
West Annex:			
Operating expenses	<u>154,360</u>	<u>29,294</u>	<u>125,066</u>
Human Services Center:			
Operating expenses	<u>96,583</u>	<u>83,901</u>	<u>12,682</u>
Appalachian Enterprise Center:			
Operating expenses	<u>18,875</u>	<u>15,862</u>	<u>3,013</u>
Law Enforcement Center:			
Operating expenses	<u>262,126</u>	<u>171,236</u>	<u>90,890</u>
Old Watauga High School:			
Operating expenses	<u>500</u>	<u>11</u>	<u>489</u>

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance
Recreation Administration Center:			
Operating expenses	\$ 4,100	\$ 3,340	\$ 760
Aquatics Center:			
Operating expenses		84,763	
Capital outlay		2,441	
Total Aquatics Center	<u>148,900</u>	<u>87,204</u>	<u>61,696</u>
Optimist Facility:			
Operating expenses	<u>32,920</u>	<u>28,997</u>	<u>3,923</u>
Recreation Fields/Parks:			
Operating expenses	<u>78,013</u>	<u>58,913</u>	<u>19,100</u>
Old Cove Creek School:			
Operating expenses	<u>39,865</u>	<u>27,622</u>	<u>12,243</u>
Brookshire Park:			
Operating expenses		16,125	
Capital outlay		475,771	
Total Brookshire Park	<u>517,872</u>	<u>491,896</u>	<u>25,976</u>
Anne Marie Drive Fields:			
Operating expenses	<u>25,500</u>	<u>17,030</u>	<u>8,470</u>
Brookshire Soccer Complex:			
Operating expenses		9,185	
Capital outlay		5,691	
Total Brookshire Soccer Complex	<u>45,105</u>	<u>14,876</u>	<u>30,229</u>
Rocky Knob Park:			
Operating expenses	<u>24,400</u>	<u>13,481</u>	<u>10,919</u>
Total Public Buildings	<u>2,983,977</u>	<u>1,570,977</u>	<u>1,413,000</u>
Total General Government	<u>8,953,688</u>	<u>7,000,537</u>	<u>1,953,151</u>
Public Safety			
Sheriff's Office:			
Salaries and benefits		2,921,360	
Operating expenses		318,872	
Capital outlay		229,751	
Total Sheriff's Office	<u>3,626,820</u>	<u>3,469,983</u>	<u>156,837</u>
Communications:			
Salaries and benefits		735,571	
Operating expenses		30,943	
Total Communications	<u>772,415</u>	<u>766,514</u>	<u>5,901</u>
Detention Center:			
Salaries and benefits		1,444,237	
Operating expenses		534,262	
Total Detention Center	<u>2,097,850</u>	<u>1,978,499</u>	<u>119,351</u>
Emergency Management and Fire Protection:			
Salaries and benefits		261,652	
Operating expenses		1,168,752	
Capital outlay		31,198	
Total Emergency Management and Fire Protection	<u>1,501,531</u>	<u>1,461,602</u>	<u>39,929</u>
Planning and Inspections:			
Salaries and benefits		593,748	
Operating expenses		18,504	
Total Planning and Inspections	<u>621,260</u>	<u>612,252</u>	<u>9,008</u>

Watauga County, North Carolina
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Medical Examiner, Ambulance and Rescue Squad:			
Operating expenses	\$ 1,217,100	\$ 1,175,037	\$ 42,063
Animal Control:			
Salaries and benefits		107,327	
Operating expenses		8,519	
Capital outlay		29,268	
Total Animal Control	<u>152,665</u>	<u>145,114</u>	<u>7,551</u>
Forestry:			
Operating expenses	<u>44,711</u>	<u>43,075</u>	<u>1,636</u>
Total Public Safety	<u>10,034,352</u>	<u>9,652,076</u>	<u>382,276</u>
Transportation			
Transportation:	<u>209,838</u>	<u>209,838</u>	<u>-</u>
Economic and Physical Development			
Special Appropriations:	<u>463,116</u>	<u>462,673</u>	<u>443</u>
Economic Development:	<u>83,158</u>	<u>45,988</u>	<u>37,170</u>
Total Economic and Physical Development	<u>546,274</u>	<u>508,661</u>	<u>37,613</u>
Environmental Protection			
Cooperative Extension:			
Salaries and benefits		217,696	
Operating expenses		14,090	
Total Cooperative Extension	<u>246,400</u>	<u>231,786</u>	<u>14,614</u>
Soil and Water Conservation:			
Salaries and benefits		91,052	
Operating expenses		7,736	
Capital outlay		22,749	
Total Soil and Water Conservation	<u>145,593</u>	<u>121,537</u>	<u>24,056</u>
Total Environmental Protection	<u>391,993</u>	<u>353,323</u>	<u>38,670</u>
Human Services			
Public Health:			
Operating expenses	<u>585,228</u>	<u>585,228</u>	<u>-</u>
Mental Health:			
Operating expenses	<u>171,194</u>	<u>171,194</u>	<u>-</u>
Social Services - administration:			
Salaries and benefits		2,684,736	
Operating expenses		396,040	
Total Social Services - administration	<u>3,215,135</u>	<u>3,080,776</u>	<u>134,359</u>
Beneficiary payments:	<u>2,731,050</u>	<u>2,301,607</u>	<u>429,443</u>
Project on Aging:			
Salaries and benefits		949,896	
Operating expenses		222,557	
Total Project on Aging	<u>1,228,550</u>	<u>1,172,453</u>	<u>56,097</u>
Veterans Services:			
Salaries and benefits		111,423	
Operating expenses		2,650	
Total Veterans Services	<u>114,105</u>	<u>114,073</u>	<u>32</u>
Total Human Services	<u>8,045,262</u>	<u>7,425,331</u>	<u>619,931</u>

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Education			
Public Schools - current	\$	\$ 12,558,345	\$
Public Schools - capital outlay		990,363	
Community College - current		866,960	
Community College - capital outlay		10,000	
Total Education	<u>14,953,647</u>	<u>14,425,668</u>	<u>527,979</u>
Cultural and Recreational			
Library:			
Operating expenses	<u>525,146</u>	<u>525,146</u>	<u>-</u>
Recreation:			
Salaries and benefits		606,188	
Operating expenses		121,251	
Total Recreation	<u>764,181</u>	<u>727,439</u>	<u>36,742</u>
Aquatics:			
Salaries and benefits		177,725	
Operating expenses		13,592	
Total Aquatics	<u>206,215</u>	<u>191,317</u>	<u>14,898</u>
Total Cultural and Recreational	<u>1,495,542</u>	<u>1,443,902</u>	<u>51,640</u>
Debt Service			
Principal retirement		4,117,361	
Interest and fees		2,052,859	
Total Debt Service	<u>6,170,220</u>	<u>6,170,220</u>	<u>-</u>
TOTAL EXPENDITURES	<u>50,800,816</u>	<u>47,189,556</u>	<u>3,611,260</u>
Excess (deficiency) of revenues over expenditures	<u>(996,675)</u>	<u>4,589,590</u>	<u>5,586,265</u>
OTHER FINANCING SOURCES (USES):			
Gain/(loss) on disposal of assets	35,000	52,013	17,013
Transfers to Capital Projects Fund	(2,268,552)	(2,268,552)	-
Transfers from State Substance Abuse Tax Fund	4,100	4,100	-
Fund Balance Appropriated	<u>3,226,127</u>	<u>-</u>	<u>(3,226,127)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>996,675</u>	<u>(2,212,439)</u>	<u>(3,209,114)</u>
Net change in fund balance	\$ <u>-</u>	2,377,151	<u>2,377,151</u>
Fund balance, beginning of year		<u>24,030,993</u>	
Fund balance, end of year		\$ <u>26,408,144</u>	

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

Nonmajor Special Revenue 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
ASSETS:							
Cash and cash equivalents	\$ 37,435	\$ 91,695	\$ 189,367	\$ 26,318	\$ 212,401	\$ -	\$ 557,216
Due from other governments	-	-	25,048	15,342	-	-	40,390
Taxes receivable, net	-	-	-	110,192	112,644	-	222,836
Total assets	<u>\$ 37,435</u>	<u>\$ 91,695</u>	<u>\$ 214,415</u>	<u>\$ 151,852</u>	<u>\$ 325,045</u>	<u>\$ -</u>	<u>\$ 820,442</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts payable and accrued liabilities	-	1,114	5,737	39,102	-	-	45,953
Due to other governments	-	-	-	-	325,045	-	325,045
Due to other funds	-	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>1,114</u>	<u>5,737</u>	<u>39,102</u>	<u>325,045</u>	<u>-</u>	<u>370,998</u>
Deferred Inflows of Resources:							
Taxes paid in advance	-	-	-	2,558	-	-	2,558
Taxes receivable	-	-	-	110,192	-	-	110,192
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,750</u>	<u>-</u>	<u>-</u>	<u>112,750</u>
Fund Balances:							
Restricted for:							
Public Safety	37,435	90,581	208,678	-	-	-	336,694
Total fund balances	<u>37,435</u>	<u>90,581</u>	<u>208,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,694</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 37,435</u>	<u>\$ 91,695</u>	<u>\$ 214,415</u>	<u>\$ 151,852</u>	<u>\$ 325,045</u>	<u>\$ -</u>	<u>\$ 820,442</u>

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

Nonmajor Special Revenue Funds

	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Fund	Occupancy Tax Fund	CDBG Scattered Site Housing Fund	Total Nonmajor Special Revenue Funds
REVENUES							
Ad valorem taxes	\$ -	\$ -	\$ -	\$ 2,987,818	\$ -	\$ -	\$ 2,987,818
Other taxes and licenses	-	47,841	-	-	1,371,244	-	1,419,085
Restricted intergovernmental	-	-	300,579	-	-	137,873	438,452
Other miscellaneous revenues	-	-	-	-	-	-	-
Investment earnings	147	279	637	-	-	-	1,063
Total revenues	<u>147</u>	<u>48,120</u>	<u>301,216</u>	<u>2,987,818</u>	<u>1,371,244</u>	<u>137,873</u>	<u>4,846,418</u>
EXPENDITURES							
General government	-	-	-	-	1,371,244	-	1,371,244
Public safety	3,063	22,589	499,607	2,987,818	-	-	3,513,077
Economic and physical development	-	-	-	-	-	137,873	137,873
Capital outlay	27,937	-	-	-	-	-	27,937
Total expenditures	<u>31,000</u>	<u>22,589</u>	<u>499,607</u>	<u>2,987,818</u>	<u>1,371,244</u>	<u>137,873</u>	<u>5,050,131</u>
OTHER FINANCING SOURCES/(USES)							
Transfer to other funds	-	(4,100)	-	-	-	-	(4,100)
Net change in fund balances	(30,853)	21,431	(198,391)	-	-	-	(207,813)
Fund balances, beginning of year	<u>68,288</u>	<u>69,150</u>	<u>407,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>544,507</u>
Fund balances, end of year	<u>\$ 37,435</u>	<u>\$ 90,581</u>	<u>\$ 208,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,694</u>

Watauga County, North Carolina
 Federal Equitable Sharing Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - Federal Investment Earnings	\$ _____	\$ _____ 147	\$ _____
Total revenues	<u>31,000</u>	<u>147</u>	<u>(30,853)</u>
Expenditures:			
Public Safety		3,063	
Capital Outlay		<u>27,937</u>	
Total expenditures	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(30,853)</u>	<u>(30,853)</u>
Net change in fund balance	\$ <u><u>-</u></u>	(30,853)	\$ <u><u>(30,853)</u></u>
Fund balance, beginning of year		<u>68,288</u>	
Fund balance, end of year		\$ <u><u>37,435</u></u>	

Watauga County, North Carolina
 State Substance Abuse Tax Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - State	\$	\$ 47,841	\$
Investment Earnings		279	
Total revenues	<u>27,450</u>	<u>48,120</u>	<u>20,670</u>
Expenditures:			
Public Safety		<u>22,589</u>	
Total expenditures	<u>23,350</u>	<u>22,589</u>	<u>761</u>
Excess (deficiency) of revenues over expenditures	<u>4,100</u>	<u>25,531</u>	<u>21,431</u>
Other financing sources (uses):			
Transfer to other funds	<u>(4,100)</u>	<u>(4,100)</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,100)</u>	<u>(4,100)</u>	<u>-</u>
Net change in fund balance	\$ <u><u>-</u></u>	21,431	\$ <u><u>21,431</u></u>
Fund balance, beginning of year		<u>69,150</u>	
Fund balance, end of year		\$ <u><u>90,581</u></u>	

Watauga County, North Carolina
 Emergency Telephone System Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$	\$ 300,579	\$
Investment earnings		637	
	300,579	301,216	637
Total revenues			
Expenditures:			
Public safety:			
Implementation services		64,071	
Software		73,878	
Training		15,932	
Telephones		63,463	
Hardware		282,263	
Furniture		-	
		499,607	
Total expenditures	519,730	499,607	20,123
Other financing sources (uses):			
Appropriated fund balance	219,151	-	(219,151)
	219,151	-	(219,151)
Total Other Financing sources (uses):			
	219,151	-	(219,151)
Net change in fund balance	\$ -	(198,391)	\$ (198,391)
	-	(198,391)	(198,391)
Fund balance, beginning of year		407,069	
Fund balance, end of year		\$ 208,678	

Watauga County, North Carolina
 Fire Districts Funds
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ _____	\$ 2,987,818	\$ _____
Total revenues	3,044,311	2,987,818	(56,493)
Expenditures:			
Public safety:			
Beaver Dam Fire Department		108,813	
Beech Mountain Fire Department		1,489	
Blowing Rock Fire Department		472,465	
Boone Fire Department		776,301	
Cove Creek Fire Department		246,774	
Creston Fire Department		6,923	
Deep Gap Fire Department		198,213	
Fall Creek Fire Department		9,154	
Foscoe Fire Department		541,640	
Meat Camp Fire Department		216,096	
Shawneehaw Fire Department		104,045	
Stewart Simmons Fire Department		123,025	
Todd Fire Department		64,759	
Zionville Fire Department		118,121	
Total expenditures	3,044,311	2,987,818	56,493
Net change in fund balance	\$ _____	-	\$ _____
Fund balance, beginning of year		-	
Fund balance, end of year		\$ _____	

Watauga County, North Carolina
Occupancy Tax Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Other taxes and licenses	\$ _____	\$ 1,371,244	\$ _____
Total revenues	<u>1,371,244</u>	<u>1,371,244</u>	<u>-</u>
Expenditures:			
Tourism Development		1,347,532	
Administrative fee		<u>23,712</u>	
Total expenditures	<u>1,371,244</u>	<u>1,371,244</u>	<u>-</u>
Net change in fund balance	\$ <u> -</u>	-	\$ <u> -</u>
Fund balance, beginning of year		-	
Fund balance, end of year		\$ <u> -</u>	

Watauga County, North Carolina
 CDBG Scattered Site Housing Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental	\$ 225,000	\$ 84,349	\$ 137,873	\$ 222,222	\$ (2,778)
Total revenues	<u>225,000</u>	<u>84,349</u>	<u>137,873</u>	<u>222,222</u>	<u>(2,778)</u>
Expenditures:					
Residence rehabilitation	180,000	66,973	110,973	177,946	2,054
Local option/emergency	22,500	-	22,200	22,200	300
Grant administration	<u>22,500</u>	<u>17,376</u>	<u>4,700</u>	<u>22,076</u>	<u>424</u>
Total expenditures	<u>225,000</u>	<u>84,349</u>	<u>137,873</u>	<u>222,222</u>	<u>2,778</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			-		
Fund balance, end of year		\$	<u>-</u>		

Watauga County, North Carolina
 Capital Projects Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Investment earnings	\$ <u> -</u>	\$ <u> 25,734</u>	\$ <u> 25,734</u>
Expenditures:			
General government	<u> 2,268,552</u>	<u> -</u>	<u> 2,268,552</u>
Excess (deficiency) of revenues over expenditures	<u> (2,268,552)</u>	<u> 25,734</u>	<u> 2,294,286</u>
Other financing sources (uses):			
Transfer from other funds	<u> 2,268,552</u>	<u> 2,268,552</u>	<u> -</u>
Total other financing sources (uses)	<u> 2,268,552</u>	<u> 2,268,552</u>	<u> -</u>
Net change in fund balance	\$ <u> -</u>	2,294,286	\$ <u> 2,294,286</u>
Fund balance, beginning of year		<u> 6,885,847</u>	
Fund balance, end of year		\$ <u> 9,180,133</u>	

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures Budget and Actual (NON-GAAP)
For the Year Ended June 30, 2016

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Charges for services	\$	\$ 4,317,534	\$
Sale of recycled materials		310,497	
Total	<u>3,976,343</u>	<u>4,628,031</u>	<u>651,688</u>
Non-operating revenues:			
Miscellaneous revenue		7,904	
Investment earnings		15,785	
Restricted intergovernmental revenues		153,795	
Total	<u>143,000</u>	<u>177,484</u>	<u>34,484</u>
Total revenues	<u>4,119,343</u>	<u>4,805,515</u>	<u>686,172</u>
Expenditures:			
Landfill operations:			
Salaries and employee benefits		1,234,422	
Other operating expenditures		2,299,552	
Total landfill operations	<u>4,095,000</u>	<u>3,533,974</u>	<u>561,026</u>
Recycling operations:			
Salaries and employee benefits		47,321	
Other operating expenses		35,999	
Total recycling operations	<u>83,482</u>	<u>83,320</u>	<u>162</u>
Capital outlay:			
Capital outlays		280,708	
Total capital outlay	<u>375,141</u>	<u>280,708</u>	<u>94,433</u>
Total expenditures	<u>4,553,623</u>	<u>3,898,002</u>	<u>655,621</u>
Revenues under/(over) expenditures	<u>(434,280)</u>	<u>907,513</u>	<u>1,341,793</u>
Other financing sources (uses):			
Sale of fixed assets	35,000	26,839	(8,161)
Appropriated fund balance	399,280	-	(399,280)
Total other financing sources (uses)	<u>434,280</u>	<u>26,839</u>	<u>(407,441)</u>
Revenues over expenditures and other sources (uses)	<u>\$ -</u>	<u>934,352</u>	<u>\$ 934,352</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

Decrease in net pension asset	(89,014)
Decrease in deferred outflow of resources - pensions	(4,448)
Increase in net pension liability	(63,814)
Decrease in deferred inflow of resources - pensions	183,780
Increase in intangible asset for advance funding of OPEB NOO	6,769
Loss on sale of asset not fully depreciated	(27,831)
Capital outlays	280,708
Depreciation	(318,039)
Increase in accrued compensated absences	(10,537)
Total reconciling items	<u>(42,426)</u>

Change in net position \$ 891,926

Watauga County, North Carolina
Combining Statement of Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2016

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 273,313	\$ 850,281	\$ 1,123,594
Accounts receivable	-	2,740	2,740
	<u>\$ 273,313</u>	<u>\$ 853,021</u>	<u>\$ 1,126,334</u>
Liabilities and Net Position			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Net position:			
Assets held in trust for pension benefits	<u>\$ 273,313</u>	<u>\$ 853,021</u>	<u>\$ 1,126,334</u>

Watauga County, North Carolina
Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2016

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Additions:			
Employer contributions	\$ 287,560	\$ 207,436	\$ 494,996
Interest	<u>716</u>	<u>7,889</u>	<u>8,605</u>
Total additions	<u>288,276</u>	<u>215,325</u>	<u>503,601</u>
Deductions:			
Benefits	14,727	120,700	135,427
Administrative expense	<u>236</u>	<u>4,800</u>	<u>5,036</u>
Total deductions	<u>14,963</u>	<u>125,500</u>	<u>140,463</u>
Change in net position	273,313	89,825	363,138
Net position, beginning	-	763,196	763,196
Net position, ending	<u>\$ 273,313</u>	<u>\$ 853,021</u>	<u>\$ 1,126,334</u>

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Social Services Trust:				
Assets:	\$ <u>43,090</u>	\$ <u>191,414</u>	\$ <u>202,845</u>	\$ <u>31,659</u>
Liabilities:	\$ <u>43,090</u>	\$ <u>191,414</u>	\$ <u>202,845</u>	\$ <u>31,659</u>
Vehicle Tax-Towns:				
Assets:	\$ <u>50</u>	\$ <u>123,137</u>	\$ <u>123,170</u>	\$ <u>17</u>
Liabilities:	\$ <u>50</u>	\$ <u>123,137</u>	\$ <u>123,170</u>	\$ <u>17</u>
Town of Boone Taxes:				
Assets:	\$ <u>2,096</u>	\$ <u>6,001,067</u>	\$ <u>5,970,226</u>	\$ <u>32,937</u>
Liabilities:	\$ <u>2,096</u>	\$ <u>6,001,067</u>	\$ <u>5,970,226</u>	\$ <u>32,937</u>
Inmate Commissary:				
Assets:	\$ <u>19,459</u>	\$ <u>163,834</u>	\$ <u>162,323</u>	\$ <u>20,970</u>
Liabilities:	\$ <u>19,459</u>	\$ <u>163,834</u>	\$ <u>162,323</u>	\$ <u>20,970</u>
Fines and Forfeitures:				
Assets:	\$ <u>19,832</u>	\$ <u>325,704</u>	\$ <u>327,055</u>	\$ <u>18,481</u>
Liabilities:	\$ <u>19,832</u>	\$ <u>325,704</u>	\$ <u>327,055</u>	\$ <u>18,481</u>
Deed of Trust Fee:				
Assets:	\$ <u>4,452</u>	\$ <u>48,062</u>	\$ <u>47,889</u>	\$ <u>4,625</u>
Liabilities:	\$ <u>4,452</u>	\$ <u>48,062</u>	\$ <u>47,889</u>	\$ <u>4,625</u>
Total - All Agency Funds				
Assets:	\$ <u>88,979</u>	\$ <u>6,853,218</u>	\$ <u>6,833,508</u>	\$ <u>108,689</u>
Liabilities:	\$ <u>88,979</u>	\$ <u>6,853,218</u>	\$ <u>6,833,508</u>	\$ <u>108,689</u>

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2016

Fiscal year:	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015 - 2016	\$ -	\$ 27,880,718	\$ 27,548,054	\$ 332,664
2014 - 2015	450,430	-	228,762	221,668
2013 - 2014	241,045	-	84,151	156,894
2012 - 2013	160,236	-	49,591	110,645
2011 - 2012	114,602	-	30,546	84,056
2010 - 2011	87,284	-	18,003	69,281
2009 - 2010	60,732	-	11,870	48,862
2008 - 2009	55,249	-	7,262	47,987
2007 - 2008	46,111	-	6,151	39,960
2006 - 2007	42,292	-	7,486	34,806
2005 - 2006	38,328	-	38,328	-
	<u>\$ 1,296,309</u>	<u>\$ 27,880,718</u>	<u>\$ 28,030,204</u>	<u>1,146,823</u>
Plus: 2016 - 2017 receivable				13,933
Less: Allowance for uncollectible accounts General Fund				<u>(394,290)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 766,466</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$ 28,151,345
Reconciling items:		
Advertising and interest collected	(172,474)	
Taxes written off	35,330	
Penalties payable to WCS	1,915	
Prior year releases	14,088	
Total reconciling items	<u>(121,141)</u>	
Total collections and credits		<u>\$ 28,030,204</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2016

	Property Valuation	Rate	Amount of Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 8,408,582,978	\$ 0.313	\$ 26,192,547	\$ 26,192,547	\$ -
Motor vehicles	411,994,671	0.313	1,289,543	-	1,289,543
Penalties	-		2,361	2,361	-
Total	<u>8,820,577,649</u>		<u>27,484,451</u>	<u>26,194,908</u>	<u>1,289,543</u>
Discoveries:					
Property taxed at current year's rate	139,271,730	0.313	441,778	441,778	-
Penalties	-		2,100	2,100	-
Total	<u>139,271,730</u>		<u>443,878</u>	<u>443,878</u>	<u>-</u>
Abatements:	<u>(15,214,613)</u>		<u>(47,611)</u>	<u>(47,611)</u>	<u>-</u>
Total property valuation	<u>\$ 8,944,634,766</u>				
Net levy			27,880,718	26,591,175	1,289,543
Uncollected taxes at June 30, 2016			<u>332,664</u>	<u>329,516</u>	<u>3,148</u>
Current year's taxes collected			<u>\$ 27,548,054</u>	<u>\$ 26,261,659</u>	<u>\$ 1,286,395</u>
Current levy collection percentage			<u>98.81%</u>	<u>98.76%</u>	<u>99.76%</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2016

Secondary Market Disclosures:

Assessed Valuation:		
Assessment Ratio		100%
Real Property	\$ 8,700,983,675	
Personal Property	149,426,941	
Public Service Companies	<u>94,224,150</u>	
Total Assessed Valuation	\$ 8,944,634,766	
Tax Rate per \$100		0.313
Net Levy (Includes penalties, discoveries, releases and abatements)	\$ <u><u>27,880,718</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, 2016:

Fire Protection District	Tax Rate per \$100	Net Levy
Beech Mountain Rural	0.05	\$ 1,478
Blowing Rock	0.05	467,848
Boone Rural	0.05	767,682
Cove Creek	0.05	244,730
Cove Creek Rural	0.05	324
Deep Gap	0.05	195,126
Foscoe	0.05	466,807
Foscoe Rural	0.05	70,421
Meat Camp	0.05	220,138
Northwest Watauga	0.05	116,724
Shawneehaw	0.05	97,275
Shawneehaw Rural	0.05	6,590
Stewart Simmons	0.05	122,705
Todd	0.07	63,601
Zionville	0.05	<u>116,214</u>
Total Net Fire Protection District Levies		\$ <u><u>2,957,663</u></u>

Watauga County, North Carolina
 Ten Largest Taxpayers
 For the Year Ended June 30, 2016

Taxpayer	Type of Business	2015 Assessed Valuation	Percentage of Total Assessed Valuation	
Blue Ridge Electric Membership Coop	Electric Utility	\$ 65,750,600	0.74	%
CCC Boone LLC	Rental Properties	46,499,000	0.52	
Dugger Valley Inv Group LLC	Real Estate Development	35,405,500	0.40	
BR Development Group LLC	Real Estate Development	24,047,700	0.27	
Mountaineer Village LLC	Rental Properties	23,537,200	0.26	
Horizon Acquisition #2 LLC	Rental Properties	17,906,700	0.20	
Blue Ridge Preservation Inc	Real Estate Development	16,944,700	0.19	
Highland Crossing-B, LLC	Real Estate Development	15,727,420	0.18	
Templeton Properties LP	Commercial Rental Properties	14,998,700	0.17	
Wm Land Boone LTD Ptnrp	Real Estate Development	13,689,900	0.15	
		<u>\$ 274,507,420</u>	<u>3.08</u>	%

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Year Ended June 30, 2016

	Northwest Watauga Fire District	Beech Mtn. Rural Fire Service District	Blowing Rock Rural Fire District	Boone Rural Fire District	Cove Creek Fire District
Tax rate	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 116,724	\$ 1,478	\$ 467,848	\$ 767,682	\$ 244,730
Uncollected taxes at June 30, 2016	<u>2,515</u>	<u>2</u>	<u>5,544</u>	<u>10,216</u>	<u>4,615</u>
Current year's taxes collected	<u>\$ 114,209</u>	<u>\$ 1,476</u>	<u>\$ 462,304</u>	<u>\$ 757,466</u>	<u>\$ 240,115</u>
Current levy collection percentage	<u>97.85%</u>	<u>99.86%</u>	<u>98.81%</u>	<u>98.67%</u>	<u>98.11%</u>
	Cove Creek Rural Fire Service District	Deep Gap Fire District	Foscoe Fire District	Foscoe Rural Fire Service District	Meat Camp Fire District
Tax rate	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 324	\$ 195,126	\$ 466,807	\$ 70,421	\$ 220,138
Uncollected taxes at June 30, 2016	<u>-</u>	<u>3,427</u>	<u>3,877</u>	<u>845</u>	<u>5,817</u>
Current year's taxes collected	<u>\$ 324</u>	<u>\$ 191,699</u>	<u>\$ 462,930</u>	<u>\$ 69,576</u>	<u>\$ 214,321</u>
Current levy collection percentage	<u>100.00%</u>	<u>98.24%</u>	<u>99.17%</u>	<u>98.80%</u>	<u>97.36%</u>
	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>0.05</u>	<u>0.05</u>	<u>0.07</u>	<u>0.05</u>
Net levy	\$ 97,275	\$ 6,590	\$ 122,705	\$ 63,601	\$ 116,214
Uncollected taxes at June 30, 2016	<u>1,551</u>	<u>394</u>	<u>1,729</u>	<u>585</u>	<u>2,727</u>
Current year's taxes collected	<u>\$ 95,724</u>	<u>\$ 6,196</u>	<u>\$ 120,976</u>	<u>\$ 63,016</u>	<u>\$ 113,487</u>
Current levy collection percentage	<u>98.41%</u>	<u>94.02%</u>	<u>98.59%</u>	<u>99.08%</u>	<u>97.65%</u>

COMPLIANCE SECTION

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

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

Independent Auditor's Report

To the Board of Commissioners
Watauga County, North Carolina

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises Watauga County's basic financial statements, and have issued my report thereon dated October 7, 2016. My report includes a reference to other auditors who audited the financial statements of AppalCART, as described in my report on the County's financial statements. This report does not include the results of other auditors testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Watauga County District U Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

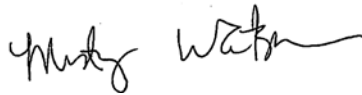
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify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

Compliance and Other Matters

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

Purpose of this Report

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

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

Misty D Watson, CPA, P.A.

Boone, NC

October 7, 2016

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

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major Federal Program

I have audited Watauga County, North Carolina, compliance with the types of compliance requirements described in the OMB *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, 2016. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Watauga County's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that I 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 I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Watauga County's compliance.

Opinion on Each Major Federal Program

In my opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

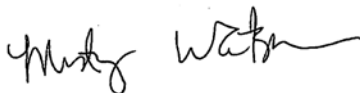
Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Misty D. Watson, CPA, PA
Boone, NC 28607
October 7, 2016

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

Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major State Program

I 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 could have a direct and material effect on each of Watauga County's major state programs for the year ended June 30, 2016. Watauga County's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Watauga County's major state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major state program. However, my audit does not provide a legal determination of Watauga County's compliance.

Opinion on Each Major State Program

In my opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

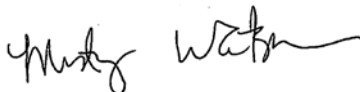
Report on Internal Control Over Compliance

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Misty D. Watson, CPA, PA
Boone, NC 28607
October 7, 2016

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

I. Summary of Auditor's Results

Financial Statements

Internal control over financial reporting:

Material weakness identified? Yes X No

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

Noncompliance material to financial statements noted Yes X No

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Federal Awards

Internal control over major Federal programs:

Material weakness identified? Yes X No

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major Federal programs:

Program Name

CFDA#

Subsidized Childcare Cluster 93.596
93.575
93.558
93.658

Title XIX Medicaid 93.778

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 769,642

Auditee qualified as low-risk auditee X Yes No

State Awards

Internal control over major State programs:

Material weakness identified? Yes X No

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

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

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

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

Identification of major State programs:

Title XIX Medicaid

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

IV. State Award Findings and Questioned Costs

None reported.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2016

FINDING 2015-1

The County implemented adequate checks and balances and the finding was not repeated.

FINDING 2015-2

The County implemented adequate checks and balances and the finding was not repeated.

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program/Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Passed-through to Subrecipients	Local Expenditures
Federal Awards:						
U.S. Department of Agriculture						
Passed-through the N.C. Department of Health and Human Services: Division of Social Services:						
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		\$ 211,686	\$ -	\$ -	\$ 211,686
Total U.S. Department of Agriculture			<u>211,686</u>	<u>-</u>	<u>-</u>	<u>211,686</u>
U.S. Department of Housing and Urban Development						
Passed-through the N.C. Department of Commerce: Community Development Block Grant						
	14.228	12-C-2431	137,873	-	-	-
Total U.S. Department of Housing and Urban Development			<u>137,873</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Homeland Security						
Passed-through the N.C. Department of Public Safety:						
Homeland Security Training Grant	20.703	HM-MHP-0446-14-01-00	9,575	-	-	-
Emergency Management Performance Grant	97.042	EMPG-2015-37189	38,542	-	-	38,542
Total U.S. Department of Homeland Security			<u>48,117</u>	<u>-</u>	<u>-</u>	<u>38,542</u>
U.S. Department of Justice						
State Criminal Alien Assistance Program	16.606	2015-AP-BX-0395	7,914	-	-	-
Total U.S. Department of Justice			<u>7,914</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Transportation						
Passed-through the N.C. Department of Transportation:						
Federal Aid Highway Grants	20.205	EB-5612	362,843	90,711	-	22,217
Total U.S. Department of Transportation			<u>362,843</u>	<u>90,711</u>	<u>-</u>	<u>22,217</u>
U.S. Department of Health & Human Services						
Administration on Aging Aging Cluster:						
Passed-through High Country Council of Governments:						
Home and Community Care Block Grant (HCCBG) -						
Special Programs for the Aging - Title III B - Access Services 90% State Funds	93.044		12,165	716	-	1,431
Special Programs for the Aging - Title III C - Congregate Meals	93.045		-	121,090	-	13,454
Special Programs for the Aging - Title III C - Home Delivered Meals	93.045		41,028	2,413	-	4,827
Senior Center	93.045		73,969	4,351	-	8,702
Nutrition Services Incentive Program (NSIP)	93.053		-	15,200	-	5,067
Total Aging Cluster			<u>26,733</u>	<u>-</u>	<u>-</u>	<u>-</u>
			<u>153,895</u>	<u>143,770</u>	<u>-</u>	<u>33,481</u>
Passed-through N.C. Department of Insurance:						
Seniors Health Insurance Information Program	93.779		3,051	-	-	-
Medicare Improvements for Patients and Providers Act	93.779		1,131	-	-	-
Administration for Children and Families Passed-through the N.C. Department of Health and Human Services: Division of Social Services:						
Family Preservation	93.556	G1501NCFPSS	12,147	-	-	-
Temporary Assistance for Needy Families Administration	93.558	G1602NCTANF	33,844	-	-	38,957
Direct Benefit Payments	93.558	G1602NCTANF	210,512	21,600	-	179,850
Child Support Enforcement	93.563		192,368	-	-	99,083
Low-Income Home Energy Assistance Block Grant						
Administration	93.568	G16B1NCLIEA	31,306	-	-	-
Direct Benefit Payments	93.568	G16B1NCLIEA	79,575	-	-	-
Crisis Intervention Payments	93.568	G16B1NCLIEA	188,908	-	-	-
Permanency Planning	93.645	G1501NCCWSS	13,854	-	-	4,618
Social Services Block Grant	93.667	G1601NCSOSR	146,952	13,084	-	51,760
Total Division of Social Services			<u>909,466</u>	<u>34,684</u>	<u>-</u>	<u>374,268</u>
Foster Care and Adoption Cluster (Note 3)						
Title IV-E Foster Care	93.658		170,423	9,348	-	148,746
Foster Care - Direct Benefit Payments	93.658		302,624	74,826	-	80,690
Adoption Assistance - Direct Benefit Payments	93.659		157,995	39,965	-	41,153
Adoption/Foster Care Special Provision	93.658		13,431	-	-	8,398
Total Foster Care and Adoption Cluster (Note 3)			<u>644,473</u>	<u>124,139</u>	<u>-</u>	<u>278,987</u>

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program/Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Passed-through to Subrecipients	Local Expenditures
Subsidized Child Care (Note 3)						
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	G1601NCCCCDF	200,384	-	-	-
Child Care and Development Fund - Mandatory	93.596		82,245	-	-	-
Child Care and Development Fund - Match	93.596		239,635	108,654	-	-
Total Child Care Development Fund Cluster			602,264	108,654	-	-
Temporary Assistance for Needy Families (TANF)						
Foster Care Title IV-E	93.558	1601 NCTANF	71,772	-	-	-
Smart Start State Maintenance of Effort	93.658	1601NCFOST	4,747	2,432	-	-
TANF - Contingency	93.575	G1601NCCCCDF	47,242	-	-	-
TANF - Maintenance of Effort			-	24,861	-	-
Total Subsidized Child Care (Note 3)			726,025	253,642	-	-
Health Care Financing Administration						
Passed-through the N.C. Department of Health and Human Services:						
Division of Medical Assistance:						
Direct Benefit Payments:						
Medical Assistance Program	93.778		20,782,916	11,316,462	-	-
State Children's Insurance Program - NC Health Choice	93.767		702,506	33,487	-	-
Division of Social Services:						
Medical Assistance Program						
Administration	93.778		898,686	1,511	-	347,675
Health Choice	93.767		45,530	1,739	-	249
LINKS - Direct Benefit Payments	93.674	G1501NCCILP	18,607	2,478	-	-
Total Division of Medical Assistance			22,448,245	11,355,677	-	347,924
Total U.S. Department of Health & Human Services			24,886,286	11,911,912	-	1,034,660
Total Federal Awards			25,654,719	12,002,623	-	1,307,105
State Awards:						
N.C. Department of Health and Human Services						
Division of Social Services						
Adoption Subsidy			-	90,943	-	29,523
State/County Special Assistance for Adults - Direct Benefit Payments			-	226,128	-	226,128
State Foster Care Benefits Program			-	108,249	-	90,670
Total N.C. Department of Health and Human Services			-	425,320	-	346,321
N.C. Department of Public Safety						
Division of Administration, Community Programs						
Juvenile Crime Prevention Council Programs			-	134,900	134,900	33,251
Total N.C. Department of Public Safety			-	134,900	134,900	33,251
N.C. Department of Public Instruction						
NC Public School Building Capital-Lottery Proceeds			-	435,763	435,763	-
NC Public School Building Capital-ADM			-	123,914	123,914	155,686
Public School National Forest Service			-	575	575	-
Total N.C. Department of Public Instruction			-	560,252	560,252	155,686
N.C. Department of Transportation						
Employment Transportation Operating Assistance		DOT-16CL	-	14,153	14,153	-
Elderly and Disabled Transportation Assistance		DOT-16CL	-	54,262	-	-
Rural General Public Program		DOT-16CL	-	73,928	73,928	8,214
Total N.C. Department of Transportation			-	142,343	88,081	8,214
N.C. Department of Agriculture and Consumer Services						
Farmland Preservation			-	14,018	-	8,731
Soil Conservation Assistance			-	3,600	-	71,971
Soil Conservation Technician Cost Sharing			-	22,983	-	22,983
Total N.C. Department of Agriculture			-	40,601	-	103,685
N.C. Department of Environment and Natural Resources						
Division of Environmental Assistance and Customer Service						
Community Waste Reduction and Recycling - HHW Building		Contract #6478	-	25,523	-	5,105
Community Waste Reduction and Recycling - Mercury Collection		Contract #6447	-	8,570	-	1,123
Total N.C. Department of Environment and Natural Resources			-	34,093	-	6,228
N.C. Division of Veteran's Affairs						
Veteran's Service Program			-	2,288	-	111,785
Total State Awards			-	1,339,797	783,233	765,170
Total Federal and State Awards			\$ 25,654,719	13,342,420	783,233	2,072,275

Watauga County, North Carolina
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program/Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Passed-through to Subrecipients	Local Expenditures
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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 (SEFSA) includes the federal and State award activity of Watauga County under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Watauga County, it is not intended to and does not present the financial position, changes in net position or cash flows of Watauga County.

2. Summary of Significant Account Policies:

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the County's basic financial statements. However, due to the County's involvement in determining eligibility, they are considered Federal awards to the County and are included in this schedule.

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
- Foster Care and Adoption