



WATAUGA COUNTY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**



WATAUGA COUNTY, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

BOARD OF COUNTY COMMISSIONERS

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COUNTY OFFICIALS

Deron T. Geouque

County Manager

Margaret Pierce

Finance Director

Report prepared by the Watauga County Finance Office.

Becky Ballew

Deidre Earp

Maria Sherwood

Cheryl Steinke

Margaret Pierce, Finance Director

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Comprehensive Annual Financial Report**

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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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Watauga County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of AppalCART, which represents 87.1 percent, 87.0 percent, and 30.7 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 our opinion, insofar as it relates to the amounts included for AppalCART is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Watauga County District U Tourism Development Authority were not audited in accordance with *Governmental Auditing Standards*.

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

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

Opinions

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2017, 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 Liability, Net Pension Liability, and County's Contributions, on page 57 through 59, respectively, the Other Post Employment Benefits and Schedules of Funding Progress, Changes in Net Pension Liability, Country's Contributions, and Investment Returns on pages 60 through 63, respectively, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 64 through 65, respectively, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of Net Pension Asset and Contributions, on pages 66 through 67, 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. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

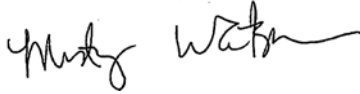
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 our opinion based on our 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*, we have also issued our report dated October 10, 2017 on our consideration of the Watauga County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Misty D. Watson, CPA, PA
Boone, NC 28607
October 10, 2017

MANAGEMENT DISCUSSION
AND ANALYSIS

Watauga County

Year Ended June 30, 2017

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, 2017. 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 \$144,372,548.
- The County's total net position increased by \$8,087,995 primarily due to an increase in cash assets from revenues, particularly sales tax, 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 \$22,104,565 at the end of the year, representing 45.55% of total General Fund expenditures. This is an increase of \$496,615 in unassigned fund balance over the previous year.
- Total County debt decreased by \$4,082,361 in outstanding principal.
- The new Emergency Medic Base 3 near the intersection of Hwy 321 and Hwy 421 was opened.
- The County began a project to build a new recreation and community center that has been in the making for more than 3 decades.
- Moody's Investors Service reaffirmed the County's Aa3 credit rating and stated the County's credit position was very healthy and the "available fund balance as a percent of operating revenues (50.5%) is noticeably higher than other Moody's rated counties nationwide".
- For the third 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 2015-16 increase in unassigned fund balance of \$3,415,881 was appropriated for various County needs. The Capital Project Fund received \$2.8 million for the County's Rec Center CIP, \$470,881 funding to the County's OPEB Irrevocable Trust, \$105,000 for additional Sheriff's Office vehicles, and \$40,000 for the Winkler Creek facility renovations.

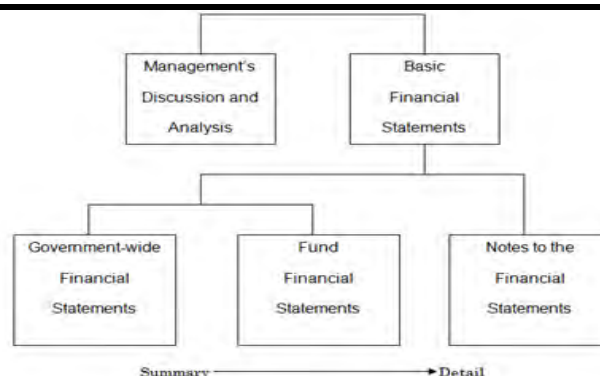
Overview of the Financial Statements

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 seven 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 57 of this report.

Government-Wide Financial Analysis

Watauga County's Net Position

Figure 2

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 43,310,596	\$ 39,533,033	\$ 6,643,633	\$ 5,862,432	\$ 49,954,229	\$ 45,395,465
Net capital assets	136,446,126	137,566,874	4,670,528	4,593,317	141,116,654	142,160,191
Total assets	179,756,722	177,099,907	11,314,161	10,455,749	191,070,883	\$ 187,555,656
Total deferred outflows of resources	3,167,654	718,757	256,830	60,289	3,424,484	779,046
Long-term liabilities outstanding	47,608,306	49,333,032	417,416	172,660	48,025,722	49,505,692
Other liabilities	1,737,982	1,834,602	178,014	282,485	1,915,996	2,117,087
Total liabilities	49,346,288	51,167,634	595,430	455,145	49,941,718	51,622,779
Total deferred inflows of resources	170,612	394,202	10,489	33,168	181,101	427,370
Net position:						
Net investment in capital assets	97,759,460	94,926,875	4,670,528	4,593,317	102,429,988	99,520,192
Restricted	4,940,118	5,136,888	-	-	4,940,118	5,136,888
Unrestricted	30,707,898	26,193,065	6,294,544	5,434,408	37,002,442	31,627,473
Total net position	\$ 133,407,476	\$ 126,256,828	\$ 10,965,072	\$ 10,027,725	\$ 144,372,548	\$ 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 \$144,372,548 at June 30, 2017. The County's net position increased by a total of \$8,087,995 for the fiscal year. Net position is reported in three categories: Net investment in capital assets of \$102,429,988; restricted net position of \$4,940,118; and unrestricted net position of \$37,002,442.

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, 2017, 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 funds and Register of Deeds pension assets account for the balance of the restricted net position.

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;

Watauga County Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 2,247,060	\$ 1,891,176	\$5,095,113	\$4,628,031	7,342,173	\$ 6,519,207
Operating grants and contributions	4,926,797	5,694,785	127,665	153,795	5,054,462	5,848,580
Capital grants	709,247	1,087,312	23,164	-	732,411	1,087,312
General revenues:						
Property taxes	31,550,915	30,972,900	-	-	31,550,915	30,972,900
Other taxes	14,168,225	13,445,818	-	-	14,168,225	13,445,818
Grant and contributions not restricted to specific programs	3,519,960	3,278,098	-	-	3,519,960	3,278,098
Other	298,180	136,602	45,785	23,689	343,965	160,291
Total revenues	57,420,384	56,506,691	5,291,727	4,805,515	62,712,111	61,312,206
Expenses						
General government	10,673,241	10,139,596	-	-	10,673,241	10,139,596
Public safety	12,753,441	12,944,370	-	-	12,753,441	12,944,370
Transportation	225,389	209,838	-	-	225,389	209,838
Economic & physical development	555,579	664,986	-	-	555,579	664,986
Environment protection	349,278	331,923	-	-	349,278	331,923
Humans services	7,371,576	7,735,723	-	-	7,371,576	7,735,723
Cultural and recreation	1,893,257	1,293,315	-	-	1,893,257	1,293,315
Education	14,871,985	14,425,668	-	-	14,871,985	14,425,668
Interest on long-term debt	1,575,990	1,734,413	-	-	1,575,990	1,734,413
Solid Waste	-	-	4,354,380	3,913,589	4,354,380	3,913,589
Total expenses	50,269,736	49,479,832	4,354,380	3,913,589	54,624,116	53,393,421
Increase (decrease) in net position before transfers and special items	7,150,648	7,026,859	937,347	891,926	8,087,995	7,918,785
Transfers	-	-	-	-	-	-
Increase (decrease) in net position after transfer and special items	7,150,648	7,026,859	937,347	891,926	8,087,995	7,918,785
Net position, beginning, previously reported	126,256,828	119,722,391	10,027,725	9,135,799	136,284,553	128,858,190
Restatement	-	(492,422)	-	-	-	(492,422)
Net position, beginning, restated	126,256,828	119,229,969	10,027,725	9,135,799	136,284,553	128,365,768
Net position, ending	133,407,476	\$126,256,828	\$10,965,072	\$10,027,725	144,372,548	\$136,284,553

Governmental activities: Governmental activities increased the County's net position by \$7,150,648, thereby accounting for 88.41% 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 98.94% for the current fiscal year, an increase of 13 basis points over last year;
- Close monitoring of expenditures throughout the year with actual expenditures below budget.

Business-type activities: Business-type activities increased Watauga County's net position by \$937,347 (11.59%). Key elements of this increase are as follows:

- Revenues in excess of projections for sale of recycled materials due to market pricing higher than expected;
- Revenues for solid waste fees were above projections due to higher volume of collections than anticipated;
- 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 \$22,104,565 while total fund balance increased to \$26,660,250. 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 45.01 percent of total General Fund expenditures (\$49,109,228), while total fund balance represents 54.29 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 \$6,708,531 with approximately \$3,422,569 of the amendments related to appropriations of fund balance. Of this amount, \$2.8 million was set aside for the recreation center project, \$470,887 for advance funding of OPEB liabilities and the balance was used for additional capital needs. Within the remaining fund balance appropriations of \$3,285,900 was \$325,929 for school lottery projects, \$1,050,000 of projects carried forward for completion, and approximately \$1,911,000 for additional intergovernmental revenues recognized or awarded. The actual operating revenues for the General Fund were \$1,557,487 more than the budgeted amount. Actual operating expenses were less than budgeted by \$3,515,005. Unfinished projects which are budgeted but not completed account for approximately \$850,000 (24.18%) and school capital projects not completed are \$511,000 (14.54%) 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 \$6,294,544. The total increase in proprietary net position was \$937,347. 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, 2017, totals \$141,116,654 (net of depreciation). These assets include buildings, land, equipment, improvements, and vehicles. Major capital asset transactions during the year include:

- Purchased 26 new vehicles and numerous pieces of equipment for County governmental departments;
- Completion of the new ambulance base site and the greenway/underpass at Brookshire Park and Hwy 421;

Watauga County's Capital Assets, Net of Depreciation

Figure 4

	Governmental Activities	Business Activities	Total
	2017	2017	2017
Land	\$ 44,388,984	\$ 975,497	\$ 45,364,481
Buildings	80,371,276	2,950,388	83,321,664
Other improvements	2,740,828	119,247	2,860,075
Leasehold improvements	6,026,859	6,548	6,033,407
Equipment	1,234,071	224,601	1,458,672
Vehicles	1,092,916	394,247	1,487,163
Construction in progress	575,592	-	575,592
Intangible assets	15,600	-	15,600
Total	\$ 136,446,126	\$ 4,670,528	\$ 141,116,654

Additional information on the County's capital assets can be found in note 3.A.5 of this report.

Long-term Debt. As of June 30, 2017, Watauga County had no bonded debt outstanding or authorized.

Watauga County's Outstanding Debt

Figure 5

	Governmental Activities	
	<u>2016</u>	<u>2017</u>
Installment purchase	\$ 43,156,110	\$ 39,073,749

Watauga County's total debt decreased by \$4,082,361 or (9.46%) during the past fiscal year due to scheduled debt service payments. There is no debt associated with the business activities. 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, 2017 is \$681,830,754. Additional information regarding Watauga County's long-term debt can be found in Note 3.B.7.b of this report.

Economic Factors

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 eight years related to tourism with revenues at just over \$1.5 million now;
- The County's unemployment rate of 4.1% as of August 2017 is consistent with the state average of 4.1% and slightly lower than the federal rate of 4.4% which 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, 2018

Governmental activities – The County's property tax rate is raised four cents to 35.3 cents per \$100 in property valuation. This is the first tax increase in twelve years. The increased tax revenues are budgeted to generate \$1.5 million annually for future school capital needs and funds to assist in completing the new recreation and community center and servicing potential debt on the project. Sales tax revenue is projected with a 3 percent increase based on state projections. Other revenues are expected to maintain current levels with minor increases.

Budgeted expenditures in the General Fund include increased school current expense and current capital funding of \$380,210, department budgets with other increases predominately due to personnel salary and benefit increases including a proposed pay plan adjustment. 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 East Annex is planned at \$153,600. Funds are allocated to be set aside this year for future capital school projects of \$2,000,000 including the \$1,500,000 generated from the tax increase and \$2,923,475 for county projects-mainly funding \$2,477,075 to the recreation center project. A capital project fund will be started with \$10,000,000 from the county CIP.

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 disposal at the transfer station for \$80. Budgeted expenditures include funding for an increase in waste hauling expenses due to potential contracted increases in April 2018. Funds have also been budgeted for capital replacements of a salt spreader, pickup truck, interstate equipment trailer, roll off truck, track hoe and a replacement of the concrete floor in the recycling building estimated at \$488,140.

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, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
ASSETS					
Cash and cash equivalents	\$ 36,910,007	\$ 6,117,124	\$ 43,027,131	\$ 2,695,851	\$ 2,019,918
Restricted cash and cash equivalents	555,262	-	555,262	392,196	-
Receivables (net)	1,265,598	362,794	1,628,392	15,995	-
Due from other governments	3,252,895	33,498	3,286,393	372,576	135,948
Inventory	-	-	-	185,135	-
Net pension asset - ROD	124,766	-	124,766	-	-
Intangible asset for OPEB NOO	1,202,068	130,217	1,332,285	-	-
Capital assets:					
Land, intangible, and construction in progress	44,980,176	975,497	45,955,673	1,181,992	-
Other capital assets, net of depreciation	91,465,950	3,695,031	95,160,981	9,684,037	-
Total capital assets	<u>136,446,126</u>	<u>4,670,528</u>	<u>141,116,654</u>	<u>10,866,029</u>	<u>-</u>
Total assets	<u>179,756,722</u>	<u>11,314,161</u>	<u>191,070,883</u>	<u>14,527,782</u>	<u>2,155,866</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals	3,167,654	256,830	3,424,484	-	50,510
Total deferred outflows of resources	<u>3,167,654</u>	<u>256,830</u>	<u>3,424,484</u>	<u>-</u>	<u>50,510</u>
LIABILITIES					
Accounts payable and accrued expenses	1,409,174	178,014	1,587,188	342,789	3,110
Accrued interest payable	146,404	-	146,404	-	-
Due to other governments	144,474	-	144,474	-	-
Liabilities payable from restricted assets	37,930	-	37,930	-	-
Unamortized liability for bond premiums	3,577,634	-	3,577,634	-	-
Long-term liabilities:					
Net pension liability - LGERS	3,391,422	299,319	3,690,741	-	61,334
Net pension liability - LEOSSA	575,720	-	575,720	-	-
Debt service due within one year	4,077,361	-	4,077,361	-	-
Due in more than one year	35,986,169	118,097	36,104,266	-	8,584
Total liabilities	<u>49,346,288</u>	<u>595,430</u>	<u>49,941,718</u>	<u>342,789</u>	<u>73,028</u>
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	154,878	10,489	165,367	-	10,612
Prepaid taxes	15,734	-	15,734	-	-
Total deferred inflows of resources	<u>170,612</u>	<u>10,489</u>	<u>181,101</u>	<u>-</u>	<u>10,612</u>
NET POSITION					
Net investment in capital assets	97,759,460	4,670,528	102,429,988	10,866,029	-
Restricted for:					
Stabilization by State Statute	4,291,856	-	4,291,856	-	135,948
Register of Deeds' pension plan	90,609	-	90,609	-	-
Public safety	293,824	-	293,824	-	-
Register of Deeds	39,814	-	39,814	-	-
Revaluation	224,015	-	224,015	-	-
Tourism promotion	-	-	-	-	1,986,788
Transportation	-	-	-	392,196	-
Unrestricted (deficit)	30,707,898	6,294,544	37,002,442	2,926,768	-
Total net position	<u>\$ 133,407,476</u>	<u>\$ 10,965,072</u>	<u>\$ 144,372,548</u>	<u>\$ 14,184,993</u>	<u>\$ 2,122,736</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, 2017

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 10,673,241	\$ 1,163,756	\$ 153,314	\$ -
Public safety	12,753,441	727,779	491,684	279,990
Transportation	225,389	-	157,894	-
Economic and physical development	555,579	-	-	-
Environmental protection	349,278	-	28,967	-
Human services	7,371,576	12,509	4,094,852	-
Cultural and recreational	1,893,257	343,016	-	100,000
Education	14,871,985	-	86	329,257
Interest on long-term debt	1,575,990	-	-	-
Total governmental activities	<u>50,269,736</u>	<u>2,247,060</u>	<u>4,926,797</u>	<u>709,247</u>
Business-type activities:				
Solid waste	<u>4,354,380</u>	<u>5,095,113</u>	<u>127,665</u>	<u>23,164</u>
Total	<u>\$ 54,624,116</u>	<u>\$ 7,342,173</u>	<u>\$ 5,054,462</u>	<u>\$ 732,411</u>
Component units:				
AppalCART	<u>\$ 3,976,925</u>	<u>\$ 1,906,569</u>	<u>\$ 2,074,702</u>	<u>\$ 540,599</u>
Watauga County District U Tourism Development Authority	<u>\$ 1,439,211</u>	<u>\$ -</u>	<u>\$ 250,376</u>	<u>\$ 30,000</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
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
\$ (9,356,171)	\$ -	\$ (9,356,171)	\$	
(11,253,988)	-	(11,253,988)		
(67,495)	-	(67,495)		
(555,579)	-	(555,579)		
(320,311)	-	(320,311)		
(3,264,215)	-	(3,264,215)		
(1,450,241)	-	(1,450,241)		
(14,542,642)	-	(14,542,642)		
(1,575,990)	-	(1,575,990)		
<u>(42,386,632)</u>	<u>-</u>	<u>(42,386,632)</u>		
<u>-</u>	<u>891,562</u>	<u>891,562</u>		
<u>(42,386,632)</u>	<u>891,562</u>	<u>(41,495,070)</u>		
			<u>544,945</u>	
				<u>(1,158,835)</u>
31,550,915	-	31,550,915	-	-
11,642,604	-	11,642,604	-	-
2,525,621	-	2,525,621	-	1,479,008
3,519,960	-	3,519,960	-	-
238,633	35,735	274,368	7,241	7,910
59,547	10,050	69,597	-	-
<u>49,537,280</u>	<u>45,785</u>	<u>49,583,065</u>	<u>7,241</u>	<u>1,486,918</u>
7,150,648	937,347	8,087,995	552,186	328,083
126,256,828	10,027,725	136,284,553	13,632,807	1,794,653
<u>\$ 133,407,476</u>	<u>\$ 10,965,072</u>	<u>\$ 144,372,548</u>	<u>\$ 14,184,993</u>	<u>\$ 2,122,736</u>

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

Watauga County, North Carolina
 Governmental Funds
 Balance Sheet
 June 30, 2017

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 24,555,240	\$ 12,354,767	\$ -	\$ 36,910,007
Restricted cash and cash equivalents	263,829	-	291,433	555,262
Taxes receivable, net	779,266	-	241,211	1,020,477
Due from other governments	3,209,639	-	43,255	3,252,894
Accounts receivable, net	62,194	-	-	62,194
Total assets	<u>\$ 28,870,168</u>	<u>\$ 12,354,767</u>	<u>\$ 575,899</u>	<u>\$ 41,800,834</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,409,174	\$ -	\$ -	\$ 1,409,174
Due to other governments	7,872	-	136,602	144,474
Liabilities to be paid from restricted assets	-	-	37,930	37,930
Total liabilities	<u>1,417,046</u>	<u>-</u>	<u>174,532</u>	<u>1,591,578</u>
DEFERRED INFLOWS OF RESOURCES				
Taxes receivable	779,266	-	105,415	884,681
Prepaid taxes	13,606	-	2,128	15,734
Total deferred inflows of resources	<u>792,872</u>	<u>-</u>	<u>107,543</u>	<u>900,415</u>
FUND BALANCES				
Restricted for:				
Stabilization for State Statute	4,291,856	-	-	4,291,856
Public safety	-	-	293,824	293,824
Register of Deeds	39,814	-	-	39,814
Revaluation	224,015	-	-	224,015
Committed for:				
Capital projects	-	12,354,767	-	12,354,767
Unassigned	22,104,565	-	-	22,104,565
Total fund balances	<u>26,660,250</u>	<u>12,354,767</u>	<u>293,824</u>	<u>39,308,841</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 28,870,168</u>	<u>\$ 12,354,767</u>	<u>\$ 575,899</u>	<u>\$ 41,800,834</u>

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

Total Fund Balance, Governmental Funds	39,308,841
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.	1,202,068
Net pension asset - ROD	124,766
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	136,446,126
Other long-term assets are not available to pay for current period expenditures and therefore are unavailable in the funds.	182,928
Deferred inflows of resources for taxes receivable	884,681
Pension related deferrals-all plans	3,012,776
Net pension liability - LGERS	(3,391,422)
Net pension liability - LEOSSA	(575,720)
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>(43,787,568)</u>
Net position of governmental activities	<u>\$ 133,407,476</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, 2017

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 28,518,320	\$ -	\$ 3,198,226	\$ 31,716,546
Other taxes and licenses	12,639,826	-	1,528,399	14,168,225
Unrestricted intergovernmental	3,519,960	-	-	3,519,960
Restricted intergovernmental	5,215,639	-	329,495	5,545,134
Permits and fees	728,684	-	-	728,684
Sales and services	1,184,957	-	-	1,184,957
Investment earnings	172,619	66,014	1,501	240,134
Donations	36,486	-	-	36,486
Miscellaneous	386,342	-	-	386,342
Total revenues	<u>52,402,833</u>	<u>66,014</u>	<u>5,057,621</u>	<u>57,526,468</u>
EXPENDITURES				
Current:				
General government	7,935,657	-	1,504,048	9,439,705
Public safety	10,474,800	-	3,575,107	14,049,907
Transportation	225,389	-	-	225,389
Economic and physical development	531,932	-	-	531,932
Environmental protection	370,496	-	-	370,496
Human services	7,154,831	-	-	7,154,831
Cultural and recreational	1,544,500	-	-	1,544,500
Education	14,871,985	-	-	14,871,985
Capital outlay	-	-	29,870	29,870
Debt service:				
Principal	4,082,361	-	-	4,082,361
Interest	1,917,277	-	-	1,917,277
Total expenditures	<u>49,109,228</u>	<u>-</u>	<u>5,109,025</u>	<u>54,218,253</u>
Excess (deficiency) of revenues over expenditures	<u>3,293,605</u>	<u>66,014</u>	<u>(51,404)</u>	<u>3,308,215</u>
OTHER FINANCING SOURCES (USES)				
Gain/(loss) on disposal of assets	67,121	-	8,534	75,655
Transfers from other funds	826,750	3,935,370	-	4,762,120
Transfers to other funds	<u>(3,935,370)</u>	<u>(826,750)</u>	<u>-</u>	<u>(4,762,120)</u>
Total other financing sources and uses	<u>(3,041,499)</u>	<u>3,108,620</u>	<u>8,534</u>	<u>75,655</u>
Net change in fund balance	252,106	3,174,634	(42,870)	3,383,870
Fund balances, beginning of year	26,408,144	9,180,133	336,694	35,924,971
Fund balances, end of year	<u>\$ 26,660,250</u>	<u>\$ 12,354,767</u>	<u>\$ 293,824</u>	<u>\$ 39,308,841</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, 2017

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

Net changes in fund balances - total governmental funds	\$	3,383,870
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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	\$ 2,269,507	
Sale of assets not fully depreciated	(16,108)	
Depreciation expense for governmental assets	<u>(3,374,147)</u>	(1,120,748)

Contributions to the pension plans in the current fiscal year are not included on the Statement of Activities.		882,412
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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>(165,631)</u>	(165,631)

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	666,452	
Pension expense-LGERS and ROD	(930,324)	
Compensated absences	49,766	
Pension expense-LEOSSA	(38,797)	
Amortization of bond premiums	<u>325,239</u>	
Combined adjustment		72,336

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	4,082,361	
Decrease in accrued interest payable	<u>16,048</u>	
		<u>4,098,409</u>

Total changes in net position of governmental activities	\$	<u><u>7,150,648</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, 2017

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 27,620,168	\$ 27,620,168	\$ 28,518,320	\$ 898,152
Other taxes and licenses	11,768,500	11,812,690	12,639,826	827,136
Unrestricted intergovernmental	2,692,271	3,152,271	3,519,960	367,689
Restricted intergovernmental	5,499,579	6,090,655	5,215,639	(875,016)
Permits and fees	670,163	670,163	728,684	58,521
Sales and services	1,068,101	1,068,101	1,184,957	116,856
Investment earnings	70,000	70,000	172,619	102,619
Donations	29,700	35,583	36,486	903
Miscellaneous	325,715	325,715	386,342	60,627
Total revenues	<u>49,744,197</u>	<u>50,845,346</u>	<u>52,402,833</u>	<u>1,557,487</u>
Expenditures:				
General government	7,440,147	9,449,230	7,935,657	1,513,573
Public safety	10,417,519	10,883,676	10,474,800	408,876
Transportation	67,495	225,389	225,389	-
Economic and Physical Development	498,648	552,327	531,932	20,395
Environmental Protection	384,005	419,693	370,496	49,197
Human Services	8,154,422	8,129,242	7,154,831	974,411
Cultural and Recreation	1,529,838	1,581,686	1,544,500	37,186
Education	14,459,360	15,383,352	14,871,985	511,367
Debt service:				
Principal retirement	4,082,361	4,082,361	4,082,361	-
Interest and other charges	1,917,277	1,917,277	1,917,277	-
Total expenditures	<u>48,951,072</u>	<u>52,624,233</u>	<u>49,109,228</u>	<u>3,515,005</u>
Revenues over (under) expenditures	<u>793,125</u>	<u>(1,778,887)</u>	<u>3,293,605</u>	<u>5,072,492</u>
Other financing sources (uses):				
Gain/(loss) on disposal of assets	35,000	35,000	67,121	32,121
Transfers from other funds	-	826,750	826,750	-
Transfers to other funds	(900,000)	(3,935,370)	(3,935,370)	-
Fund balance appropriated	71,875	4,852,507	-	(4,852,507)
Total other financing sources (uses)	<u>(793,125)</u>	<u>1,778,887</u>	<u>(3,041,499)</u>	<u>(4,820,386)</u>
Net change in fund balance	-	-	252,106	252,106
Fund balance, beginning of year			<u>26,408,144</u>	
Fund balance, end of year			<u>\$ 26,660,250</u>	

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

Watauga County, North Carolina
Statement of Net Position
Proprietary Fund
June 30, 2017

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,117,124
Receivables, net	362,794
Due from other governments	33,498
Total current assets	6,513,416
Non-current assets:	
Intangible asset for advance funding of OPEB NOO	130,217
Capital assets:	
Land and construction in progress	975,497
Other capital assets, net of depreciation	3,695,031
Subtotal capital assets	4,670,528
Total non-current assets	4,800,745
Total assets	11,314,161
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	256,830
Total deferred outflows of resources	256,830
LIABILITIES	
Net pension liability	299,319
Accounts payable	178,014
Accrued compensated absences	118,097
Total liabilities	595,430
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	10,489
Total deferred inflows of resources	10,489
NET POSITION	
Net investment in capital assets	4,670,528
Unrestricted	6,294,544
Total net position	\$ 10,965,072

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, 2017

	Enterprise Fund
	Solid Waste Fund
OPERATING REVENUES:	
Charges for services	\$ 4,661,863
Sale of recycled materials	433,250
	5,095,113
Total operating revenues	5,095,113
 OPERATING EXPENSES:	
Landfill operations	4,016,333
Recycling operations	90,077
Depreciation	298,281
	4,404,691
Total operating expenses	4,404,691
Operating income (loss)	690,422
 NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	35,735
Miscellaneous revenues	10,050
Gain/(loss) on disposal of assets	50,311
Restricted intergovernmental revenues	150,829
	246,925
Total nonoperating revenues (expenses)	246,925
Change in net position	937,347
Total net position, beginning	10,027,725
Total net position, ending	\$ 10,965,072

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, 2017

	Enterprise Fund
	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers	\$ 5,192,747
Cash paid for goods and services	(2,759,648)
Cash paid to employees for services	(1,484,516)
Net cash provided by operating activities	948,583
Cash flows from noncapital financing activities:	
Restricted intergovernmental revenues	150,829
Miscellaneous revenues	10,050
Net cash provided by noncapital financing activities	160,879
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	50,311
Acquisition and construction of capital assets	(375,491)
Net cash used by capital and related financing activities	(325,180)
Cash flows from investing activities:	
Interest on investments	35,735
Net cash provided by investing activities	35,735
Net increase (decrease) in cash and cash equivalents	820,017
Cash and cash equivalents, July 1	5,297,107
Cash and cash equivalents, June 30	\$ 6,117,124
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 690,422
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	298,281
Changes in assets, liabilities, deferred outflows and inflows of resources:	
Increase in deferred outflow of resources - pensions	(196,542)
Increase in net pension liability	235,505
Decrease in deferred inflow of resources - pensions	(22,679)
Decrease in accounts receivable	93,583
Decrease in due from other governments	4,051
Decrease in accounts payable	(104,470)
Increase in intangible asset for advance funding of OPEB NOO	(58,819)
Increase in accrued compensated absences	9,251
Total adjustments	258,161
Net cash provided by operating activities	\$ 948,583

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, 2017

	<u>Irrevocable Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 2,024,480	\$ 78,759
Accounts receivable	3,863	18,336
	<u>2,028,343</u>	<u>97,095</u>
Liabilities and Net Position		
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ 97,095
	<u>-</u>	<u>97,095</u>
Net position:		
Restricted for postemployment benefits other than pensions	\$ 1,628,735	\$ -
Restricted for law enforcement officer's special separation allowance benefits	399,608	-
	<u>2,028,343</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, 2017

		Irrevocable Trust Funds
Additions:		
Employer contributions	\$	1,016,199
Interest earned		11,466
Total additions		1,027,665
 Deductions:		
Benefits		125,199
Administrative expense		457
Total deductions		125,656
Change in net position		902,009
 Net position restricted for other post employment benefits other than pensions and law enforcement officer's special separation allowance		
Beginning of year		1,126,334
End of year	\$	2,028,343

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, 2017

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 account policies:

A. Reporting Entity:

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

AppalCART

AppalCART operates mainly in Watauga County in the northwest part of North Carolina, providing transportation services to the various areas and residents within Watauga County. Watauga County's Board of Commissioners appoints the eight member governing board of AppalCART and AppalCART operates within the County's boundaries for the benefit of the County's residents. The County provides some financial support to AppalCART but it is 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. The Watauga County's Board of Commissioners appoints the seven 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 Street, Suite 10, Boone, NC 28607.

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The Statements of Net Position and the Statements 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The County reports the following major governmental funds:

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

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

The County reports the following major enterprise fund:

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

The County reports the following other fund types:

Pension Trust Funds – The County maintains two pension trust funds – the Other Post-Employment Benefits Fund and the 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 Security 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 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 Fine 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

Non-major Funds – The County maintains six legally budgeted non-major funds. The Federal Equitable Sharing Fund, the State Substance Abuse Tax Fund, the Emergency Telephone System Fund, two Fire Districts Funds, and the Occupancy Tax 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 assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund not to exceed 10% of the total departmental appropriation of the department whose allocation is reduced; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30 (c)] authorizes the County, AppalCART, and the Authority to invest in obligations of the United States of obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The County, AppalCART, and the Authority's investments are carried at fair value as determined by quoted market prices. The NCCMT Government Portfolio's securities, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The County pools money from several funds, except the OPEB Irrevocable Trust Fund, the LEOSSA Irrevocable Trust Fund, and DSS Trust Fund, and the Inmate Commissary Fund, to facilitate

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 or 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 Systems 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 collected on behalf of the fire districts are restricted as payable to the districts.

Watauga County Restricted Cash

Governmental Activities		
General Fund	Tax revaluation	\$ 224,015
	Register of Deeds	39,814
Federal Equitable Sharing Fund	Law enforcement	52,056
State Substance Abuse Tax Fund	Law enforcement	61,040
Emergency Telephone Fund	911 eligible expenditures	157,282
Occupancy Tax Fund	Tourism	806
Fire District Funds	Unexpended collections	20,249
Total Governmental Activities		<u>\$ 555,262</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, 2016.

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.

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 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 Mabel School, 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 be recognized as an expense or expenditure until then. The County has the following item that meets this criterion – pension related deferrals. 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 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 Statement of Net Position.

10. Compensated Absences

The vacation policies of the County and AppalCART provide for the accumulation of up to thirty day 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 Positions/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.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 or liability, 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 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.

Note 2 -

Stewardship, Compliance, and Accountability

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

One instance of noncompliance with North Carolina Statutes was noted. Per NCGS 159-25(b), all checks or drafts on an official depository shall be signed by the finance officer or properly designated deputy finance officer and countersigned by another official of the local government designated for this purpose by the governing board. Checks totaling \$13,621 on the Inmate Commissary Account did not include the finance officer or deputy finance officer's signatures.

Note 3 -

Detail Notes on All Funds

A. Assets

1. Deposits

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

At June 30, 2017, the County's deposits had a carrying amount of \$14,480,207 and a bank balance of \$14,816,364. Of the bank balance, \$1,500,000 was covered by federal depository insurance, and \$8,883,895 in non-interest bearing deposits and \$5,596,312 in interest bearing deposits were covered by collateral held under the Pooling Method. At June 30, 2017, Watauga County had \$4,468 cash on hand.

At June 30, 2017, AppalCART's deposits had a carrying amount of \$1,072,229 and a bank balance of \$1,121,793. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$871,793 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2017, the Authority's deposits had a carrying amount of \$807,774 and a bank balance of \$809,222. Of the balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The Authority had no cash on hand.

2. Investments

As of June 30, 2017, 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
Certificates of Deposit	Cost	\$5,023,920	\$5,023,920	\$ -	\$ -
Commercial Paper	Fair Value Level 2	4,207,774	-	4,207,774	-
Government Agencies	Fair Value Level 2	6,017,037	200,000	448,300	5,368,737
NC Capital Management Trust – Government Portfolio	Amortized Cost	787,484	787,484	-	-
NC Capital Management Trust – Term Portfolio*	Fair Value Level 1	15,164,742	15,164,742	-	-
Total:		<u>\$31,200,957</u>	<u>\$21,176,146</u>	<u>\$4,656,074</u>	<u>\$5,368,737</u>

*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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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, 2017, the County's investments in commercial paper were rated A1 by Standard & Poor's and P1 by Moody's Investors Service. The County's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2017. 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, 2017, AppalCART's investment stated at fair value, consisted of \$2,015,818 in the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. AppalCART has no formal policy on interest rate risk or credit risk on its investments.

At June 30, 2017, the Authority's investments consisted of the following:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Government Portfolio	\$ 102,402	N/A	AAAm
NC Capital Management Trust – Term Portfolio	1,109,742	.09 years	Unrated
	<u>\$1,212,144</u>		

Interest Rate Risk. The Authority has not 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 Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2017. 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

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
2013	\$ 629,116	\$ 177,725	\$ 806,841
2014	673,162	129,584	802,746
2015	676,442	69,335	745,777
2016	670,349	-	670,349
Total	<u>\$ 2,649,069</u>	<u>\$ 376,644</u>	<u>\$ 3,025,713</u>

4. Receivables

Receivables at the government-wide level at June 30, 2017, were as follows:

	Accounts	Taxes Receivable	Interest Receivable	Total
Governmental Activities:				
General	\$ 62,194	\$ 912,748	\$ 161,381	\$ 1,136,323
Other Governmental	-	254,556	21,546	276,102
Total receivables	<u>62,194</u>	<u>1,167,304</u>	<u>182,927</u>	<u>1,412,425</u>
Allowance for doubtful accounts	-	(146,827)	-	(146,827)
Total-governmental activities	<u>\$ 62,194</u>	<u>\$ 1,020,477</u>	<u>\$ 182,927</u>	<u>\$ 1,265,598</u>
Business-type Activities				
Solid Waste	\$ 436,174	\$ -	\$ -	\$ 436,174
Allowance for doubtful accounts	(73,380)	-	-	(73,380)
Total-business-type activities	<u>\$ 362,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 362,794</u>

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

High Country Council of Government	\$ 2,259
NC DOR	2,400,622
NC DOT	10,754
NC Courts	646
Avery County	1,330
Ashe County	330
Town of Blowing Rock ABC	372
Town of Blowing Rock	54,453
Town of Beech Mountain	66,322
Town of Boone	276
Town of Boone ABC	1,378
Medicaid	7,367
NC State Treasurer	122
NC EM	223,753
Watauga County Clerk of Court	27,327
NC DHHS	459,878
Emergency Telephone System	26,697
NC DENR	2,507
Total:	<u>\$ 3,286,393</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

5. Capital Assets

Primary Government:

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 44,213,150	190,858	15,024	\$ 44,388,984
Intangible	15,600	-	-	15,600
Construction in progress	1,096,702	1,128,873	1,649,983	575,592
Total capital assets not being depreciated	<u>45,325,452</u>	<u>1,319,731</u>	<u>1,665,007</u>	<u>44,980,176</u>
Capital assets being depreciated:				
Buildings	101,176,955	704,133	-	101,881,088
Other improvements	5,419,371	9,359	-	5,428,730
Leasehold improvements	6,609,106	771,062	-	7,380,168
Equipment	6,600,563	450,449	781,696	6,269,316
Vehicles and motorized equipment	2,045,003	664,756	426,886	2,282,873
Total capital assets being depreciated	<u>121,850,998</u>	<u>2,599,759</u>	<u>1,208,582</u>	<u>123,242,175</u>
Less accumulated depreciation for:				
Buildings	19,473,383	2,036,429	-	21,509,812
Other improvements	2,164,746	523,156	-	2,687,902
Leasehold improvements	1,180,836	172,473	-	1,353,309
Equipment	5,456,380	360,561	781,696	5,035,245
Vehicles and motorized equipment	1,334,231	281,528	425,802	1,189,957
Total accumulated depreciation	<u>29,609,576</u>	<u>3,374,147</u>	<u>1,207,498</u>	<u>31,776,225</u>
Total capital assets being depreciated, net	<u>92,241,422</u>			<u>91,465,950</u>
Governmental activity capital assets, net	<u>\$137,566,874</u>			<u>\$136,446,126</u>

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

General government	\$ 1,918,718
Public safety	595,488
Economic and physical development	23,647
Environmental protection	6,067
Human services	367,084
Cultural and recreational	463,143
Total depreciation expense	<u>\$ 3,374,147</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 975,497	-	-	\$ 975,497
Total capital assets not being depreciated	975,497	-	-	975,497
Capital assets being depreciated:				
Improvements	445,921	-	-	445,921
Leasehold improvements	319,960	-	-	319,960
Buildings	4,152,793	-	-	4,152,793
Equipment	1,550,840	44,147	18,970	1,576,017
Vehicles	1,339,336	331,344	210,529	1,460,151
Total capital assets being depreciated	7,808,850	375,491	229,499	7,954,842
Less accumulated depreciation for:				
Improvements	301,143	25,531	-	326,674
Leasehold improvements	313,165	247	-	313,412
Building	1,116,506	85,899	-	1,202,405
Equipment	1,277,127	93,259	18,970	1,351,416
Vehicles	1,183,089	93,344	210,529	1,065,904
Total accumulated depreciation	4,191,030	298,280	229,499	4,259,811
Total capital assets being depreciated, net	3,617,820			3,695,031
Business-type capital assets, net	\$ 4,593,317			\$ 4,670,528

Construction commitments

The County has four active construction projects as of June 30, 2017. The governmental projects include Winkler Creek (formerly Anderson) Building renovations, FEMA house demolition project, land transfer, and a new security system for the Human Services Building. At June 30, 2017, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Human Services security	\$ 31,598	\$ 1,800
FEMA project	223,753	22,700
Land Transfer	3,362	12,200
Winkler Creek building	316,879	157,122
Total	<u>\$ 575,592</u>	<u>\$ 193,822</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2017, 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	-	31,400	67,750
Total capital assets not being depreciated	<u>1,213,392</u>	<u>-</u>	<u>31,400</u>	<u>1,181,992</u>
Capital assets being depreciated:				
Buildings	6,699,444	-	-	6,699,444
Land improvements	11,156	-	-	11,156
Office furniture and equipment	271,623	151,186	-	422,809
Shop equipment	347,384	-	-	347,384
Vehicles	8,030,577	180,734	128,496	8,030,577
Total capital assets being depreciated	<u>15,360,184</u>	<u>331,920</u>	<u>128,496</u>	<u>15,563,608</u>
Less accumulated depreciation for:				
Buildings	410,760	134,053	-	544,813
Land improvements	11,561	536	-	12,097
Office furniture and equipment	119,926	30,732	-	150,658
Shop equipment	227,078	36,572	-	263,650
Vehicles	4,561,701	473,427	126,775	4,908,353
Total accumulated depreciation	<u>5,331,026</u>	<u>675,320</u>	<u>126,775</u>	<u>5,879,571</u>
Total capital assets being depreciated, net	<u>10,029,158</u>			<u>9,684,037</u>
Business-type activities capital assets, net	<u>\$11,242,550</u>			<u>\$10,866,029</u>

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2017, were as follows:

	Vendors	Salaries and Benefits	Total
Governmental activities:			
General	\$ 840,872	\$ 568,302	\$ 1,409,174
Special Revenues	37,930	-	37,930
Total-governmental activities	<u>\$ 878,802</u>	<u>\$ 568,302</u>	<u>\$ 1,447,104</u>
Business-type activities:			
Solid Waste	<u>\$ 127,817</u>	<u>\$ 50,197</u>	<u>\$ 178,014</u>

Due to other governments that is owed by the County consists of the following:

Watauga County TDA, occupancy taxes for June	\$ 136,602
AppalCART, service fees	7,632
NC DOR, VTS overpayments	240
Total:	<u>\$ 144,474</u>

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government 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.org.

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 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 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, 2017, was 8.00% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employees contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$798,115 for the year ended June 30, 2017.

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

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

At June 30, 2017, the County reported a liability of \$3,690,741 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the County's proportion was 0.1739%, which was a decrease of 0.00014% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$1,002,709. At June 30, 2017, 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	\$ 69,343	\$ 129,328
Changes of assumptions	252,783	-
Net difference between projected and actual earnings on pension plan investments	2,040,515	-
Changes in proportion and differences between County contributions and proportionate share of contributions	5,725	-
County contributions subsequent to the measurement date	798,115	-
Total	\$ <u>3,166,481</u>	\$ <u>129,328</u>

\$798,115 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 341,006
2019	341,284
2020	970,181
2021	586,572
2022	-
Thereafter	-
Total	\$ <u>2,239,043</u>

At June 30, 2017, the Authority reported a liability of \$61,334 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability 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, 2016, the Authority's proportion was 0.00289%, which was an increase of 0.00002% from its proportion measured as of June 30, 2015.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

For the year ended June 30, 2017, the Authority recognized pension expense of \$12,432. At June 30, 2017, 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	\$ 1,152	\$ 2,149
Changes of assumptions	4,201	-
Net difference between projected and actual earnings on pension plan investments	33,910	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	8,463
Authority contributions subsequent to the measurement date	11,247	-
Total	\$ 50,510	\$ 10,612

\$11,247 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 1,804
2019	1,841
2020	15,508
2021	9,498
2022	-
Thereafter	-
Total	\$ 28,651

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 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

interpolated for multiple tenors and over multiple year horizons. Global public equity 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 or arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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.

Sensitivity of the proportionate share of the net pension asset to changes in the discount rate. The following presents the proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the 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)	\$ 8,759,849	\$ 3,690,741	\$ (543,356)
Authority's proportionate share of the net pension liability (asset)	\$ 145,578	\$ 61,334	\$ (9,030)

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

b. Law Enforcement Officers' Special Separation Allowance

1. 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 June 30, 2016, the valuation date:

Retirees receiving benefits	1
Inactive members entitled to but not receiving benefits	0
Active plan members	<u>42</u>
Total	<u>43</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 \$143,399, or 7.86% 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.

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 (TPL) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Based on service, ranging from 3.50 to 7.35 percent, including inflation
Investment rate of return	2.85 percent, net of pension plan investment expense, including inflation
Mortality	Pre-retirement mortality rates bases on the RP-2014 Employee tables, projected forward generationally using Scale MP-2015 Post-retirement rate based on the RP-2014 Healthy Annuitant tables, projected forward generationally using Scale MP-2015; rates loaded by 4% for males

Discount rate. The discount rate used to measure the total pension liability was 2.85%. Since the 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 Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date of June 30, 2016.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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 2.85% 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 Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date of June 30, 2016.

Assumed Asset Allocation. The target asset allocation is 100% in governmental securities and best estimate of arithmetic real rates of return is 2.0%.

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 2.85 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 (1.85 percent) or one percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Discount Rate (2.85%)	1% Increase (3.85%)
Net pension liability	\$666,401	\$575,720	\$492,818

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, 2015	\$ 790,118	\$ 272,885	\$ 517,233
Changes for the year:			
Service cost	24,305	-	24,305
Interest	14,474	-	14,474
Benefit changes	-	-	-
Difference between expected and actual experience	(33,229)	-	(33,229)
Changes of assumptions or other inputs	60,466	-	60,466
Contributions – employer	-	7,101	(7,101)
Contributions – employee	-	-	-
Net investment income	-	428	(428)
Benefits paid	(7,101)	(7,101)	-
Plan administrative expenses	-	-	-
Net changes	\$ 58,915	\$ 428	\$ 58,487
Balance as of June 30, 2016	\$ 849,033	\$ 273,313	\$ 575,720

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

The assumed rate of return was decreased from 3.57% to 2.85% 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. The County changed the valuation year-end from December 31 to June 30 to match the fiscal year.

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For the Year Ended June 30, 2017

For the year ended June 30, 2017, the County recognized pension expense of \$38,235. 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, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of the June 30, 2016 measurement date:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 30,541
Changes of assumptions	65,460	-
Net difference between projected and actual earnings on pension plan investments	9,489	-
Changes in proportion and differences between County contributions and proportionate share of contributions	-	-
County contributions subsequent to the measurement date	<u>143,399</u>	<u>-</u>
Total	\$ <u><u>218,348</u></u>	\$ <u><u>30,541</u></u>

\$143,399 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 June 30, 2018. 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:	
2018	\$ 5,555
2019	5,555
2020	5,555
2021	4,708
2022	2,971
2023-2027	14,855
2028-2030	<u>5,209</u>
Total	\$ <u><u>44,408</u></u>

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.

WATAUGA COUNTY, NORTH CAROLINA

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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, 2017 were \$104,059, which consisted of \$93,520 from the County and \$10,539 from the law enforcement officers. No amounts were forfeited.

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, 2017 to these plans were \$713,071 which consisted of \$520,989 from the County and \$192,082 from employees. No amounts were forfeited.

e. Register of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 28699-1410, 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 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 \$5,653 for the year ended June 30, 2017.

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

At June 30, 2017, the County reported an asset of \$124,766 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the

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County's proportion was .66734%, which was a decrease of .00805% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$8,629. At June 30, 2017, 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	\$ 133	\$ 1,615
Changes of assumptions	33,240	-
Net difference between projected and actual earnings on pension plan investments	214	-
Changes in proportion and differences between County contributions and proportionate share of contributions	415	3,883
County contributions subsequent to the measurement date	5,653	-
Total	\$ <u>39,655</u>	\$ <u>5,498</u>

\$5,653 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 11,109
2019	13,177
2020	5,616
2021	(1,397)
2022	-
Thereafter	-
Total	\$ <u>28,505</u>

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 7.75 percent, including inflation and productivity factor
Investment rate of return	3.25 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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,

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Notes to the Financial Statements For the Year Ended June 30, 2017

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, 2016 is 1.4%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 3.05%. 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 3.75 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 (2.75 percent) or 1-percentage-point higher (4.75 percent) than the current rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
County's proportionate share of the net pension liability (asset)	\$(100,602)	\$(124,766)	\$(145,066)

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

f. Other Postemployment Benefit for Health Insurance

Plan Description

Plan Administration. Under a County resolution as of September 1, 2001, Watauga County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employer 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 creditable 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 with funds held in an irrevocable trust. A separate report was not issued for the Plan.

County Contributions. Active and retiree premiums are calculated together. The retiree pays a portion of the premium, based on the retiree's service with the County. The difference between the claims and the premiums results in an inherent subsidy borne by the County.

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Notes to the Financial Statements
For the Year Ended June 30, 2017

Plan Membership. At June 30, 2016, the HCB membership consisted of the following:

	General Employees	Law Enforcement Officers
Retirees receiving benefits	18	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>203</u>	<u>42</u>
Total	<u>221</u>	<u>43</u>

Contributions. 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 County's contribution is dependent on the employee's number of years of creditable service with the County. Retirees pay the difference in the premium less their subsidy based on years of service in the chart below.

County contributions to HCB Plan based on creditable years of service

25 years or more with Watauga County	\$400 per month maximum or 100%, whichever is less
20 to 25 years with Watauga County	\$300 per month maximum or 75%, whichever is less
10 years in LGERS with last 5 years with Watauga County	\$0

Investments

Investment policy. The HCB Plan's policy in regards to the allocation of invested assets is established by the County Financial Policy used by management. It is the policy of the County to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio and staggered maturities. The current asset allocation policy is in 100% fixed income investments with an expected long term rate of return of 2.85 percent.

Rate of return. For the year ended June 30, 2016, the annual money weighted rate of return on investments, net of investment expense, was .98 percent.

Net OPEB Liability of the County

The components of the net OPEB liability of the County at June 30, 2016 were as follows:

Total OPEB Liability	\$ 3,715,932
Plan fiduciary net position	<u>853,021</u>
County's net OPEB liability	<u>\$ 2,862,911</u>

Plan fiduciary net position as a percentage of Total OPEB Liability is 22.96%.

The net OPEB liability was measured as of June 30, 2016 and 2015. Plan Fiduciary Net Position (plan assets) was valued as of the measurement dates and the total OPEB liability was determined from an actuarial valuation as of June 30, 2016.

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Notes to the Financial Statements For the Year Ended June 30, 2017

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	Based on service, ranging from 3.50 to 7.75 percent, including inflation
Discount rate	2.85 percent
Healthcare cost trend rates	7.0 percent grading down to 4.5 percent over 10 years
Healthy mortality rates	
Pre-retirement	RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015
Post-retirement	RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 115 percent (male) and 79 percent (female) for general employees and by 104 percent (male) for sworn law enforcement officers.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the NCLGERS assumption study for the five year period ended December 31, 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the major target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin.

Discount rate. The discount rate used to measure the total OPEB liability was 2.85 percent. The discount rate incorporates a municipal bond rate which is 2.85 percent as reported in the Bond Buyer for the 20 Year general obligation bonds as of June 30, 2016.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85 percent) or 1-percentage-point higher (3.85 percent) than the current discount rate:

	1% Decrease (1.85 percent)	Discount Rate (2.85 percent)	1% Increase (3.85 percent)
Net OPEB liability (asset)	\$ 3,166,969	\$ 2,862,911	\$ 2,584,594

Sensitivity of the net OPEB liability to changes in the healthcare trend rate. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were to calculate healthcare trend rates that are 1-percentage-point lower (3.9 percent) or 1-percentage-point higher (5.9 percent) than the current healthcare trend rate:

	1% Decrease in Trend Rates	Healthcare Cost Trend Rate (7.0 percent decreasing to 4.5 percent over 10 years)	1% Increase in Trend Rates
Net OPEB liability (asset)	\$ 2,617,583	\$ 2,862,911	\$ 3,154,483

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

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Notes to the Financial Statements For the Year Ended June 30, 2017

(ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution	\$ 179,656
Interest on net OPEB obligation	(24,281)
Adjustment to annual required contribution	<u>23,196</u>
Annual OPEB cost (expense)	178,571
Contributions made for fiscal year ending June 30, 2017*	<u>903,842</u>
Increase/(decrease) in net OPEB obligation	(725,271)
Net OPEB obligation, beginning of year	<u>(607,015)</u>
Net OPEB obligation, end of year	\$ <u>(1,332,286)</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 \$903,842 includes \$31,042 due to the impact of the 34% implicit subsidy and actual cash contributions of \$872,800 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 2017 and the previous two years 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
2015	\$170,955	167.8%	\$ (524,158)
2016	\$170,748	148.5%	\$ (607,015)
2017	\$178,571	506.2%	\$(1,332,286)

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 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.

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 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.

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g. Other Employment Benefits

Death Benefits

The County has elected to provide death benefits to all eligible employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan). a multiple-employer, State administered, cost sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan 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, 2017, the County made contributions to the State for death benefits of \$9,817 for general employees and \$2,644 for law enforcement employees. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represents 0.11% 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 the 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 Plan – AppalCART

Please see the separately issued financial report of AppalCART for a complete description of their single employer 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 \$3,473,130. 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, 2017

4. Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources as of June 30, 2017 are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	
		Statement of Net Position	Governmental Funds Balance Sheet
Changes in assumptions	\$ 351,483	\$ -	\$ -
Pensions – difference between expected and actual experience	69,476	161,484	-
Pensions – difference between projected and actual investment earnings	2,050,218	-	-
Pensions – change in proportion and difference between employer contributions and proportionate share of contributions	6,140	3,883	-
Contributions to pension plans in current year	947,167		
Prepaid taxes not yet earned (General)	-	13,606	13,606
Prepaid taxes not yet earned (Special Revenue)	-	2,128	2,128
Taxes receivable, net (General)	-	-	779,266
Taxes Receivable, net (Special Revenue)	-	-	105,415
Total	\$ 3,424,484	\$ 181,101	\$ 900,415

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 administrated 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 \$73,660,296 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2,000,000 per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence and workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. The pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. The County provides employee health, dental and life insurance benefits through commercial carriers.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is in an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. Under this program, the County has purchased commercial flood insurance for \$1,180,900 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

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

AppalCART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. AppalCART is insured with the NC Association of County Commissioners Liability and Property and Worker's Compensation Pools that provides coverage for general liability in the amount of \$2,000,000 with an additional \$3,000,000 in vehicle liability purchased per NC DOT requirements and worker's comp insurance at the statutory limits. The County is a member of these same pools.

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 that provide coverage for general liability in the amount of \$2,000,000 and worker's comp coverage with a commercial firm at the statutory limits. The County is a member of the same Liability and Property pool.

6. 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 four 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, 2017 is \$666,666.

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, 2017 is \$325,000.

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 of June 30, 2017 is \$387,083.

The fourth and fifth installment purchase agreements were executed on June 28, 2012 to refinance the construction of the new high school. These installment purchases were refinanced June 28, 2012 into limited obligation bonds. The limited obligations bonds were issued in two series, A and B. Series A is for a principal amount of \$45,045,000 with terms ranging from 2016 to 2028. The Series A bonds have an outstanding balance at June 30, 2017 of \$37,695,000. Series B was for \$10 million with a term of three years and a set rate of 1.81 percent and this series paid out in fiscal year 2014-15.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

For Watauga County, the future minimum payments as of June 30, 2017, including \$10,437,885 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
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	3,385,000	1,117,725	-	-
2023-2027	17,335,000	3,140,025	-	-
2028	3,545,000	142,800	-	-
Total payments	\$ 39,073,749	\$ 10,437,885	\$ -	\$ -

c. General Obligation Indebtedness

The County has no general obligation debt outstanding or authorized as of June 30, 2017. At June 30, 2017, Watauga County had a legal debt margin of \$681,830,754.

d. Advance Refunding

In June 2012, the County issued \$55,045,000 in limited obligation bonds to refinance the installment purchase loans for the land and construction of the 2010 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 \$3,577,634 and the annual amortization of \$325,239 expense are in the government-wide statements.

e. Debt Related to Capital Activities

Of the total Governmental Activities debt listed \$38,686,666 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 \$387,083 is deducted from the total debt balance of \$39,073,749 leaving \$38,686,666 as debt related to capital activities.

f. 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, 2017:

	Balance			Current	
	July 1, 2016	Increases	Decreases	Balance	Portion of
<u>Governmental activities:</u>				June 30, 2017	Balance
Net pension liability (LGERS)	\$ 717,269	\$2,674,153	\$ -	\$ 3,391,422	\$ -
Net pension liability (LEOSSA)	517,233	58,487	-	575,720	-
Installment purchases	43,156,110	-	4,082,361	39,073,749	4,077,361
Compensated absences	1,039,547	997,146	1,046,912	989,781	-
Total governmental activities	\$45,430,159	\$3,729,786	\$5,129,273	\$44,030,672	\$4,077,361
<u>Business-type activities:</u>					
Net pension liability (LGERS)	\$ 63,814	\$ 235,505	\$ -	\$ 299,319	\$ -
Compensated absences	108,846	67,782	58,531	118,097	-
Total business-type activities	\$ 172,660	\$ 303,287	\$ 58,531	\$ 417,416	\$ -

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

Discretely presented component units:

AppalCART

Compensated absences	\$ 66,927	\$ 62,304	\$ 55,748	\$ 73,483	\$ 73,483
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Watauga County TDA

Net pension liability (LGERS)	\$ 12,880	\$ 48,454	\$ -	\$ 61,334	\$ -
Compensated absences	7,458	14,102	12,976	8,584	-
Total Watauga County TDA	<u>\$ 20,338</u>	<u>\$ 62,556</u>	<u>\$ 12,976</u>	<u>\$ 69,918</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. For AppalCART, compensated absences are accounted for on the FIFO basis, assuming that employees are taking time that has been previously earned.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2017, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$3,935,370
From the Capital Projects Fund to the General Fund for school capital projects	826,750
Total	<u>\$4,762,120</u>

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 136,446,126	\$ 4,670,528
Less long-term debt	38,686,666	-
Net investment in capital assets	<u>\$ 97,759,460</u>	<u>\$ 4,670,528</u>

E. Fund Balance

Watauga County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-county funds, county funds. For the purposes 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	\$26,660,250
Less:	
Stabilization by State Statute	4,291,856
Register of Deeds Automation/Enhancement	39,814
Tax Revaluation	224,015
Remaining fund balance	<u>\$22,104,565</u>

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

Encumbrances:	General Fund - \$895,206	Non-Major funds - \$0
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WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2017

Note 4 -

Joint Ventures

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture because of 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, 2017. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$540,308 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, 2017. 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 one other government and the community college system of the State of North Carolina. The County appoints two members of its fourteen members Board of Trustees. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$916,960 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 \$25,092, a grant match of \$2,730, and purchased services in the amount of \$3,626 with the Council during the fiscal year ended June 30, 2017. The County was the sub recipient of three grants totaling \$302,849. The first grant is for \$264,280 in Home and Community Care Block Grant funds and the second is for \$24,068 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 \$14,501 from the Division of Aging of the North Carolina Department of Health and Human Services that was passed through the Council. Complete financial statements for the Council can be obtained at 468 New Market Blvd., Boone, NC 28607.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2017

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>
Temporary Assistance to Needy Families	\$ 205,179	\$ -
Energy Assistance	88,700	-
Title IV-E Foster Care	243,345	58,190
Adoption Assistance	175,747	43,135
Medical Assistance Program	21,435,551	11,459,891
Child Health Insurance Program	800,043	5,464
Chafee Foster Care Independence	18,575	2,229
State/County Special Assistance for Adults	-	206,139
	<u>\$ 22,967,140</u>	<u>\$ 11,775,048</u>

Note 7 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

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

Note 8 - Change in Accounting Principles/Restatement

The County implemented Governmental Accounting Standards Board (GASB) Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* for the Healthcare Benefits Plan. The implementation of this statement had no effect on net position in the current fiscal year.

Note 9 - Subsequent Events

For the year ended June 30, 2017, the County has evaluated subsequent events for potential recognition and disclosure through October 10, 2017 – the date the financial statements were available to be issued. No events were determined to require recognition or disclosure.

Required Supplemental Financial Data

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

Schedule

- 1 Schedule of Changes in the Net Pension Liability-Law Enforcement Officers' Special Separation Allowance Irrevocable Trust (LEOSSA)
- 2 Schedule of the Net Pension Liability (LEOSSA)
- 3 Schedule of County's Contributions (LEOSSA)
- 4 Schedule of Funding Progress for the Other Postemployment Benefits (OPEB)
- 5 Schedule of Changes in the Net Pension Liability (OPEB)
- 6 Schedule of County's Contributions (OPEB)
- 7 Schedule of Investment Returns (OPEB)
- 8 Schedule of County's Proportionate Share of Net Pension Liability (Asset) (LGERS)
- 9 Schedule of County's Contributions (LGERS)
- 10 Schedule of County's Proportionate Share of Net Pension Liability (Asset) (RODSPF)
- 11 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)

	<u>2016*</u>	<u>2017**</u>
Total pension liability		
Service cost	\$ 49,129	\$ 24,305
Interest	26,460	14,474
Benefit changes	-	-
Difference between expected and actual experience	-	(33,229)
Changes of assumptions and other inputs	11,037	60,466
Benefit payments, including refunds of member contributions	<u>(23,302)</u>	<u>(7,101)</u>
Net change in total pension liability	\$ 63,324	\$ 58,915
Total pension liability-beginning	\$ 726,794	\$ 790,118
Total pension liability-ending (a)	<u>\$ 790,118</u>	<u>\$ 849,033</u>
Plan net position		
Contributions-employer	\$ 71,302	\$ 7,101
Contributions-member	-	-
Net investment income	706	428
Benefit payments, including refunds of member contributions	(23,302)	(7,101)
Administrative expense	(236)	-
Refund of contributions	-	-
Other	-	-
Net change in plan net position	\$ 48,470	\$ 428
Plan net position-beginning	\$ 224,415	\$ 272,885
Plan net position-ending (b)	<u>\$ 272,885</u>	<u>\$ 273,313</u>
Net pension liability-ending (a) - (b)	<u>\$ 517,233</u>	<u>\$ 575,720</u>

*Information is as of the Measurement date of December 31, 2015.

**Information is presented as of the measurement date of June 30 one year prior to the reporting year noted.

Notes to schedule:

Benefit changes	None
Assumption changes	The assumed rate of return was decreased from 3.57% to 2.85% to reflect a change in the Municipal Bond Rate.
Plan year change	The County has changed the valuation year-end from December 31 to June 30 to match the fiscal year.

There were no changes between the measurement date and the County's reporting date that are expected to have a significant effect on the net pension liability.

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

Schedule of the Net Pension Liability (Asset)

	<u>2016*</u>	<u>2017**</u>
Total pension liability (TPL)	\$ 790,118	\$ 849,033
Plan net position	\$ 272,885	\$ 273,313
Net pension liability	\$ 517,233	\$ 575,720
Ratio of plan net position to total pension liability	34.54%	32.19%
Covered-employee payroll	1,837,735	1,883,580
Net pension liability as a percentage of covered-employee payroll	28.15%	30.57%

**Information is as of the Measurement date of December 31, 2015.*

***Information is as of the Measurement date of June 30, 2016.*

Notes to schedule:

The TPL was measured based on data as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Based on service, ranging from 3.50 - 7.35%, including inflation
Investment Rate of Return	2.85%, net of pension plan investment expense, including inflation
Mortality	
Pre-retirement	RP-2014 Employee tables, projected forward generationally with Scale MP-2015
Post-retirement	RP-2014 Healthy Annuitant tables, projected forward generationally with Scale MP-2015. Rates loaded by 4% for males.

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

Schedule 3

Schedule of County Contributions

	2016	2017
Actuarially determined employer contribution	\$ 60,285	\$ 95,479
Contributions in relation to the contractually required contribution	39,727	143,399
Contribution deficiency (excess)	\$ 20,558	\$ (47,920)
County's covered employee payroll	\$ 1,883,580	\$ 1,823,288
Contributions as a percentage of covered employee payroll	2.11%	7.86%

Notes to schedule:

Valuation date: Actuarially determined employer contribution is determined on an annual basis

Methods and assumptions used to determine contribution rates for the year ended June 30, 2017:

Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Market value of assets
Investment Rate of Return	3.57%, including inflation, net of pension plan investment expense
Inflation	3.00%
Salary increases	Based on service, ranging from 3.50% to 7.35%, including inflation
Mortality	
Pre-retirement	RP-2014 Employee tables, projected forward generationally with Scale MP-2015
Post-retirement	RP-2014 Healthy Annuitant tables, projected forward generationally with Scale MP-2015. Rates loaded by 4% for males.

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%
2017	\$ 179,656	485.82%

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
Other Post Employment Benefits Irrevocable Trust

Schedule of the Changes in the Net OPEB Liability (Asset) and Related Ratios*

	2017
Total OPEB liability	
Service cost	\$ 196,127
Interest	128,565
Benefit changes	-
Difference between expected and actual experience	-
Changes of assumptions and other inputs	264,995
Benefit payments, including refunds of member contributions	(120,700)
Net change in total OPEB liability	\$ 468,987
Total OPEB liability-beginning	\$ 3,246,945
Total OPEB liability-ending (a)	\$ 3,715,932
 Plan fiduciary net position	
Contributions-employer	\$ 207,436
Contributions-member	-
Net investment income	7,889
Benefit payments, including refunds of member contributions	(120,700)
Administrative expense	(4,800)
Net change in plan fiduciary net position	\$ 89,825
 Plan fiduciary net position-beginning	\$ 763,196
Plan fiduciary net position-ending (b)	\$ 853,021
 Net OPEB liability-ending (a) - (b)	\$ 2,862,911
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	22.96%
Covered employee payroll	\$ 10,160,128
Plan Net OPEB Liability as percentage of covered employee payroll	28.18%

**Information is presented as of the measurement date of June 30 one year prior to the reporting year noted.*

Notes to Schedule

Benefit changes	Not available. None assumed.
Changes of assumptions	The discount rate changed from 3.80% to 2.85%.

**Watauga County, North Carolina
Other Post Employment Benefits Irrevocable Trust**

Schedule 6

Schedule of County Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 179,656	\$ 171,685	\$ 171,685	\$ 177,098	\$ 177,098	\$ 189,788	\$ 160,959	\$ 112,776	\$ 112,776	\$ 63,288
Contributions in relation to the actuarially determined contribution	872,800	207,436	230,450	205,575	211,783	169,359	160,959	112,776	126,576	93,126
Contribution deficiency (excess)	<u>\$ (693,144)</u>	<u>\$ (35,751)</u>	<u>\$ (58,765)</u>	<u>\$ (28,477)</u>	<u>\$ (34,685)</u>	<u>\$ 20,429</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,800)</u>	<u>\$ (29,838)</u>
Covered payroll	\$ 10,160,128	\$ 10,512,790	\$ 10,028,405	\$ 10,387,368	\$ 10,011,037	\$ 10,526,058	\$ 10,666,529	\$ 10,936,838	\$ 11,058,627	\$ 9,979,587
Contributions as a percentage of covered payroll	8.59%	1.97%	2.30%	1.98%	2.12%	1.61%	1.51%	1.03%	1.14%	0.93%

Notes to Schedule

Methods and assumptions used to establish "actuarially determined contribution" rates:

Valuation date: Actuarially determined contribution rates are calculated biannually as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Measurement date: June 30, 2016

Actuarial cost method	Projected Unit Credit
Amortization method	Open 30-year level percent of pay as of June 30, 2016
Remaining amortization period	30-years
Asset valuation method	Market Value

**Watauga County, North Carolina
Other Post Employment Benefits Irrevocable Trust**

Schedule 7

Schedule of Investment Returns

2017

Annual money-weighted rate of return, net of investment expense

0.98%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.17390%	0.17404%	(0.17777)%	0.18070%
County's proportionate share of the net pension liability (asset) \$	\$ 3,690,741	\$ 781,083	\$ (1,048,391)	\$ 2,178,129
County's covered employee payroll	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368	10,367,190
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	34.55%	7.41%	-10.09%	21.01%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	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 Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 798,115	\$ 732,167	\$ 761,648	\$ 738,196
Contributions in relation to the contractually required contribution	798,115	732,167	761,648	738,196
Contribution deficiency (excess)	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
County's covered employee payroll	\$ 10,813,081	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368
Contributions as a percentage of covered employee payroll	7.38%	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 Four Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.6673%	0.6593%	0.6297%	0.6609%
County's proportionate share of the net pension liability (asset) \$	\$ (124,766)	\$ (152,800)	\$ (142,737)	\$ (141,158)
County's covered employee payroll	\$ 51,253	\$ 65,250	\$ 66,840	\$ 65,529
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(243.43)%	(234.18)%	(213.55)%	(215.41)%
Plan fiduciary net position as a percentage of the total pension liability	160.17%	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 Four Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,653	\$ 5,452	\$ 5,276	\$ 5,142
Contributions in relation to the contractually required contribution	5,653	5,452	5,276	5,142
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered employee payroll	\$ 52,791	\$ 51,253	\$ 65,250	\$ 66,840
Contributions as a percentage of covered employee payroll	10.71%	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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Taxes - ad valorem:			
Current year	\$	\$ 27,954,068	\$
Prior years		395,369	
Advertising and interest		168,883	
Total Taxes - ad valorem	<u>27,620,168</u>	<u>28,518,320</u>	<u>898,152</u>
Taxes - other:			
Local option sales taxes		11,642,604	
Real estate transfer tax		571,948	
ABC Bottle tax		21,748	
Heavy equipment rental tax		7,018	
Gross receipts tax		60,160	
Franchise tax		336,348	
Total Taxes - other	<u>11,812,690</u>	<u>12,639,826</u>	<u>827,136</u>
Unrestricted Intergovernmental:			
Miscellaneous revenues from Towns and TDA		1,646,998	
Medicaid hold harmless		1,705,771	
Tax collection fees		117,319	
Occupancy tax administrative fee		25,040	
Payments in lieu of taxes		24,832	
Total Unrestricted Intergovernmental	<u>3,152,271</u>	<u>3,519,960</u>	<u>367,689</u>
Restricted Intergovernmental:			
Grants-Federal and State		4,735,068	
Public School Building Capital Fund - Lottery		329,257	
Federal Interest Credit		27,869	
Court facilities fees		123,445	
Total Restricted Intergovernmental	<u>6,090,655</u>	<u>5,215,639</u>	<u>(875,016)</u>
Permits and Fees:			
Sheriff's office permits and fees		130,684	
Planning and inspection fees		242,949	
Register of deeds fees		306,845	
Fire inspection fees		4,235	
Child Support fees		43,971	
Total Permits and Fees	<u>670,163</u>	<u>728,684</u>	<u>58,521</u>
Sales and Service:			
POA services		12,053	
TDA Financial and other services		38,000	
Recreation fees		343,016	
Reimbursement for Inmates		31,326	
Rent		421,246	
DMV notary/passport processing fees		166,224	
Blowing Rock communication services		171,701	
Other sales and services		1,391	
Total Sales and Service	<u>1,068,101</u>	<u>1,184,957</u>	<u>116,856</u>
Investment earnings:	<u>70,000</u>	<u>172,619</u>	<u>102,619</u>
Miscellaneous:			
Other		386,342	
Donations		36,486	
Total Miscellaneous	<u>361,298</u>	<u>422,828</u>	<u>61,530</u>
TOTAL REVENUES	<u>50,845,346</u>	<u>52,402,833</u>	<u>1,557,487</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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government			
Governing Body:			
Salaries and benefits	\$	\$ 54,489	\$
Operating expenses		3,814	
Total Governing Body	<u>62,082</u>	<u>58,303</u>	<u>3,779</u>
Administration:			
Salaries and benefits		344,700	
Operating expenses		10,682	
Total Administration	<u>361,020</u>	<u>355,382</u>	<u>5,638</u>
Finance:			
Salaries and benefits		344,700	
Operating expenses		44,502	
Total Finance	<u>392,240</u>	<u>389,202</u>	<u>3,038</u>
Tax Administration:			
Salaries and benefits		886,416	
Operating expenses		164,444	
Capital outlay		47,637	
Total Tax Administration	<u>1,133,280</u>	<u>1,098,497</u>	<u>34,783</u>
Tax Revaluation:			
Operating expenses		510	
Total Tax Revaluation	<u>45,000</u>	<u>510</u>	<u>44,490</u>
Tag Office:			
Salaries and benefits		170,178	
Operating expenses		5,150	
Total Tag Office	<u>191,965</u>	<u>175,328</u>	<u>16,637</u>
Legal Services:			
Operating expenses	<u>100,000</u>	<u>71,428</u>	<u>28,572</u>
Court facilities:			
Operating expenses	<u>7,132</u>	<u>7,072</u>	<u>60</u>
Board of Elections:			
Salaries and benefits		212,565	
Operating expenses		112,284	
Total Board of Elections	<u>335,955</u>	<u>324,849</u>	<u>11,106</u>
Register of Deeds:			
Salaries and benefits		402,715	
Operating expenses		90,365	
Capital outlay		6,676	
Total Register of Deeds	<u>505,840</u>	<u>499,756</u>	<u>6,084</u>
General Administration:			
Operating expenses		977,696	
Total General Administration	<u>1,418,729</u>	<u>977,696</u>	<u>441,033</u>
Information Technologies:			
Salaries and benefits		387,848	
Operating expenses		331,383	
Capital outlay		113,944	
Total Information Technologies	<u>950,890</u>	<u>833,175</u>	<u>117,715</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, 2017

	Final Budget	Actual	Variance
Maintenance:			
Salaries and benefits	\$	\$ 1,022,519	\$
Operating expenses		28,641	
Capital outlay		58,840	
Total Maintenance	<u>1,163,557</u>	<u>1,110,000</u>	<u>53,557</u>
Public Buildings:			
Operating expenses		1,098,392	
Capital outlay		936,067	
Total Public Buildings	<u>2,781,540</u>	<u>2,034,459</u>	<u>747,081</u>
Total General Government	<u>9,449,230</u>	<u>7,935,657</u>	<u>1,513,573</u>
Public Safety			
Sheriff's Office:			
Salaries and benefits		3,063,729	
Operating expenses		329,878	
Capital outlay		543,423	
Total Sheriff's Office	<u>4,047,710</u>	<u>3,937,030</u>	<u>110,680</u>
Detention Center:			
Salaries and benefits		1,469,678	
Operating expenses		533,998	
Capital outlay		38,109	
Total Detention Center	<u>2,173,635</u>	<u>2,041,785</u>	<u>131,850</u>
Emergency Services:			
Salaries and benefits		767,058	
Operating expenses		27,573	
Total Emergency Services	<u>803,330</u>	<u>794,631</u>	<u>8,699</u>
Emergency Management and Fire Protection:			
Salaries and benefits		264,850	
Operating expenses		1,437,847	
Capital outlay		41,863	
Total Emergency Management and Fire Protection	<u>1,784,156</u>	<u>1,744,560</u>	<u>39,596</u>
Planning and Inspections:			
Salaries and benefits		526,173	
Operating expenses		14,804	
Capital outlay		47,875	
Total Planning and Inspections	<u>677,095</u>	<u>588,852</u>	<u>88,243</u>
Medical Examiner, Ambulance and Rescue Squad:	<u>1,210,900</u>	<u>1,189,222</u>	<u>21,678</u>
Animal Control:			
Salaries and benefits		111,161	
Operating expenses		10,240	
Total Animal Control	<u>129,000</u>	<u>121,401</u>	<u>7,599</u>
Forestry:	<u>57,850</u>	<u>57,319</u>	<u>531</u>
Total Public Safety	<u>10,883,676</u>	<u>10,474,800</u>	<u>408,876</u>
Transportation			
Transportation:	<u>225,389</u>	<u>225,389</u>	<u>-</u>
Economic and Physical Development			
Special Appropriations:	<u>455,488</u>	<u>454,219</u>	<u>1,269</u>
Economic Development:	<u>96,839</u>	<u>77,713</u>	<u>19,126</u>
Total Economic and Physical Development	<u>552,327</u>	<u>531,932</u>	<u>20,395</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, 2017

	Final Budget	Actual	Variance
Environmental Protection			
Cooperative Extension:			
Salaries and benefits	\$	\$ 203,536	\$
Operating expenses		33,049	
Total Cooperative Extension	<u>271,325</u>	<u>236,585</u>	<u>34,740</u>
Soil and Water Conservation:			
Salaries and benefits		100,816	
Operating expenses		7,918	
Capital outlay		25,177	
Total Soil and Water Conservation	<u>148,368</u>	<u>133,911</u>	<u>14,457</u>
Total Environmental Protection	<u>419,693</u>	<u>370,496</u>	<u>49,197</u>
Human Services			
Public Health:	<u>585,228</u>	<u>585,228</u>	<u>-</u>
Mental Health:	<u>171,194</u>	<u>171,194</u>	<u>-</u>
Social Services:			
Salaries and benefits		2,744,862	
Operating expenses		378,925	
Capital outlay		3,091	
Beneficiary payments		1,976,865	
Total Social Services	<u>5,990,261</u>	<u>5,103,743</u>	<u>886,518</u>
Project on Aging:			
Salaries and benefits		991,675	
Operating expenses		193,386	
Total Project on Aging	<u>1,271,729</u>	<u>1,185,061</u>	<u>86,668</u>
Veterans Services:			
Salaries and benefits		107,071	
Operating expenses		2,534	
Total Veterans Services	<u>110,830</u>	<u>109,605</u>	<u>1,225</u>
Total Human Services	<u>8,129,242</u>	<u>7,154,831</u>	<u>974,411</u>
Education			
Public Schools - current		12,713,223	
Public Schools - capital outlay		1,241,802	
Community College - current		866,960	
Community College - capital outlay		50,000	
Total Education	<u>15,383,352</u>	<u>14,871,985</u>	<u>511,367</u>
Cultural and Recreational			
Library:	<u>540,308</u>	<u>540,308</u>	<u>-</u>
Recreation:			
Salaries and benefits		824,394	
Operating expenses		133,535	
Capital outlay		46,263	
Total Recreation	<u>1,041,378</u>	<u>1,004,192</u>	<u>37,186</u>
Total Cultural and Recreational	<u>1,581,686</u>	<u>1,544,500</u>	<u>37,186</u>
Debt Service			
Principal retirement		4,082,361	
Interest and fees		1,917,277	
Total Debt Service	<u>5,999,638</u>	<u>5,999,638</u>	<u>-</u>
TOTAL EXPENDITURES	<u>52,624,233</u>	<u>49,109,228</u>	<u>3,515,005</u>
Excess (deficiency) of revenues over expenditures	(1,778,887)	3,293,605	5,072,492

Watauga County, North Carolina

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER FINANCING SOURCES (USES):			
Gain/(loss) on disposal of assets	\$ 35,000	\$ 67,121	\$ 32,121
Transfers to Capital Projects Fund	(3,935,370)	(3,935,370)	-
Transfers from Capital Projects Fund	826,750	826,750	-
Fund Balance Appropriated	<u>4,852,507</u>	<u>-</u>	<u>(4,852,507)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,778,887</u>	<u>(3,041,499)</u>	<u>(4,820,386)</u>
Net change in fund balance	\$ <u>-</u>	252,106	<u>252,106</u>
Fund balance, beginning of year		<u>26,408,144</u>	
Fund balance, end of year		\$ <u>26,660,250</u>	

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

Nonmajor Special Revenue Funds

	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Funds	Occupancy Tax Fund	Total Nonmajor Special Revenue Funds
ASSETS:						
Cash and cash equivalents	\$ 52,056	\$ 61,040	\$ 157,282	\$ 20,249	\$ 806	\$ 291,433
Due from other governments	-	-	26,697	16,558	-	43,255
Taxes receivable, net	-	-	-	105,415	135,796	241,211
Total assets	<u>\$ 52,056</u>	<u>\$ 61,040</u>	<u>\$ 183,979</u>	<u>\$ 142,222</u>	<u>\$ 136,602</u>	<u>\$ 575,899</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	-	1,344	1,907	34,679	-	37,930
Due to other governments	-	-	-	-	136,602	136,602
Total Liabilities	<u>-</u>	<u>1,344</u>	<u>1,907</u>	<u>34,679</u>	<u>136,602</u>	<u>174,532</u>
Deferred Inflows of Resources:						
Taxes paid in advance	-	-	-	2,128	-	2,128
Taxes receivable	-	-	-	105,415	-	105,415
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,543</u>	<u>-</u>	<u>107,543</u>
Fund Balances:						
Restricted for:						
Public Safety	52,056	59,696	182,072	-	-	293,824
Total fund balances	<u>52,056</u>	<u>59,696</u>	<u>182,072</u>	<u>-</u>	<u>-</u>	<u>293,824</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 52,056</u>	<u>\$ 61,040</u>	<u>\$ 183,979</u>	<u>\$ 142,222</u>	<u>\$ 136,602</u>	<u>\$ 575,899</u>

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

Nonmajor Special Revenue Funds

	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Fund	Occupancy Tax Fund	Total Nonmajor Special Revenue Funds
REVENUES						
Ad valorem taxes	\$ -	\$ -	\$ -	\$ 3,198,226	\$ -	\$ 3,198,226
Other taxes and licenses	-	24,351	-	-	1,504,048	1,528,399
Restricted intergovernmental	9,126	-	320,369	-	-	329,495
Investment earnings	281	461	759	-	-	1,501
Total revenues	<u>9,407</u>	<u>24,812</u>	<u>321,128</u>	<u>3,198,226</u>	<u>1,504,048</u>	<u>5,057,621</u>
EXPENDITURES						
General government	-	-	-	-	1,504,048	1,504,048
Public safety	3,320	25,827	347,734	3,198,226	-	3,575,107
Economic and physical development	-	-	-	-	-	-
Capital outlay	-	29,870	-	-	-	29,870
Total expenditures	<u>3,320</u>	<u>55,697</u>	<u>347,734</u>	<u>3,198,226</u>	<u>1,504,048</u>	<u>5,109,025</u>
OTHER FINANCING SOURCES/(USES)						
Gain on sale of fixed asset	8,534	-	-	-	-	8,534
Net change in fund balances	14,621	(30,885)	(26,606)	-	-	(42,870)
Fund balances, beginning of year	<u>37,435</u>	<u>90,581</u>	<u>208,678</u>	<u>-</u>	<u>-</u>	<u>336,694</u>
Fund balances, end of year	<u>\$ 52,056</u>	<u>\$ 59,696</u>	<u>\$ 182,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,824</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, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restricted intergovernmental - Federal Investment Earnings	\$	\$ 9,126 281	\$
Total revenues	<u>3,990</u>	<u>9,407</u>	<u>5,417</u>
Expenditures:			
Public Safety	<u>3,990</u>	<u>3,320</u>	<u>670</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>6,087</u>	<u>6,087</u>
Other financing sources (uses):			
Gain on sale of fixed asset	<u>-</u>	<u>8,534</u>	<u>8,534</u>
Total Other Financing sources (uses):	<u>-</u>	<u>8,534</u>	<u>8,534</u>
Net change in fund balance	<u>\$ -</u>	<u>14,621</u>	<u>\$ 14,621</u>
Fund balance, beginning of year		<u>37,435</u>	
Fund balance, end of year		<u>\$ 52,056</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - State	\$	\$ 24,351	\$
Investment Earnings		461	
Total revenues	<u>24,580</u>	<u>24,812</u>	<u>232</u>
Expenditures:			
Public Safety	24,580	25,827	
Capital Outlay	<u>30,000</u>	<u>29,870</u>	
Total expenditures	<u>54,580</u>	<u>55,697</u>	<u>(1,117)</u>
Excess (deficiency) of revenues over expenditures	<u>(30,000)</u>	<u>(30,885)</u>	<u>(885)</u>
Other financing sources (uses):			
Appropriated fund balance	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
Total other financing sources (uses)	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
Net change in fund balance	\$ <u><u>-</u></u>	(30,885)	\$ <u><u>(30,885)</u></u>
Fund balance, beginning of year		<u>90,581</u>	
Fund balance, end of year		\$ <u><u>59,696</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$	\$ 320,369	\$
Investment earnings		<u>759</u>	
Total revenues	<u>320,369</u>	<u>321,128</u>	<u>759</u>
Expenditures:			
Public safety:			
Implementation services	69,583	67,464	
Software	49,619	48,598	
Training	4,347	1,283	
Telephones	72,849	69,767	
Hardware	98,548	99,123	
Furniture	<u>61,499</u>	<u>61,499</u>	
Total expenditures	<u>356,445</u>	<u>347,734</u>	<u>8,711</u>
Other financing sources (uses):			
Appropriated fund balance	<u>36,076</u>	<u>-</u>	<u>(36,076)</u>
Total Other Financing sources (uses):	<u>36,076</u>	<u>-</u>	<u>(36,076)</u>
Net change in fund balance	<u>\$ -</u>	<u>(26,606)</u>	<u>\$ (26,606)</u>
Fund balance, beginning of year		<u>208,678</u>	
Fund balance, end of year		<u>\$ 182,072</u>	

Watauga County, North Carolina
 Fire Districts Funds
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ _____	\$ 3,198,226	\$ _____
Total revenues	<u>3,226,099</u>	<u>3,198,226</u>	<u>(27,873)</u>
Expenditures:			
Public safety:			
Beaver Dam Fire Department		111,178	
Beech Mountain Fire Department		1,447	
Blowing Rock Fire Department		484,890	
Boone Fire Department		934,677	
Cove Creek Fire Department		265,278	
Creston Fire Department		6,513	
Deep Gap Fire Department		201,537	
Fall Creek Fire Department		9,657	
Foscoe Fire Department		545,975	
Meat Camp Fire Department		216,753	
Shawneehaw Fire Department		106,267	
Stewart Simmons Fire Department		129,293	
Todd Fire Department		64,706	
Zionville Fire Department		120,055	
Total expenditures	<u>3,226,099</u>	<u>3,198,226</u>	<u>27,873</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ -</u>	

Watauga County, North Carolina
Occupancy Tax Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Other taxes and licenses	\$ _____	\$ 1,504,048	\$ _____
Total revenues	<u>1,525,000</u>	<u>1,504,048</u>	<u>(20,952)</u>
Expenditures:			
Tourism Development		1,479,008	
Administrative fee	_____	<u>25,040</u>	_____
Total expenditures	<u>1,525,000</u>	<u>1,504,048</u>	<u>20,952</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
 Capital Projects Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Investment earnings	\$ <u> -</u>	\$ <u> 66,014</u>	\$ <u> 66,014</u>
Expenditures:			
General government	<u> 3,935,370</u>	<u> -</u>	<u> 3,935,370</u>
Excess (deficiency) of revenues over expenditures	<u> (3,935,370)</u>	<u> 66,014</u>	<u> 4,001,384</u>
Other financing sources (uses):			
Transfer from other funds	3,935,370	3,935,370	-
Transfer to other funds	(826,750)	(826,750)	-
Appropriated fund balance	<u> 826,750</u>	<u> -</u>	<u> (826,750)</u>
Total other financing sources (uses)	<u> 3,935,370</u>	<u> 3,108,620</u>	<u> (826,750)</u>
Net change in fund balance	\$ <u> -</u>	3,174,634	\$ <u> 3,174,634</u>
Fund balance, beginning of year		<u> 9,180,133</u>	
Fund balance, end of year		\$ <u> 12,354,767</u>	

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures Budget and Actual (NON-GAAP)
For the Year Ended June 30, 2017

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Charges for services	\$	\$ 4,661,863	\$
Sale of recycled materials		433,250	
Total	<u>4,262,843</u>	<u>5,095,113</u>	<u>832,270</u>
Non-operating revenues:			
Miscellaneous revenue		10,050	
Investment earnings		35,735	
Restricted intergovernmental revenues		150,829	
Total	<u>150,471</u>	<u>196,614</u>	<u>46,143</u>
Total revenues	<u>4,413,314</u>	<u>5,291,727</u>	<u>878,413</u>
Expenditures:			
Landfill operations:			
Salaries and employee benefits		1,440,660	
Other operating expenditures		2,608,716	
Total landfill operations	<u>4,078,588</u>	<u>4,049,376</u>	<u>29,212</u>
Recycling operations:			
Salaries and employee benefits		43,856	
Other operating expenses		46,462	
Total recycling operations	<u>118,500</u>	<u>90,318</u>	<u>28,182</u>
Capital outlay:			
Capital outlay		375,491	
Total capital outlay	<u>381,250</u>	<u>375,491</u>	<u>5,759</u>
Total expenditures	<u>4,578,338</u>	<u>4,515,185</u>	<u>63,153</u>
Revenues under/(over) expenditures	<u>(165,024)</u>	<u>776,542</u>	<u>941,566</u>
Other financing sources (uses):			
Sale of fixed assets	50,000	50,311	311
Appropriated fund balance	115,024	-	(115,024)
Total other financing sources (uses)	<u>165,024</u>	<u>50,311</u>	<u>(114,713)</u>
Revenues over expenditures and other sources (uses)	\$ <u>-</u>	826,853	\$ <u>826,853</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Increase in deferred outflow of resources - pensions		196,542	
Increase in net pension liability		(235,505)	
Decrease in deferred inflow of resources - pensions		22,679	
Increase in intangible asset for advance funding of OPEB NOO		58,819	
Capital outlay		375,491	
Depreciation		(298,281)	
Increase in accrued compensated absences		(9,251)	
Total reconciling items		<u>110,494</u>	
Change in net position		\$ <u>937,347</u>	

Watauga County, North Carolina
Combining Statement of Fiduciary Net Position
Irrevocable Trust Funds
For the Year Ended June 30, 2017

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 399,608	\$ 1,624,872	\$ 2,024,480
Accounts receivable	-	3,863	3,863
	<u>\$ 399,608</u>	<u>\$ 1,628,735</u>	<u>\$ 2,028,343</u>
Liabilities and Net Position			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Net position:			
Assets held in trust for retirement benefits	<u>\$ 399,608</u>	<u>\$ 1,628,735</u>	<u>\$ 2,028,343</u>

Watauga County, North Carolina
Combining Statement of Changes in Fiduciary Net Position
Irrevocable Trust Funds
For the Year Ended June 30, 2017

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Additions:			
Employer contributions	\$ 143,399	\$ 872,800	\$ 1,016,199
Interest	<u>752</u>	<u>10,714</u>	<u>11,466</u>
Total additions	<u>144,151</u>	<u>883,514</u>	<u>1,027,665</u>
Deductions:			
Benefits	17,399	107,800	125,199
Administrative expense	<u>457</u>	<u>-</u>	<u>457</u>
Total deductions	<u>17,856</u>	<u>107,800</u>	<u>125,656</u>
Change in net position	126,295	775,714	902,009
Net position, beginning	273,313	853,021	1,126,334
Net position, ending	<u>\$ 399,608</u>	<u>\$ 1,628,735</u>	<u>\$ 2,028,343</u>

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deletions	Balance July 1, 2017
Social Services Trust:				
Assets:	\$ <u>31,659</u>	\$ <u>194,510</u>	\$ <u>182,928</u>	\$ <u>43,241</u>
Liabilities:	\$ <u>31,659</u>	\$ <u>194,510</u>	\$ <u>182,928</u>	\$ <u>43,241</u>
Vehicle Tax-Towns:				
Assets:	\$ <u>17</u>	\$ <u>132,158</u>	<u>132,175</u>	\$ <u>-</u>
Liabilities:	\$ <u>17</u>	\$ <u>132,158</u>	\$ <u>132,175</u>	\$ <u>-</u>
Town of Boone Taxes:				
Assets:	\$ <u>32,937</u>	\$ <u>6,096,685</u>	\$ <u>6,115,220</u>	\$ <u>14,402</u>
Liabilities:	\$ <u>32,937</u>	\$ <u>6,096,685</u>	\$ <u>6,115,220</u>	\$ <u>14,402</u>
Inmate Commissary:				
Assets:	\$ <u>20,970</u>	\$ <u>166,446</u>	\$ <u>171,415</u>	\$ <u>16,001</u>
Liabilities:	\$ <u>20,970</u>	\$ <u>166,446</u>	\$ <u>171,415</u>	\$ <u>16,001</u>
Fines and Forfeitures:				
Assets:	\$ <u>18,481</u>	\$ <u>365,289</u>	\$ <u>365,434</u>	\$ <u>18,336</u>
Liabilities:	\$ <u>18,481</u>	\$ <u>365,289</u>	\$ <u>365,434</u>	\$ <u>18,336</u>
Deed of Trust Fee:				
Assets:	\$ <u>4,625</u>	\$ <u>49,774</u>	\$ <u>49,284</u>	\$ <u>5,115</u>
Liabilities:	\$ <u>4,625</u>	\$ <u>49,774</u>	\$ <u>49,284</u>	\$ <u>5,115</u>
Total - All Agency Funds				
Assets:	\$ <u>108,689</u>	\$ <u>7,004,862</u>	\$ <u>7,016,456</u>	\$ <u>97,095</u>
Liabilities:	\$ <u>108,689</u>	\$ <u>7,004,862</u>	\$ <u>7,016,456</u>	\$ <u>97,095</u>

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 For the Year Ended June 30, 2017

Fiscal year:	Uncollected Balance June 30, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016 - 2017	\$ -	\$ 28,257,342	\$ 27,957,297	\$ 300,045
2015 - 2016	332,664	-	192,365	140,299
2014 - 2015	221,668	-	78,262	143,406
2013 - 2014	156,894	-	61,544	95,350
2012 - 2013	110,645	-	44,375	66,270
2011 - 2012	84,056	-	31,781	52,275
2010 - 2011	69,281	-	31,967	37,314
2009 - 2010	48,862	-	26,317	22,545
2008 - 2009	47,987	-	28,563	19,424
2007 - 2008	39,960	-	25,679	14,281
2006 - 2007	34,806	-	34,806	-
	<u>\$ 1,146,823</u>	<u>\$ 28,257,342</u>	<u>\$ 28,512,956</u>	<u>891,209</u>
Plus: 2017 - 2018 receivable				21,539
Less: Allowance for uncollectible accounts General Fund				<u>(133,482)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 779,266</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$ 28,518,320
Reconciling items:		
Advertising and interest collected	(168,883)	
Taxes written off	150,098	
Penalties payable to WCS	7,011	
Prior year releases	6,410	
Total reconciling items	<u>(5,364)</u>	
Total collections and credits		<u>\$ 28,512,956</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2017

	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	\$ 8,435,108,248	\$ 0.313	\$ 26,401,913	\$ 26,401,913	\$ -
Motor vehicles	439,293,639	0.313	1,374,989	-	1,374,989
Penalties	-		1,394	1,394	-
Total	<u>8,874,401,887</u>		<u>27,778,296</u>	<u>26,403,307</u>	<u>1,374,989</u>
Discoveries:					
Property taxed at current year's rate	154,103,990	0.313	530,793	530,793	-
Penalties	-		2,162	2,162	-
Total	<u>154,103,990</u>		<u>532,955</u>	<u>532,955</u>	<u>-</u>
Abatements:					
	<u>(17,199,585)</u>		<u>(53,909)</u>	<u>(53,909)</u>	<u>-</u>
Total property valuation	<u>\$ 9,011,306,292</u>				
			Net levy	28,257,342	1,374,989
			Uncollected taxes at June 30, 2017	300,045	4,393
			Current year's taxes collected	<u>\$ 27,957,297</u>	<u>\$ 1,370,596</u>
			Current levy collection percentage	<u>98.94%</u>	<u>99.68%</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2017

Secondary Market Disclosures:

Assessed Valuation:		
Assessment Ratio		100%
Real Property	\$ 8,760,394,840	
Personal Property	153,192,752	
Public Service Companies	<u>97,718,700</u>	
Total Assessed Valuation	\$ 9,011,306,292	
Tax Rate per \$100		0.313
Net Levy (Includes penalties, discoveries, releases and abatements)	\$ <u><u>28,257,342</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, 2017:

Fire Protection District	Tax Rate per \$100	Net Levy
Beech Mountain Rural	0.05	\$ 1,470
Blowing Rock	0.05	479,613
Boone Rural	0.06	929,119
Cove Creek	0.05	248,431
Cove Creek Rural	0.05	13,630
Deep Gap	0.05	196,366
Foscoe	0.05	470,576
Foscoe Rural	0.05	71,476
Meat Camp	0.05	223,482
Northwest Watauga	0.05	117,343
Shawneehaw	0.05	97,968
Shawneehaw Rural	0.05	6,226
Stewart Simmons	0.05	127,983
Todd	0.07	64,507
Zionville	0.05	<u>118,565</u>
Total Net Fire Protection District Levies		\$ <u><u>3,166,755</u></u>

Watauga County, North Carolina
 Ten Largest Taxpayers
 For the Year Ended June 30, 2017

Taxpayer	Type of Business	2016 Assessed Valuation	Percentage of Total Assessed Valuation	
Blue Ridge Electric Membership Coop	Electric Utility	\$ 67,638,750	0.75	%
CCC Boone LLC	Rental Properties	46,499,000	0.52	
Dugger Valley Inv Group LLC	Real Estate Development	34,366,500	0.38	
Mountaineer Village LLC	Rental Properties	23,537,200	0.26	
BR Development Group LLC	Real Estate Development	21,031,700	0.23	
Horizon Acquisition #2 LLC	Rental Properties	17,906,700	0.20	
Blue Ridge Preservation Inc	Real Estate Development	16,684,100	0.19	
Templeton Properties LP	Commercial Rental Properties	15,904,570	0.18	
Highland Crossing-B, LLC	Real Estate Development	15,727,420	0.17	
Wm Land Boone LTD Ptnrp	Real Estate Development	13,689,900	0.15	
		<u>\$ 272,985,840</u>	<u>3.04</u>	%

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Year Ended June 30, 2017

	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>0.06</u>	<u>0.05</u>
Net levy	\$ 117,343	\$ 1,470	\$ 479,613	\$ 929,119	\$ 248,431
Uncollected taxes at June 30, 2017	<u>1,806</u>	<u>27</u>	<u>4,775</u>	<u>9,532</u>	<u>4,590</u>
Current year's taxes collected	<u>\$ 115,537</u>	<u>\$ 1,443</u>	<u>\$ 474,838</u>	<u>\$ 919,587</u>	<u>\$ 243,841</u>
Current levy collection percentage	<u>98.46%</u>	<u>98.16%</u>	<u>99.00%</u>	<u>98.97%</u>	<u>98.15%</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	\$ 13,630	\$ 196,366	\$ 470,576	\$ 71,476	\$ 223,482
Uncollected taxes at June 30, 2017	<u>57</u>	<u>2,616</u>	<u>4,573</u>	<u>476</u>	<u>6,927</u>
Current year's taxes collected	<u>\$ 13,573</u>	<u>\$ 193,750</u>	<u>\$ 466,003</u>	<u>\$ 71,000</u>	<u>\$ 216,555</u>
Current levy collection percentage	<u>99.58%</u>	<u>98.67%</u>	<u>99.03%</u>	<u>99.33%</u>	<u>96.90%</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	\$ 97,968	\$ 6,226	\$ 127,983	\$ 64,507	\$ 118,565
Uncollected taxes at June 30, 2017	<u>650</u>	<u>374</u>	<u>1,415</u>	<u>600</u>	<u>2,864</u>
Current year's taxes collected	<u>\$ 97,318</u>	<u>\$ 5,852</u>	<u>\$ 126,568</u>	<u>\$ 63,907</u>	<u>\$ 115,701</u>
Current levy collection percentage	<u>99.34%</u>	<u>93.99%</u>	<u>98.89%</u>	<u>99.07%</u>	<u>97.58%</u>

STATISTICAL SECTION

The information presented in this section does not provide full and adequate disclosure of financial information for prior years required by generally accepted accounting principles. Such information is provided for supplementary analysis purposes and should be relied on only for the purpose specified.

Table

Financial Trends	1-4
These schedules contain trend information to help the reader understand how the government's financial performance and well-being has changed over time.	
Revenue Capacity	5-9
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	10-11
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	12-13
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	14
This schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

Watauga County
Net Position by Component
Last Ten Fiscal Years (accrual basis of accounting)

Table 1

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 37,391,945	\$ 39,070,022	\$ 76,419,417	\$ 80,730,959	\$ 89,000,011	\$ 91,969,492	\$ 88,452,149	\$ 92,898,978	\$ 94,926,875	\$ 97,759,460
Restricted	1,027,269	1,073,284	1,111,551	4,894,785	3,492,687	5,133,954	4,894,743	6,383,437	5,136,888	4,940,118
Unrestricted	19,848,918	21,471,730	24,440,985	16,957,873	13,040,628	13,073,927	18,460,429	20,439,976	26,193,065	30,707,898
Total governmental activities net position	<u>\$ 58,268,132</u>	<u>\$ 61,615,036</u>	<u>\$ 101,971,953</u>	<u>\$ 102,583,617</u>	<u>\$ 105,533,326</u>	<u>\$ 110,177,373</u>	<u>\$ 111,807,321</u>	<u>\$ 119,722,391</u>	<u>\$ 126,256,828</u>	<u>\$ 133,407,476</u>
Business-type activities										
Net investment in capital assets	\$ 4,942,169	\$ 5,314,853	\$ 5,117,430	\$ 5,184,890	\$ 5,272,997	\$ 5,057,803	\$ 4,997,665	\$ 4,658,480	\$ 4,593,317	\$ 4,670,528
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	2,704,928	2,041,773	2,540,369	3,038,419	3,352,748	3,593,807	3,736,924	4,477,319	5,434,408	6,294,544
Total business-type activities net assets	<u>\$ 7,647,097</u>	<u>\$ 7,356,626</u>	<u>\$ 7,657,799</u>	<u>\$ 8,223,309</u>	<u>\$ 8,625,745</u>	<u>\$ 8,651,610</u>	<u>\$ 8,734,589</u>	<u>\$ 9,135,799</u>	<u>\$ 10,027,725</u>	<u>\$ 10,965,072</u>
Primary government										
Net investment in capital assets	\$ 42,334,114	\$ 44,384,875	\$ 81,536,847	\$ 85,915,849	\$ 94,273,008	\$ 97,027,295	\$ 93,449,814	\$ 97,557,458	\$ 99,520,192	\$ 102,429,988
Restricted	1,027,269	1,073,284	1,111,551	4,894,785	3,492,687	5,133,954	4,894,743	6,383,437	5,136,888	4,940,118
Unrestricted	22,553,846	23,513,503	26,981,354	19,996,292	16,393,376	16,667,734	22,197,353	24,917,295	31,627,473	37,002,442
Total primary government net assets	<u>\$ 65,915,229</u>	<u>\$ 68,971,662</u>	<u>\$ 109,629,752</u>	<u>\$ 110,806,926</u>	<u>\$ 114,159,071</u>	<u>\$ 118,828,983</u>	<u>\$ 120,541,910</u>	<u>\$ 128,858,190</u>	<u>\$ 136,284,553</u>	<u>\$ 144,372,548</u>

Source: Watauga County Audited Financial Statements
Statement of Net Position

Watauga County
Changes in Net Position
Last Ten Fiscal Years (accrual basis of accounting)

Table 2

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 7,607,070	\$ 8,103,706	\$ 8,115,419	\$ 13,637,404	\$ 9,080,312	\$ 8,687,043	\$ 9,067,437	\$ 9,442,939	\$ 10,139,596	\$ 10,673,241
Public safety	10,430,270	11,318,382	10,788,233	10,718,270	11,511,254	11,953,270	12,850,289	12,784,669	12,944,370	12,753,441
Transportation	136,368	197,872	161,698	147,646	151,539	147,325	165,742	167,182	209,838	225,389
Economic and physical development	222,302	572,936	732,338	1,447,972	747,055	521,911	548,323	353,870	664,986	555,579
Environmental Protection	334,099	331,755	423,288	251,799	366,422	354,039	337,553	355,573	331,923	349,278
Human Service	8,271,220	8,091,300	141,030	7,432,718	7,602,785	7,479,761	7,822,521	7,536,917	7,735,723	7,371,576
Culture and recreation	1,499,287	1,321,470	7,510,996	1,199,593	1,612,304	1,343,391	1,441,150	1,142,379	1,293,315	1,893,257
Education	13,041,822	14,206,909	1,513,275	13,082,464	13,238,159	13,653,331	13,553,377	13,307,102	14,425,668	14,871,985
Interest on long-term debt	1,937,294	3,635,985	12,902,066	2,767,163	2,663,252	2,137,400	2,028,373	1,881,412	1,734,413	1,575,990
Total governmental activities expenses	\$ 43,479,732	\$ 47,780,315	\$ 42,288,343	\$ 50,685,029	\$ 46,973,082	\$ 46,277,471	\$ 47,814,765	\$ 46,972,043	\$ 49,479,832	\$ 50,269,736
Business-type activities:										
Solid waste	\$ 4,357,664	\$ 4,241,753	\$ 3,799,545	\$ 3,882,603	\$ 3,812,981	\$ 4,095,099	\$ 4,323,410	\$ 4,081,333	\$ 3,913,589	\$ 4,354,380
Total business-type activities expenses	\$ 4,357,664	\$ 4,241,753	\$ 3,799,545	\$ 3,882,603	\$ 3,812,981	\$ 4,095,099	\$ 4,323,410	\$ 4,081,333	\$ 3,913,589	\$ 4,354,380
Total primary government expenses	\$ 47,837,396	\$ 52,022,068	\$ 46,087,888	\$ 54,567,632	\$ 50,786,063	\$ 50,372,570	\$ 52,138,175	\$ 51,053,376	\$ 53,393,421	\$ 54,624,116
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 785,833	\$ 699,218	\$ 545,117	\$ 513,459	\$ 591,876	\$ 587,564	\$ 606,379	\$ 650,314	\$ 848,431	\$ 1,163,756
Public Safety	578,025	452,002	613,609	481,862	327,639	478,303	526,653	516,135	661,585	727,779
Economic and physical development	-	-	730,718	-	750	-	-	-	-	-
Human Services	15,339	15,339	14,719	45,045	37,122	48,509	74,651	30,452	74,858	12,509
Cultural and recreation	343,669	298,786	278,675	285,410	271,888	283,380	319,729	335,905	306,302	343,016
Operating Grants and Contributions	5,470,889	5,534,212	6,228,031	5,149,321	5,000,932	4,737,368	4,772,517	-	5,694,785	4,926,797
Capital Grants and Contributions	-	-	-	2,610,110	382,903	967,309	987,886	-	1,087,312	709,247
Total governmental activities program revenues	\$ 7,193,755	\$ 6,999,557	\$ 8,410,869	\$ 9,085,207	\$ 6,613,110	\$ 7,102,433	\$ 7,287,815	\$ 1,532,806	\$ 8,673,273	\$ 7,883,104
Business-type activities:										
Charges for services:										
Solid waste	\$ 4,145,551	\$ 3,895,892	\$ 4,067,836	\$ 4,067,836	\$ 4,047,422	\$ 4,030,200	\$ 4,269,233	\$ 4,346,485	\$ 4,628,031	\$ 5,095,113
Operating Grants and Contributions	80,064	106,340	100,822	116,621	156,484	119,216	107,109	-	153,795	150,829
Total business-type activities program revenues	\$ 4,225,615	\$ 4,002,232	\$ 4,168,658	\$ 4,184,457	\$ 4,203,906	\$ 4,149,416	\$ 4,376,342	\$ 4,346,485	\$ 4,781,826	\$ 5,245,942
Total primary government program revenues	\$ 11,419,370	\$ 11,001,789	\$ 12,579,527	\$ 13,269,664	\$ 10,817,016	\$ 11,251,849	\$ 11,664,157	\$ 5,879,291	\$ 13,455,099	\$ 13,129,046
Net (Expense)/Revenue										
Governmental activities	\$ (36,285,977)	\$ (40,780,758)	\$ (33,877,474)	\$ (41,599,822)	\$ (40,359,972)	\$ (39,175,038)	\$ (40,526,950)	\$ (45,439,237)	\$ (40,806,559)	\$ (42,386,632)
Business-type activities	(132,049)	(239,521)	369,113	301,854	390,925	54,317	52,932	265,152	868,237	891,562
Total primary government net expense	\$ (36,418,026)	\$ (41,020,279)	\$ (33,508,361)	\$ (41,297,968)	\$ (39,969,047)	\$ (39,120,721)	\$ (40,474,018)	\$ (45,174,085)	\$ (39,938,322)	\$ (41,495,070)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Ad valorem taxes	\$ 26,215,391	\$ 29,561,074	\$ 30,044,889	\$ 30,432,819	\$ 30,571,565	\$ 30,805,481	\$ 31,592,278	\$ 30,935,535	\$ 30,972,900	\$ 31,550,915
Local option sales tax	14,466,477	11,006,833	9,695,504	9,476,943	11,751,071	10,725,494	11,566,922	12,260,357	11,166,662	11,642,604
Other taxes and licenses	1,971,534	1,501,699	777,309	1,563,352	813,299	1,792,373	1,782,065	1,961,409	2,279,156	2,525,621
Grant and contributions not restricted	13,182	30,040	22,538	22,719	22,986	21,957	1,226,554	1,334,311	3,278,098	3,519,960
Investment earnings	1,195,175	699,388	94,808	80,312	51,880	55,829	49,317	78,805	114,946	238,633
Miscellaneous, unrestricted	145,702	1,041,997	911,935	567,806	450,881	370,078	475,203	620,998	21,656	59,547
Gain on sales of assets	3,083	-	30,493,628	-	4,720	14,410	31,795	-	-	-
Transfers	81,948	78,470	75,413	67,535	60,410	57,653	54,381	40,392	-	-
Total governmental activities	\$ 44,092,492	\$ 43,919,501	\$ 72,116,024	\$ 42,211,486	\$ 43,726,812	\$ 43,843,275	\$ 46,778,515	\$ 47,231,807	\$ 47,833,418	\$ 49,537,280
Business-type activities:										
Investment earnings	\$ 96,492	\$ 27,980	\$ 6,086	\$ 8,300	\$ 6,387	\$ 7,295	\$ 6,023	\$ 10,784	\$ 15,785	\$ 35,735
Other revenues	-	(460)	1,387	31,605	65,534	21,906	78,405	11,380	7,904	10,050
Transfers	(81,948)	(78,470)	(75,413)	(67,535)	(60,410)	(57,653)	(54,381)	(40,392)	-	-
Total business-type activities	\$ 14,544	\$ (50,950)	\$ (67,940)	\$ (27,630)	\$ 11,511	\$ (28,452)	\$ 30,047	\$ (18,228)	\$ 23,689	\$ 45,785
Total primary government	\$ 44,107,036	\$ 43,868,551	\$ 72,048,084	\$ 42,183,856	\$ 43,738,323	\$ 43,814,823	\$ 46,808,562	\$ 47,213,579	\$ 47,857,107	\$ 49,583,065
Change in Net Position										
Governmental activities	\$ 7,806,515	\$ 3,138,743	\$ 38,238,550	\$ 611,664	\$ 3,366,840	\$ 4,668,237	\$ 6,251,565	\$ 1,792,570	\$ 7,026,859	\$ 7,150,648
Business-type activities	(117,505)	(290,471)	301,173	274,224	402,436	25,865	82,979	246,924	891,926	937,347
Total primary government	\$ 7,689,010	\$ 2,848,272	\$ 38,539,723	\$ 885,888	\$ 3,769,276	\$ 4,694,102	\$ 6,334,544	\$ 2,039,494	\$ 7,918,785	\$ 8,087,995

Source: Watauga County Audited Financial Statements, Statement of Activities

Watauga County
Fund Balance of Governmental Funds

Table 3

Last Ten Fiscal Years (modified accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 7,595,147	\$ 6,004,843	\$ 6,197,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved and undesignated	13,177,566	17,467,729	16,861,411	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	3,866,127	3,096,698	4,708,363	4,452,272	5,838,930	4,800,194	4,555,685
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	6,347,420	713,485	-	517,000	-	-	-
Unassigned	-	-	-	11,880,356	13,483,680	14,653,916	16,748,511	18,192,063	21,607,950	22,104,565
Total general fund	\$ 20,772,713	\$ 23,472,572	\$ 23,058,989	\$ 22,093,903	\$ 17,293,863	\$ 19,362,279	\$ 21,717,783	\$ 24,030,993	\$ 26,408,144	\$ 26,660,250
All Other Governmental Funds										
Reserved	\$ 102,281	\$ 33,183	\$ 32,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved and undesignated										
Special revenue funds	683,746	763,121	848,094	-	-	-	-	-	-	-
Capital projects funds	65,180,546	27,709,409	10,138,991	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	1,028,658	395,989	425,591	442,471	544,507	336,694	293,824
Committed	-	-	-	4,257,881	7,717,409	5,865,250	5,842,981	6,885,847	9,180,133	12,354,767
Assigned	-	-	-	-	25,000	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 65,966,573	\$ 28,505,713	\$ 11,019,436	\$ 5,286,539	\$ 8,138,398	\$ 6,290,841	\$ 6,285,452	\$ 7,430,354	\$ 9,516,827	\$ 12,648,591

Note: The change in the classifications of fund balance amounts in 2011 is due to implementation of GASB Statement 54. Prior year amounts have not been restated for the implementation of GASB Statement 54.

Source: Watauga County Audited Financial Statements

Watauga County
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years (modified accrual basis of accounting)

Table 4

Revenues	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ad valorem taxes	\$ 28,042,916	\$ 29,249,856	\$ 30,079,886	\$ 30,066,272	\$ 30,667,184	\$ 30,837,738	\$ 31,578,048	\$ 30,887,755	\$ 31,139,163	\$ 31,716,546
Local option sales taxes	12,424,192	11,006,833	9,695,504	9,476,943	10,824,231	10,725,494	11,566,922	12,260,357	13,445,818	14,168,225
Other taxes and licenses	1,971,534	1,501,699	1,508,027	1,563,352	1,740,139	1,792,373	1,782,065	1,961,409	3,278,098	3,519,960
Unrestricted intergovernmental	13,182	30,040	22,538	22,719	22,986	21,957	1,226,554	1,334,311	6,454,094	5,545,134
Restricted intergovernmental	5,470,889	5,534,212	6,206,497	7,301,244	5,245,771	5,241,679	5,485,881	5,560,759	762,959	728,684
Permits and fees	887,490	726,079	619,442	647,229	680,703	853,042	711,559	700,646	1,042,046	1,184,957
Sales and services	823,732	730,809	832,678	676,295	595,780	731,204	847,648	1,056,281	116,009	240,134
Investment earnings	1,206,819	707,845	96,331	82,562	53,272	56,520	49,839	80,010	103,366	36,486
Miscellaneous	135,255	981,466	884,371	956,805	540,345	647,894	717,450	490,718	309,745	386,342
Total revenues	\$ 50,976,009	\$ 50,468,839	\$ 49,945,274	\$ 50,793,421	\$ 50,370,411	\$ 50,907,901	\$ 53,965,966	\$ 54,332,246	\$ 56,651,298	\$ 57,526,468
Expenditures										
General government	\$ 10,222,189	\$ 8,595,451	\$ 8,679,540	\$ 8,696,919	\$ 8,405,710	\$ 7,613,169	\$ 7,802,206	\$ 8,049,619	\$ 8,371,781	\$ 9,439,705
Public Safety	10,131,746	10,821,441	10,787,386	10,576,249	11,788,085	11,415,553	12,571,858	12,897,322	13,165,153	14,049,907
Transportation	136,368	197,872	161,698	147,646	151,539	147,325	165,742	167,182	209,838	225,389
Economic & physical development	595,314	540,177	479,084	1,055,568	733,929	516,551	565,472	336,709	646,534	531,932
Environmental protection	334,099	331,755	423,288	609,951	364,453	352,070	335,831	369,609	353,323	370,496
Human services	7,657,453	7,584,279	7,129,120	7,145,599	7,415,850	7,062,601	7,431,615	7,322,189	7,425,331	7,154,831
Cultural and recreational	1,363,444	1,408,677	1,383,532	1,404,866	1,388,531	1,368,829	1,358,137	1,437,048	1,443,902	1,544,500
Education	13,041,225	14,206,728	12,902,066	13,081,673	13,238,159	13,653,331	13,553,377	13,307,102	14,425,668	14,871,985
Capital outlay	11,545,989	36,351,718	19,846,246	6,606,661	161,722	486,928	113,899	17,933	27,937	29,870
Debt service: Principal	9,351,076	4,778,137	4,751,325	5,340,354	65,336,035	5,866,473	5,463,318	5,002,291	4,117,361	4,082,361
Interest	1,242,881	3,372,801	3,222,531	2,962,641	3,426,246	2,281,219	2,340,853	2,193,359	2,052,859	1,917,277
Total expenditures	\$ 65,621,784	\$ 88,189,036	\$ 69,765,816	\$ 57,628,127	\$ 112,410,259	\$ 50,764,049	\$ 51,702,308	\$ 51,100,363	\$ 52,239,687	\$ 54,218,253
Other Financing Sources (Uses)										
Gain/(Loss) on Disposal of Assets	21,827	28,850	59,995	69,188	47,209	19,634	31,795	185,838	\$ 52,013	\$ 75,655
Proceeds from loans	70,000,000	2,600,000	1,785,274	-	60,251,201	-	-	-	-	-
Transfers from other funds	37,311,728	16,895,709	15,187,695	901,582	4,874,084	1,709,738	3,131,265	3,802,717	2,272,652	4,762,120
Transfers to other funds	(37,219,333)	(16,773,524)	(15,112,282)	(834,047)	(4,813,674)	(1,652,085)	(3,076,884)	(3,762,325)	(2,272,652)	(4,762,120)
Total other financing sources (uses)	\$ 70,114,222	\$ 2,751,035	\$ 1,920,682	\$ 136,723	\$ 60,358,820	\$ 77,287	\$ 86,176	\$ 226,230	\$ 52,013	\$ 75,655
Net change in fund balances	\$ 55,468,447	\$ (34,969,162)	\$ (17,899,860)	\$ (6,697,983)	\$ (1,681,028)	\$ 221,139	\$ 2,349,834	\$ 3,458,113	\$ 4,463,624	\$ 3,383,870

Source: Watauga County Audited Financial Statements

Watauga County
Governmental Activities, Tax Revenues by Source
Last Ten Fiscal Years (accrual basis of accounting)

Table 5

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property tax	\$ 26,215,391	\$ 29,561,074	\$ 30,044,889	\$ 30,432,819	\$ 30,571,565	\$ 30,805,481	\$ 31,592,278	\$ 30,935,535	\$ 30,972,900	\$ 31,550,915
Local option sales tax	14,466,477	11,006,833	9,695,504	9,476,943	11,751,071	10,725,494	11,566,922	12,260,357	11,166,662	11,642,604
Other taxes and licenses	1,971,534	1,501,699	777,309	1,563,352	813,299	1,792,373	1,782,065	1,961,409	2,279,156	2,525,621
Total	\$ 42,653,402	\$ 42,069,606	\$ 40,517,702	\$ 41,473,114	\$ 43,135,935	\$ 43,323,348	\$ 44,941,265	\$ 45,157,301	\$ 44,418,718	\$ 45,719,140

Source: Watauga County Audited Financial Statements, Statement of Activities

**Watauga County
Assessed Value of Taxable Property
Last Ten Fiscal Years**

Table 6

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies (Utilities)</u>	<u>Taxable Value*</u>	<u>Tax Rate</u>
2008	\$7,672,731,214	\$581,122,162	\$72,823,155	\$8,326,676,531	0.313
2009	\$7,971,079,604	\$571,358,646	\$75,488,845	\$8,617,927,095	0.313
2010	\$8,111,236,265	\$570,484,501	\$77,714,513	\$8,759,435,279	0.313
2011	\$8,180,630,847	\$514,266,562	\$79,396,689	\$8,774,294,098	0.313
2012	\$8,220,513,858	\$534,764,802	\$80,711,280	\$8,835,989,940	0.313
2013	\$8,477,817,607	\$335,530,744	\$79,411,220	\$8,892,759,571	0.313
2014	\$8,814,648,473	\$173,164,688	\$78,341,777	\$9,066,154,938	0.313
2015	\$8,569,132,383	\$170,584,443	\$79,938,900	\$8,819,655,726	0.313
2016	\$8,700,983,675	\$149,426,941	\$94,224,150	\$8,944,634,766	0.313
2017	\$8,760,394,840	\$153,192,752	\$97,718,700	\$9,011,306,292	0.313

*Taxable value equals fair market value.

Source: Watauga County Tax Office

Watauga County
Countywide Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Table 7

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
County Direct Rate										
County-wide Rate	0.313	0.313	0.313	0.313	0.313	0.313	0.313	0.313	0.313	0.313
Municipality Rates										
Town of Boone	0.37	0.37	0.37	0.37	0.37	0.37	0.37	0.41	0.41	0.41
Town of Boone, MSD	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Town of Blowing Rock	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.31	0.33	0.34
Town of Seven Devils	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51
Town of Beech Mountain	0.55	0.64	0.64	0.64	0.64	0.64	0.64	0.732	0.732	0.732
Fire Protection Districts										
Beech Mountain Rural	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Blowing Rock	0.03	0.03	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Boone Rural	0.02	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.05	0.06
Cove Creek	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Cove Creek Rural	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Deep Gap	0.03	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Foscoe	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Foscoe Rural	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Meat Camp	0.03	0.03	0.03	0.03	0.03	0.05	0.05	0.05	0.05	0.05
Northwest Watauga	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Shawneehaw	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Shawneehaw Rural	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Stewart Simmons	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Todd	0.05	0.05	0.05	0.05	0.07	0.07	0.07	0.07	0.07	0.07
Zionville	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05

Source: Watauga County Tax Office

**Watauga County
Principal Property Tax Payers
Current Year and Nine Years Ago**

Table 8

Taxpayer	Fiscal Year 2017			Fiscal Year 2008		
	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation
Blue Ridge Electric Membership Cooperative	\$ 67,638,750	1	0.75%	\$ 50,022,978	2	0.60%
CCC Boone LLC	46,499,000	2	0.52%			
Dugger Valley Inv Group LLC	34,366,500	3	0.38%			
Mountaineer Village LLC	23,537,200	4	0.26%			
BR Development Group LLC	21,031,700	5	0.23%	25,769,700	4	0.35%
Horizon Acquisition #2 LLC	17,906,700	6	0.20%			
Blue Ridge Preservation Inc	16,684,100	7	0.19%			
Templeton Properties, LP	15,904,570	8	0.18%			
Highland Crossing-B, LLC	15,727,420	9	0.17%			
Wm Land Boone LTD Ptnrp	13,689,900	10	0.15%			
Ginn LA Laurel Creek LTD				249,009,100	1	2.99%
Spiritual Center of America				27,925,800	3	0.34%
Village at Meadowview of Boone LTD				21,250,100	5	0.26%
Lowe's Home Centers				21,559,300	6	0.26%
Appalachian South				20,297,100	7	0.24%
BellSouth				17,529,432	8	0.21%
Maharishi Spiritual Center of America				15,974,000	9	0.19%
Heavenly Mountain Resort Inc				15,398,620	10	0.18%

Source: Watauga County Tax Office

**Watauga County
Property Tax Levies and Collections
Last Ten Fiscal Years**

Table 9

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
2008	\$26,097,637	\$25,540,936	97.87%	\$542,420	\$26,083,356	99.95%
2009	\$27,009,982	\$26,202,804	97.01%	\$787,754	\$26,990,558	99.93%
2010	\$27,309,634	\$26,606,340	97.42%	\$680,749	\$27,287,089	99.92%
2011	\$27,484,010	\$26,717,729	97.21%	\$728,967	\$27,446,696	99.86%
2012	\$27,718,458	\$27,093,503	97.75%	\$572,680	\$27,666,183	99.81%
2013	\$27,834,337	\$27,234,590	97.85%	\$533,477	\$27,768,067	99.76%
2014	\$28,414,548	\$27,850,685	98.02%	\$468,513	\$28,319,198	99.66%
2015	\$27,610,405	\$27,159,975	98.37%	\$310,131	\$27,470,106	99.49%
2016	\$27,880,718	\$27,548,054	98.81%	\$189,258	\$27,737,312	99.49%
2017	\$28,257,342	\$27,957,297	98.94%	-	\$27,957,297	98.94%

Source: Watauga County Finance Office

**Watauga County
Outstanding Debt by Type and Per Capita
Last Ten Fiscal Years**

Table 10

Fiscal Year	Governmental Activities			Total Governmental Activities	Business-Type Activities	Total Primary Government	County Debt Per Capita	Average NC County Debt Per Capita
	General Obligation Bonds	Limited Obligation Bonds	Installment Purchases		Installment Loans			
2008	\$ 8,755,000	\$ -	\$ 75,626,407	\$ 84,381,407	\$ 137,708	\$ 84,519,115	\$ 1,681	\$ 1,300
2009	\$ 7,405,000	\$ -	\$ 74,798,271	\$ 82,203,271	\$ 189,778	\$ 82,393,049	\$ 1,625	\$ 1,377
2010	\$ 6,070,000	\$ -	\$ 71,876,946	\$ 77,946,946	\$ 178,223	\$ 78,125,169	\$ 1,532	\$ 1,420
2011	\$ 4,795,000	\$ -	\$ 67,940,334	\$ 72,735,334	\$ 45,616	\$ 72,780,950	\$ 1,411	\$ 1,419
2012	\$ 3,570,000	\$ 55,045,000	\$ 4,990,549	\$ 63,605,549	\$ -	\$ 63,605,549	\$ 1,222	\$ 1,366
2013	\$ 2,355,000	\$ 51,115,887	\$ 4,268,193	\$ 57,739,080	\$ -	\$ 57,739,080	\$ 1,104	\$ 1,340
2014	\$ 1,155,000	\$ 47,574,930	\$ 3,545,832	\$ 52,275,762	\$ -	\$ 52,275,762	\$ 998	\$ 1,313
2015	\$ -	\$ 44,450,000	\$ 2,823,471	\$ 47,273,471	\$ -	\$ 47,273,471	\$ 894	\$ 1,299
2016	\$ -	\$ 41,055,000	\$ 2,101,110	\$ 43,156,110	\$ -	\$ 43,156,110	\$ 815	\$ 1,247
2017	\$ -	\$ 37,695,000	\$ 1,378,749	\$ 39,073,749	\$ -	\$ 39,073,749	\$ 727	*

*Debt information not available for 2017.

Source: Watauga County Audited Financial Statements, NC State Treasurer Debt Analysis Reports

**Watauga County
Legal Debt Limit
Last Ten Fiscal Years**

Table 11

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed Value of Property	\$ 8,326,676,531	\$ 8,617,927,095	\$ 8,759,435,279	\$ 8,774,294,098	\$ 8,835,989,940	\$ 8,892,759,571	\$ 9,066,154,938	\$ 8,819,655,726	\$ 8,944,634,766	\$ 9,011,306,292
8% Debt Limit per State	666,134,122	689,434,168	700,754,822	701,943,528	706,879,195	711,420,766	725,292,395	705,572,458	715,570,781	720,904,503
Total Debt Applicable to Debt Limit	84,519,115	82,393,049	78,125,169	72,780,950	63,605,549	57,739,080	52,275,762	47,373,471	43,156,110	39,073,749
Legal Debt Limit	581,615,007	607,041,119	622,629,653	629,162,578	643,273,646	653,681,686	673,016,633	658,198,987	672,414,671	681,830,754
Total Debt Applicable to Debt Limit as a Percentage of Debt Limit	12.688%	11.951%	11.149%	10.368%	8.998%	8.116%	7.208%	6.714%	6.031%	5.420%

Note: NC General Statute 159-55 limits the County's outstanding debt to 8% of the appraised value of property subject to taxation. The legal debt margin is the difference between the 8% of appraised value (debt limit) and the County's outstanding debt principal and represents the County's legal borrowing authority.

Source: Watauga County Finance Office

**Watauga County
Demographic and Economic Statistics
Last Ten Years**

Table 12

<u>Year</u>	<u>Population Estimates</u>	<u>Estimated Median Annual Wages</u>	<u>Personal Income (\$1,000s)*</u>	<u>Per Capita Personal Income*</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployment Rate</u>
2008	50,266	\$25,192	\$1,527,800	\$30,394	23,423	22,303	4.8%
2009	50,706	\$25,830	\$1,489,838	\$29,382	23,158	21,209	8.4%
2010	50,981	\$25,635	\$1,486,069	\$29,149	26,961	24,864	7.8%
2011	51,563	\$26,733	\$1,523,298	\$29,542	27,186	24,899	8.4%
2012	52,050	\$27,697	\$1,574,916	\$30,258	27,309	25,184	7.8%
2013	52,293	\$27,291	\$1,587,153	\$30,351	26,843	24,986	6.9%
2014	52,388	\$27,203	\$1,672,804	\$31,931	26,938	25,527	5.2%
2015	52,906	\$26,945	\$1,751,371	\$33,103	27,579	26,143	5.2%
2016	52,923	\$27,755	*	*	28,076	26,710	4.9%
2017	53,737	\$28,573	*	*	28,681	27,555	3.9%

*Information not yet available from US Dept of Commerce for 2016 and 2017 on income.

Sources: NC Dept of Commerce, US Dept of Commerce

**Watauga County
Tourism Economic Statistics
Last Ten Calendar Years**

Table 13

<u>Calendar Year</u>	<u>Expenditures \$(millions)</u>	<u>Change from Previous</u>	<u>Payroll \$(millions)</u>	<u>Employment (thousands)</u>	<u>State Tax Receipts \$(millions)</u>	<u>Local Tax Receipts \$(millions)</u>	<u>Tax Savings per Resident</u>
2016	\$248.26	7.27%	\$56.54	2.81	\$12.53	\$9.71	\$409.19
2015	\$231.44	2.51%	\$52.24	2.64	\$11.61	\$9.03	\$384.04
2014	\$225.77	4.17%	\$48.90	2.57	\$10.90	\$8.73	\$370.95
2013	\$216.72	2.71%	\$46.45	2.52	\$10.64	\$8.32	\$359.90
2012	\$211.00	6.80%	\$44.87	2.50	\$10.32	\$8.08	\$350.36
2011	\$197.56	4.11%	\$42.17	2.40	\$10.35	\$7.81	\$353.77
2010	\$189.77	5.86%	\$41.13	2.39	\$10.49	\$7.77	\$355.77
2009	\$179.27	-7.79%	\$41.26	2.44	\$9.60	\$7.47	\$376.12
2008	\$189.76	-0.73%	\$43.84	2.51	\$9.43	\$7.82	\$380.58
2007	\$191.15	6.70%	\$43.56	2.58	\$9.38	\$7.82	\$386.16

Source: Visit NC

Watauga County
Full-time Equivalent County Government Employees by Function
Last Ten Fiscal Years

Table 14

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
General government	76.85	73.85	67.00	64.50	62.75	62.75	62.90	63.40	63.40	63.40
Public safety	100.40	103.40	102.00	101.00	100.00	102.00	102.00	102.00	102.00	103.00
Human services	72.55	72.65	72.65	71.55	69.05	68.05	66.55	66.55	68.05	68.05
Environmental protection	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Cultural and recreation	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Total Governmental	260.80	260.90	252.65	248.05	242.80	243.80	242.45	242.95	244.45	245.45
Business-Type Activities										
Solid Waste	27.35	27.35	28.75	28.75	28.75	28.75	28.75	27.75	27.75	27.75
Total Business-Type	27.35	27.35	28.75	28.75	28.75	28.75	28.75	27.75	27.75	27.75
Total All Activities	288.15	288.25	281.40	276.80	271.55	272.55	271.20	270.70	272.20	273.20

Source: Watauga County Finance Office

Note: This schedule does not include seasonal recreation positions.

COMPLIANCE SECTION

MISTY D WATSON, CPA, P.A.
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PO BOX 2122
BOONE, NORTH CAROLINA 28607
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**Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based
On An Audit Of Financial Statements Performed In Accordance With *Government Auditing
Standards***

Independent Auditor's Report

To the Board of Commissioners
Watauga County, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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, 2017, and the related notes to the financial statement, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated October 10, 2017. 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 our audit of the financial statements, we considered Watauga County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watauga County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency as item 2017-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watauga County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

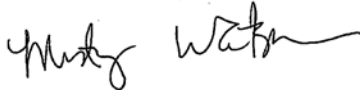
opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs item 2017-1.

Watauga County's Response to Findings

Watauga County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 "Judy Watson". The signature is written in a cursive style with a long horizontal flourish at the end.

Boone, NC
October 10, 2017

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

Report On Compliance With Requirements Applicable To Each Major Federal Program And 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

We 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 the Watauga County's major federal programs for the year ended June 30, 2017. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Watauga County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, OMB Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Watauga County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters.

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-2, 2017-3, 2017-4 and 2017-5. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

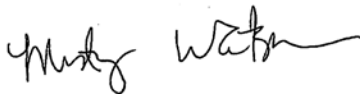
Management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Watauga County's internal control over compliance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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-2, 2017-3, 2017-4 and 2017-5 that we consider to be significant deficiencies.

Watauga County's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questions Costs. Watauga County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Boone, NC
October 10, 2017

MISTY D. WATSON, CPA, P.A.
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**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

We have audited Watauga County, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County's major state programs for the year ended June 30, 2017. Watauga County's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Watauga County's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of 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 we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

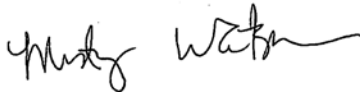
Report on Internal Control Over Compliance

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

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

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

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



Misty D. Watson, CPA, PA
Boone, NC 28607
October 10, 2017

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

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 _____ X Yes _____ No

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 _____ X Yes _____ No

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

Any audit findings disclosed that are required to be reported in accordance with _____ X Yes _____ No

Identification of major Federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Subsidized Childcare Cluster	93.596
	93.575
	93.558
	93.658
State Children's Insurance Program - NC Health Choice	93.767
Title XIX Medicaid	93.778

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 779,297

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

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

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

II. Financial Statement Findings

Finding 2017-1

Criteria: N.C. General Statutes requires all checks written to contain the Finance Officer's or Deputy Finance Officer's signature. The County did not have the Finance Officer's or Deputy Finance Officer's signature on all checks written on the Inmate Commissary Account.

Condition: In the current year, there was a violation of the N.C. General Statute 159-25(b) with the Finance Officer's or Deputy Finance Officer's signature being omitted. Checks were written containing two authorized check signers' signatures, however neither was the Finance Officer's or Deputy Finance Officer's signature.

Context: While performing internal control procedures, we noted the condition.

Effect: Several checks cleared the bank without the Finance Officer's or Deputy Finance Officer's signature as required under N.C. General Statute 159-25(b).

Cause: The Sheriff's office was not aware checks required the Finance Officer's or Deputy Finance Officer's signature.

Recommendation: Checks should be signed by the Finance Officer or Deputy Finance Officer as required by the State Statute.

Name of Contact Person: Margaret Pierce, Finance Director

Corrective Action/Management's Response: Management concurs. Management has since put into place internal controls to ensure all checks are signed by the Finance Officer or a dually appointed Deputy Finance Officer.

III. Federal Award Findings and Questioned Costs

Finding 2017-2

US Department of Health and Human Services
Passed Through the NC Department of Health and Human Services
Program Name: Medicaid Cluster
CFDA # 93.778

Significant Deficiency

Verification of Liquid Assets

Criteria: Liquid assets include cash, bank accounts, certificates of deposits or any other asset which can be converted to cash. The record should contain verification of liquid assets for determining eligibility.

Condition: Six cases did not verify liquid assets properly.

Context: Two of the six cases did not run the AVS as required. Two of the six cases did not contain verification of a life insurance policy. The fifth case had an amount in NC Fast that did not match the bank account balance verified. A sixth case had a different amount for the cash surrender value of a life insurance policy entered into NC Fast versus the amount verified.

Effect: The caseworker did not calculate liquid assets correctly. It is possible that these errors could lead to incorrectly approving or denying an applicant's benefits.

Cause: The caseworker did not retain the appropriate documentation for verification of liquid assets on six of the 128 cases tested. Accordingly, the County's system of review did not detect these errors in a timely manner.

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

Recommendation: The County should strengthen its review process to ensure that the appropriate documentation is being observed and retained. In addition, the County should provide additional training to caseworkers regarding the importance of proper documentation to support eligibility determinations.

Name of Contact Person: Tom Hughes, DSS Director

Views of responsible officials and planned corrective actions: The County agrees with the finding and will implement adequate

Finding 2017-3

US Department of Health and Human Services
Passed Through the NC Department of Health and Human Services
Program Name: Medicaid Cluster
CFDA # 93.778

Significant Deficiency

Verification of Vehicles and Other Personal Property

Criteria: Vehicles and other personal property should include the value of vehicles, motor homes, trailers and other personal property.

Condition: Three cases did not verify vehicles and other personal property properly.

Context: One case contained two trailers that were verified, contained no rebuttal in the file but not included in total countable resources. The same case contained a vehicle that was not tagged, contained no rebuttal in the file, and was not included in total countable resources. In the second case, no DMV was ran at the time of recertification. A third case contained verification of a second vehicle however no amount was included in total countable income.

Effect: The caseworker did not calculate vehicles and other personal property correctly. It is possible that these errors could lead to incorrectly approving or denying an applicant's benefits.

Cause: The caseworker did not retain the appropriate documentation for verification of vehicles or other personal property on three of the 128 cases tested. Accordingly, the County's system of review did not detect these errors in a timely manner.

Recommendation: The County should strengthen its review process to ensure that the appropriate documentation is being observed and retained. In addition, the County should provide additional training to caseworkers regarding the importance of proper documentation to support eligibility determinations.

Name of Contact Person: Tom Hughes, DSS Director

Views of responsible officials and planned corrective actions: The County agrees with the finding and will implement adequate checks and balances to ensure this problem does not recur.

Finding 2017-4

US Department of Health and Human Services
Passed Through the NC Department of Health and Human Services
Program Name: Medicaid Cluster
CFDA # 93.778

Significant Deficiency

Verification of Real Property

Criteria: Real property should include the value of homes and other real property.

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

Condition: Three cases did not verify real property properly.

Context: One case file contained in NC Fast a different amount versus what was verified with the Register of Deeds. Two case files contained no verification with the Register of Deeds.

Effect: The caseworker did not calculate real property correctly. It is possible that these errors could lead to incorrectly approving or denying an applicant's benefits.

Cause: The caseworker did not retain the appropriate documentation for verification of real property on three of the 128 cases tested. Accordingly, the County's system of review did not detect these errors in a timely manner.

Recommendation: The County should strengthen its review process to ensure that the appropriate documentation is being observed and retained. In addition, the County should provide additional training to caseworkers regarding the importance of proper documentation to support eligibility determinations.

Name of Contact Person: Tom Hughes, DSS Director

Views of responsible officials and planned corrective actions: The County agrees with the finding and will implement adequate checks and balances to ensure this problem does not recur.

Finding 2017-5

US Department of Health and Human Services

Passed Through the NC Department of Health and Human Services

Program Name: Medicaid Cluster

CFDA # 93.778

Significant Deficiency

Total countable income and countable resources

Criteria: Total countable income and total countable resources should contain all amounts that are to be included as countable in determining eligibility.

Condition: Five cases did not calculate total countable income or total countable resources properly.

Context: Two case files contained a different amount for income when verified with OVS and the amount entered into NC Fast. The third case file contained unearned income that was not included in total countable income. The fourth case file contained a different amount verified as total countable income versus the amount calculated as total countable income in NC Fast. A fifth case file contained a different amount verified as total countable resources versus the amount calculated as total countable resources in NC Fast.

Effect: The caseworker did not calculate total countable resources or total countable income correctly. It is possible that these errors could lead to incorrectly approving or denying an applicant's benefits.

Cause: The caseworker did not calculate the total countable income or total countable resources correctly on five of the 128 cases tested. Accordingly, the County's system of review did not detect these errors in a timely manner.

Recommendation: The County should strengthen its review process to ensure that the appropriate eligibility is being observed and retained. In addition, the County should provide additional training to caseworkers regarding the importance of proper documentation to support eligibility determinations.

Name of Contact Person: Tom Hughes, DSS Director

Views of responsible officials and planned corrective actions: The County agrees with the finding and will implement adequate checks and balances to ensure this problem does not recur.

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017
Corrective Action Plan

Finding 2017-1

Name of Contact Persons: Margaret Pierce, Watauga County Finance Director

Corrective Action: Staff will request the Board of Commissioners appoint additional Deputy Finance Officers to assist in signature compliance on the Inmate Commissary Account. A copy of checks not signed by the Finance Director or County Manager as Deputy Finance Director will be forwarded to the Finance Director for review and approval.

Proposed Completion Date: November 7, 2017

Finding 2017-2

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director
Melissa McCurry, Income Case Maintenance Supervisor

Corrective Action: The DSS Director will review the case files with errors with the Income Case Maintenance Supervisor to ensure clear understanding of findings. The Supervisor will conduct periodic reviews on a selection of case files to ensure all required procedures are followed in a timely basis.

Proposed Completion Date: November 1, 2017

Finding 2017-3

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director
Melissa McCurry, Income Case Maintenance Supervisor

Corrective Action: The DSS Director will review the case files with errors with the Income Case Maintenance Supervisor to ensure clear understanding of findings. The Supervisor will conduct periodic reviews on a selection of case files to ensure all required procedures are followed in a timely basis.

Proposed Completion Date: November 1, 2017

Finding 2017-4

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director
Melissa McCurry, Income Case Maintenance Supervisor

Corrective Action: The DSS Director will review the case files with errors with the Income Case Maintenance Supervisor to ensure clear understanding of findings. The Supervisor will conduct periodic reviews on a selection of case files to ensure all required procedures are followed in a timely basis.

Proposed Completion Date: November 1, 2017

Finding 2017-5

Name of Contact Persons: Tom Hughes, Watauga County Department of Social Services Director
Melissa McCurry, Income Case Maintenance Supervisor

Corrective Action: The DSS Director will review the case files with errors with the Income Case Maintenance Supervisor to ensure clear understanding of findings. The Supervisor will conduct periodic reviews on a selection of case files to ensure all required procedures are followed in a timely basis.

Proposed Completion Date: November 1, 2017

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2017

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	175NC406S2514	\$ 198,597	\$ -	\$ -	\$ 198,597
Total U.S. Department of Agriculture			<u>198,597</u>	<u>-</u>	<u>-</u>	<u>198,597</u>
U.S. Federal Emergency Management Agency						
Passed-through the N.C. Department of Public Safety:						
Hazardous Mitigation Grant Program						
	97.039	HMGP 4153-0006	167,815	55,938	-	-
Total U.S. Federal Emergency Management Agency			<u>167,815</u>	<u>55,938</u>	<u>-</u>	<u>-</u>
U.S. Department of Homeland Security						
Passed-through the N.C. Department of Public Safety:						
Emergency Management Performance Grant						
	97.042	EMA-2016-EP-00002-S01	38,584	-	-	38,584
Total U.S. Department of Homeland Security			<u>38,584</u>	<u>-</u>	<u>-</u>	<u>38,584</u>
U.S. Department of Justice						
Bulletproof Vest Partnership Program						
	16.607	1121-0235	3,205	-	-	3,205
State Criminal Alien Assistance Program						
	16.606	2016-AP-BX-0620	4,613	-	-	-
Passed-through the N.C. Department of Public Safety:						
Body Camera Grant						
	16.738	2015DJBX1076	14,491	-	-	15,077
Equipment Grant						
	16.738	2016DJBX1052	22,800	-	-	-
Total U.S. Department of Justice			<u>45,109</u>	<u>-</u>	<u>-</u>	<u>18,282</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) -						
Title III B - Access Services						
	93.044	16/17 AANCT3SS	14,918	877	-	1,755
90% State Funds						
				124,722	-	13,858
Title III C1 - Congregate Nutrition						
	93.045	16/17 AANCT3CM	41,975	2,469	-	4,938
Title III C2 - Home Delivered Meals						
	93.045	16/17 AANCT3HD	74,912	4,407	-	8,813
Senior Center						
			-	14,501	-	-
Nutrition Services Incentive Program (NSIP)						
	93.053	16/17 AANCNSIP	24,068	-	-	-
Total Aging Cluster						
			<u>155,873</u>	<u>146,976</u>	<u>-</u>	<u>29,364</u>
Passed-through N.C. Department of Insurance:						
Seniors Health Insurance Information Program						
	93.779	16001636g6	2,596	-	-	-
Medicare Improvements for Patients and Providers Act						
	93.779	14AANCMSHI	1,792	-	-	-
Administration for Children and Families						
Passed-through the N.C. Department of Health and Human Services:						
Division of Social Services:						
Family Reunification						
	93.556	1701NCFPSS	10,238	-	-	-
Temporary Assistance for Needy Families						
Administration						
	93.558	1701NCTANF	37,143	-	-	37,059
Direct Benefit Payments						
	93.558	1701NCTANF	205,179	-	-	159,971
Child Support Enforcement						
	93.563	1704NC4005	214,358	-	-	110,427
Low-Income Home Energy Assistance Block Grant						
Administration						
	93.568	G17B1NCLIEA	29,187	-	-	-
Direct Benefit Payments						
	93.568	G17B1NCLIEA	88,700	-	-	-
Crisis Intervention Payments						
	93.568	G17B1NCLIEA	173,889	-	-	-
Permanency Planning						
	93.645	G1701NCCWSS	14,172	-	-	4,724
Social Services Block Grant						
	93.667	G1701NCSOSR	152,676	12,651	-	53,046
Total Division of Social Services						
			<u>925,542</u>	<u>12,651</u>	<u>-</u>	<u>365,227</u>
Foster Care and Adoption Cluster (Note 3)						
Title IV-E Foster Care						
	93.658	1701NCFOST	159,553	9,449	-	141,226
Foster Care - Direct Benefit Payments						
	93.658	1701NCFOST	243,345	58,190	-	63,653
Adoption Assistance - Direct Benefit Payments						
	93.659	1701NCADPT	175,747	43,135	-	45,368
Adoption/Foster Care Special Provision						
	93.658	1701NCFOST	17,488	-	-	18,839
Total Foster Care and Adoption Cluster (Note 3)						
			<u>596,133</u>	<u>110,774</u>	<u>-</u>	<u>269,086</u>
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	G1701NCCCDF	145,042	-	-	-
Child Care and Development Fund - Mandatory						
	93.596		64,728	-	-	-
Child Care and Development Fund - Match						
	93.596		190,832	85,616	-	-
Total Child Care Development Fund Cluster						
			<u>480,602</u>	<u>85,616</u>	<u>-</u>	<u>-</u>

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2017

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
Temporary Assistance for Needy Families (TANF)	93.558	1701NCTANF	54,730		-	-
Foster Care Title IV-E	93.658	1701NCFOST	5,473	2,732	-	-
Smart Start State Maintenance of Effort			-	95,858	-	-
TANF - Contingency	93.575	G1701NCCCDF	36,605	-	-	-
TANF - Maintenance of Effort			-	34,214	-	-
Total Subsidized Child Care (Note 3)			<u>577,410</u>	<u>218,420</u>	-	-
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	XIX-MAP17	21,435,551	11,459,891	-	-
State Children's Insurance Program - NC Health Choice	93.767	CHIP17	800,043	5,464	-	-
Division of Social Services:						
Medical Assistance Program						
Administration	93.778	XIX-MAP17	951,925	1,401	-	362,690
Health Choice	93.767	CHIP17	61,011	46	-	94
Chafee Foster Care Independence - Direct Benefit Payment	93.674	1701NC1420	18,575	2,229	-	-
Total Division of Medical Assistance			<u>23,267,105</u>	<u>11,469,031</u>	-	<u>362,784</u>
Total U.S. Department of Health & Human Services			<u>25,526,451</u>	<u>11,957,852</u>	-	<u>1,026,461</u>
Total Federal Awards			<u>25,976,556</u>	<u>12,013,790</u>	-	<u>1,281,924</u>
State Awards:						
N.C. Department of Health and Human Services						
Division of Social Services						
Adoption Subsidy			-	150,332	-	50,902
State/County Special Assistance for Adults - Direct Benefit Payments			-	206,139	-	206,139
State Foster Care Benefits Program			-	118,080	-	96,986
Total N.C. Department of Health and Human Services			<u>-</u>	<u>474,551</u>	<u>-</u>	<u>354,027</u>
N.C. Department of Public Safety						
Division of Administration, Community Programs						
Juvenile Crime Prevention Council Programs		295-XXXX	-	114,285	114,285	33,181
Total N.C. Department of Public Safety			<u>-</u>	<u>114,285</u>	<u>114,285</u>	<u>33,181</u>
N.C. Department of Public Instruction						
NC Public School Building Capital-Lottery Proceeds						
Public School National Forest Service		94-Watauga FY 2016 SRS	-	329,257	329,257	-
			-	86	86	-
Total N.C. Department of Public Instruction			<u>-</u>	<u>329,343</u>	<u>329,343</u>	<u>-</u>
N.C. Department of Transportation						
Watauga Emergency Response Base						
Employment Transportation Operating Assistance		DOT-18	-	18,946	-	-
Elderly and Disabled Transportation Assistance		DOT-16CL	-	13,551	13,551	-
Rural General Public Program		DOT-16CL	-	61,135	17,894	-
		DOT-16CL	-	83,208	83,208	9,245
Total N.C. Department of Transportation			<u>-</u>	<u>176,840</u>	<u>114,653</u>	<u>9,245</u>
N.C. Department of Agriculture and Consumer Services						
Soil Conservation Assistance						
Soil Conservation Technician Cost Sharing		G40100296015SWC	-	3,600	-	80,177
		G40100296015SWC	-	25,067	-	25,067
Total N.C. Department of Agriculture and Consumer Services			<u>-</u>	<u>28,667</u>	<u>-</u>	<u>105,244</u>
N.C. Department of Environmental Quality						
Division of Environmental Assistance and Customer Service						
Community Waste Reduction and Recycling - Bins for Schools		Contract #6875	-	19,304	-	4,175
Community Waste Reduction and Recycling - Mercury Collection		Contract #6447	-	1,650	-	-
Total N.C. Department of Environmental Quality			<u>-</u>	<u>20,954</u>	<u>-</u>	<u>4,175</u>
N.C. Office of State Budget and Management						
Middle Fork Greenway Grant						
		Contract #2017.45.2	-	100,000	160,000	60,000
N.C. Division of Veteran's Affairs						
Veteran's Service Program						
		143B-1211C4	-	2,000	-	107,605
Total State Awards			<u>-</u>	<u>1,246,640</u>	<u>718,281</u>	<u>673,477</u>
Total Federal and State Awards			<u>\$ 25,976,556</u>	<u>13,260,430</u>	<u>718,281</u>	<u>1,955,401</u>

Watauga County, North Carolina
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2017

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, 2017. 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