

WATAUGA COUNTY, NORTH CAROLINA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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FINANCIAL SECTION

Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watauga County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the AppalCART. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the AppalCART is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2004 on our consideration of Watauga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual nonmajor fund schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 22, 2004

BASIC FINANCIAL STATEMENTS

Watauga County

MANAGEMENT 'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2004

Management's Discussion and Analysis

As management of Watauga County, we offer readers of Watauga County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements and notes, which follow this narrative.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the fiscal year by **\$33,823,296**.
- The County's total net assets increased by \$5,394,173 primarily due to the appropriation for construction of the administration building and an increase in revenues over the budgeted amounts.
- The County's unreserved fund balance for the general fund was \$11,462,539 at the end of the year represented **35.9%** of total General Fund expenditures.
- Watauga County's total debt increased by \$3,602,754 during the current fiscal year. The key factor in this increase was the issuance of an installment purchase agreement for construction of the Law Enforcement Center.
- Watauga County maintained it's A bond rating.

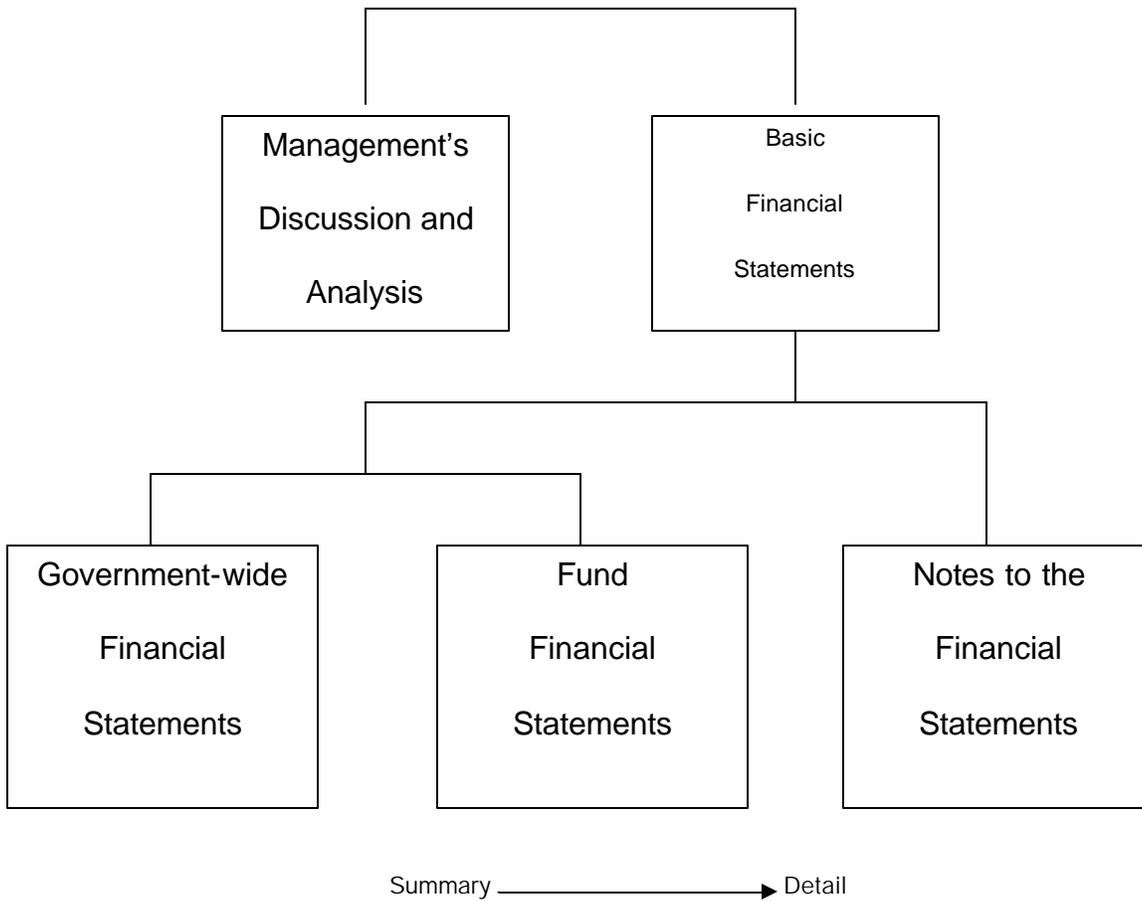
Overview of the Financial Statements

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

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

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

Government-wide Financial Statements

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

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gage the County's financial condition.

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

The government-wide financial statements are on **Exhibits A and B** of this report.

Fund Financial Statements

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

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

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

Proprietary Funds - Watauga County has one kind of proprietary 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 solidwaste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Assets and Statement of Activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has 4 fiduciary funds, one which is a health insurance trust fund and 3 which are agency funds.

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

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

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2004, are the beginning of a new era in financial reporting for the County and many other units of government across the United States. Prior to the year ending June 30, 2003, Watauga County maintained their governmental, proprietary, and fiduciary fund groups as separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of Watauga County. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

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

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

Watauga County's Net Assets
Figure 2

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 31,674,567	23,340,738	4,377,795	4,192,785	36,052,362	27,533,523
Capital assets	<u>19,226,708</u>	<u>18,972,261</u>	<u>3,136,046</u>	<u>2,752,245</u>	<u>22,362,754</u>	<u>21,724,506</u>
Total asset	<u>50,901,275</u>	<u>42,132,999</u>	<u>7,513,841</u>	<u>6,945,030</u>	<u>58,415,116</u>	<u>49,258,029</u>
Long-term liabilities, outstanding	22,596,186	18,945,663	64,592	112,487	22,660,778	19,058,150
Other liabilities	<u>1,348,642</u>	<u>1,218,349</u>	<u>476,560</u>	<u>456,567</u>	<u>1,825,202</u>	<u>1,674,916</u>
Total liabilities	<u>23,944,828</u>	<u>20,164,012</u>	<u>541,152</u>	<u>569,054</u>	<u>24,485,980</u>	<u>20,733,066</u>
Net assets:						
Invested in capital assets, net of related debt	11,611,766	11,951,013	3,110,293	2,676,466	14,722,059	14,627,479
Restricted	773,246	751,525	--	--	773,246	751,525
Unrestricted	<u>14,465,595</u>	<u>9,446,449</u>	<u>3,862,396</u>	<u>3,699,510</u>	<u>18,327,991</u>	<u>13,145,959</u>
Total net assets	<u>\$ 26,850,607</u>	<u>22,148,987</u>	<u>6,972,689</u>	<u>6,375,679</u>	<u>33,823,296</u>	<u>28,524,963</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$33,823,296 of June 30, 2004. The County's net assets increased by \$5,394,173 for the fiscal year ended June 30, 2004. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$14,722,059, Restricted net assets of \$773,246 and Unrestricted net assets of \$18,327,991.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2004, the increase in this category of net assets is due to current year additions to capital assets being more than offset by current year depreciation expenses and new long-term debt issuances.

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

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

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.8%, higher than the statewide average of 96.36%.
- Increase in charges for services due to economic growth.

Watauga County Changes in Net Assets Figure 3

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 1,576,374	1,423,317	2,728,042	2,602,634	4,304,416	4,025,951
Operating grants and contributions	4,006,414	4,061,039	19,117	17,171	4,025,531	4,078,210
General revenues:						
Property taxes	20,449,298	20,842,919	--	--	20,449,298	20,842,919
Other taxes	10,657,368	9,577,490	--	--	10,657,368	9,577,490
Grants and contributions not restricted to specific programs	25,294	10,961	--	--	25,294	10,961
Other	388,037	737,623	42,256	56,112	430,293	793,735
Total revenues	37,102,785	36,653,349	2,789,415	2,675,917	39,892,200	39,329,266
Expenses:						
General government	4,722,577	4,523,152	--	--	4,722,577	4,523,152
Public safety	6,987,835	6,106,455	--	--	6,977,835	6,106,455
Economic and physical development	782,775	761,863	--	--	782,775	761,863
Human services	7,740,617	7,227,905	--	--	7,740,617	7,227,905
Cultural and recreation	1,162,271	1,182,737	--	--	1,162,271	1,182,737
Education	9,495,883	8,964,209	--	--	9,495,883	8,964,209
Interest on long-term debt	753,765	924,421	--	--	753,765	924,421
Solid Waste	--	--	2,852,304	2,678,433	2,852,304	2,678,433
Total expenses	31,645,723	29,640,742	2,852,304	2,678,433	34,488,027	32,369,175
Increase in net assets before transfers	5,457,062	6,962,607	(62,889)	(2,516)	5,404,173	6,960,091
Transfers	(659,602)	(525,592)	659,602	525,592	--	--
Increase in net assets	4,797,460	6,437,015	596,713	523,076	5,404,173	6,960,091
Net assets, July 1	22,148,987	15,711,972	6,375,976	5,852,900	28,524,963	21,564,872
Prior period adjustment to transfer Pension Trust Fund	(95,840)	--	--	--	(95,840)	--
Net assets, June 30	\$ 26,956,447	22,148,987	6,972,689	6,375,976	33,929,136	28,524,963

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. Governmental activities increased the County's net assets by \$4,797,460 thereby accounting for 88.96% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Reduced future debt services costs by refunding some of the County's outstanding school bonds
- Increased collections of property tax revenue above budgeted amounts
- Solicitation of additional grant revenues for Public Safety
- Maintenance of the County's high tax collections rate of 97.8%

Business-type activities: Business-type activities increased Watauga County's net assets by \$596,713, accounting for 11.04 % of the total growth in the government's net assets. Key elements of this increase are as follows:

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

Financial Analysis of the County's Funds

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

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

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$11,462,539 while total fund balance reached \$22,398,343. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35.9 percent of total General Fund expenditures, while total fund balance represents 70.4 percent of that same amount.

At June 30, 2004, the governmental funds of Watauga County reported a combined fund balance of \$29,250,955, a 36.5 percent increase over last year. The primary reason for this increase is the increase in fund balance in the General Fund.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues and expenditures by \$ 8,016,606.

The actual operating revenues for the General Fund were about \$200,000 more than the budgeted amount. Actual operating expenses were less than budgeted by \$10,300,000.

Proprietary Funds - Watauga County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solidwaste Landfill Fund at the end of the fiscal year amounted to \$3,862,396. The total growth in net assets was \$596,713.

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, 2004, totals \$22,362,754 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Continued renovation of County's swimming pool
- Continued development of Brookshire Park
- Purchased new vehicles for County departments
- Continued construction of new solidwaste transfer station
- Continued construction of new jail and law enforcement center
- Began construction of new administration building
- Continued planning of new addition to the County's Courthouse

Watauga County's Capital Assets

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

	Governmental Activities 2004	Business Activities 2004	Total 2004
Land	\$ 2,241,405	1,377,212	3,618,617
Buildings	14,160,069	673,084	14,833,153
Other improvements	13,850	195,801	209,651
Equipment	767,569	105,229	872,798
Vehicles	546,727	129,107	675,834
Construction in progress	1,497,088	655,613	2,152,701
Total	\$ 19,226,708	3,136,046	22,362,754

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

Long-term Debt. As of June 30, 2004, Watauga County had bonded debt outstanding of \$14,320,000 all of which is backed by the good faith and credit of the County. The County also has several installment purchase notes outstanding. A summary of total long-term debt is shown in Figure 5.

Watauga County's Outstanding Debt

General Obligation Bonds

Figure 5

	Governmental Activities	
	2004	2003
General obligation bonds	\$ 14,320,000	15,355,000

Watauga County's total debt increased by \$3,650,649 or (19.26%) during the past fiscal due to issuance of an installment purchase agreement for the construction of the new law enforcement center.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Watauga County is \$421,953,422.

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

Economic Factors and Next Year's Budgets and Rates

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

- The County continues to experience a low unemployment rate of 1.5% (October, 2004), one of the lowest in the state
- The County continues to experience growth in the tourism industry.
- Appalachian State University's economic impact of \$450M+ provides stability to the local economy

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental activities - Budgeted revenues in the General Fund are expected to increase by approximately \$1M due primarily to growth in the property tax base. Slight increases in sales tax revenue are projected as the economy continues to recover.

Budgeted expenditures in the General Fund include a 7.53% increase in the current expense appropriation to the school system. Construction is in progress for County administrative offices, renovation of the pool facilities, a new park facility, and a new law enforcement facility. Planning continues for the renovation and expansion of the County courthouse to provide additional facilities for the court system, register of deeds operations, district attorney, judges, etc.

Business-type Activities: The County has budgeted nominal increases in tipping, availability, and green box fees in the Solidwaste Landfill Fund. Construction continues on a new transfer and maintenance facility to improve the efficiency of the solidwaste operations and will be completed mid year. Purchase of a front end loader, recycling truck and trash truck will be financed by an installment purchase contract.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Watauga County Finance Director, 842 West King Street, Boone, NC 28607.

Watauga County, North Carolina
Statement of Net Assets
June 30, 2004

Exhibit A

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	AppalCART
ASSETS				
Cash and cash equivalents	\$ 28,193,137	4,137,821	32,330,958	500,159
Receivables (net)	1,827,795	225,433	2,053,228	6,262
Due from other governments	1,097,228	14,541	1,111,769	88,893
Inventories	--	--	--	115,641
Prepaid items	119,559	--	119,559	51,786
Deferred charges - issuance cost	82,403	--	82,403	--
Deferred charges - refunding	319,583	--	319,583	--
Intangible asset - advanced funding of pension obligation	34,862	--	34,862	--
Capital assets:				
Land, improvements, and construction in progress	3,738,493	2,032,825	5,771,318	--
Other capital assets, net of depreciation	15,488,215	1,103,221	16,591,436	2,391,738
Total capital assets	19,226,708	3,136,046	22,362,754	2,391,738
Total assets	50,901,275	7,513,841	58,415,116	3,154,479
LIABILITIES				
Accounts payable and accrued expenses	936,612	340,548	1,277,160	59,071
Unearned revenue	309,834	135,936	445,770	18,819
Accrued interest payable	102,196	--	102,196	--
Customer deposits	--	76	76	--
Long-term liabilities:				
Due within one year	2,108,467	25,753	2,134,220	39,152
Due in more than one year	20,487,719	38,839	20,526,558	--
Total liabilities	23,944,828	541,152	24,485,980	117,042
NET ASSETS				
Invested in capital assets, net of related debt	11,611,766	3,110,293	14,722,059	2,391,738
Restricted for:				
Public safety	721,073	--	721,073	--
Register of Deeds	52,173	--	52,173	--
Unrestricted (deficit)	14,465,595	3,862,396	18,327,991	645,699
Total net assets	\$ 26,850,607	6,972,689	33,823,296	3,037,437

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, 2004

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 4,722,577	675,281	48,015	--
Public safety	6,987,835	600,838	357,985	--
Economic and physical development	782,775	--	74,829	--
Human service	7,740,617	15,339	3,525,585	--
Cultural and recreation	1,162,271	284,916	--	--
Education	9,495,883	--	--	--
Interest on long-term debt	753,765	--	--	--
Total governmental activities	<u>31,645,723</u>	<u>1,576,374</u>	<u>4,006,414</u>	<u>--</u>
Business-type activities:				
Solid waste	<u>2,852,304</u>	<u>2,728,042</u>	<u>19,117</u>	<u>--</u>
Total	<u>\$ 34,498,027</u>	<u>4,304,416</u>	<u>4,025,531</u>	<u>--</u>
Component unit:				
AppalCART	<u>\$ 1,737,156</u>	<u>780,221</u>	<u>--</u>	<u>1,558,509</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
- Gain on sale of assets
- Transfers
 - Total general revenues, special items, and transfers
 - Change in net assets
- Net assets - beginning
- Prior period adjustment
- Net assets - ending

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

Net (Expense) Revenues and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	AppalCART	
(3,999,281)	--	(3,999,281)		
(6,029,012)	--	(6,029,012)		
(707,946)	--	(707,946)		
(4,199,693)	--	(4,199,693)		
(877,355)	--	(877,355)		
(9,495,883)	--	(9,495,883)		
(753,765)	--	(753,765)		
(26,062,935)	--	(26,062,935)		
--				
--	(105,145)	(105,145)		
(26,062,935)	(105,145)	(26,168,080)		
			601,574	
\$ 20,449,298	--	20,449,298	--	
9,771,670	--	9,771,670	--	
885,698	--	885,698	--	
25,294	--	25,294	826,116	
280,463	42,256	322,719	4,101	
107,574	--	107,574	--	
--	--	--	5,153	
(659,602)	659,602	--	--	
30,860,395	701,858	31,562,253	835,370	
4,797,460	596,713	5,394,173	1,436,944	
22,148,987	6,375,976	28,524,963	1,191,361	
(95,840)	--	(95,840)	409,132	
\$ 26,850,607	6,972,689	33,823,296	3,037,437	

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

Watauga County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2004

Exhibit C

	General	Capital Reserve Fund	Other Governmental Funds	Total Governmental Fund
ASSETS				
Cash and cash equivalents	\$ 21,331,857	6,072,840	788,440	28,193,137
Taxes receivable, net	595,989	--	60,443	656,432
Due from other governments	1,097,228	--	--	1,097,228
Accounts receivable, net	1,090,604	--	29,650	1,120,254
Other assets	119,559	--	--	119,559
Total assets	\$ 24,235,237	6,072,840	878,533	31,186,610
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 925,809	--	10,803	936,612
Unearned revenue	67,599	--	12,476	80,075
Deferred revenue	737,646	--	75,482	813,128
Total liabilities	1,731,054	--	98,761	1,829,815
Fund balances:				
Reserved for:				
State statute	2,187,366	--	29,650	2,217,016
Encumbrances	8,696,265	--	--	8,696,265
Register of Deeds	52,173	--	--	52,173
Unreserved	11,462,539	6,072,840	--	17,535,379
Unreserved, reported in nonmajor:				
Special revenue funds	--	--	750,122	750,122
Capital projects funds	--	--	--	--
Total fund balances	22,398,343	6,072,840	779,772	29,250,955
Total liabilities and fund balances	\$ 24,129,397	6,072,840	878,533	

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

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

34,862

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

19,226,708

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

51,109

Liabilities for earned but deferred revenues in fund statements.

583,369

Deferred charges based on refunding issues.

401,986

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

(22,698,382)

Net assets of governmental activities

\$ 26,850,607

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, 2004

Exhibit D

	General	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 19,321,366	--	1,169,165	20,490,531
Local option sales taxes	9,771,670	--	--	9,771,670
Other taxes and licenses	611,746	--	273,953	885,699
Unrestricted intergovernmental	25,294	--	--	25,294
Restricted intergovernmental	3,935,299	45,000	204,383	4,184,682
Permits and fees	868,616	--	--	868,616
Sales and services	522,691	--	--	522,691
Investment earnings	211,063	66,207	9,992	287,262
Miscellaneous	107,574	--	--	107,574
Total revenues	<u>35,375,319</u>	<u>111,207</u>	<u>1,657,493</u>	<u>37,144,019</u>
EXPENDITURES				
Current:				
General government	5,596,299	--	86,950	5,683,249
Public safety	5,454,846	--	1,485,129	6,939,975
Economic and physical development	729,466	--	--	729,466
Human services	7,102,590	--	--	7,102,590
Cultural and recreational	1,076,082	--	--	1,076,082
Intergovernmental:				
Education	9,494,868	--	--	9,494,868
Capital outlay	--	--	91,087	91,087
Debt service:				
Principal	1,711,810	--	--	1,711,810
Interest	731,714	--	--	731,714
Bond issuance costs	83,800	--	--	83,800
Total expenditures	<u>31,981,475</u>	<u>--</u>	<u>1,663,166</u>	<u>33,644,641</u>
Excess (deficiency) of revenues over expenditures	<u>3,393,844</u>	<u>111,207</u>	<u>(5,673)</u>	<u>3,499,378</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from installment purchase	5,000,000	--	--	5,000,000
Proceeds from refunding debt	4,275,000	--	--	4,275,000
Payment to refunding debt escrow agent	(4,275,000)	--	--	(4,275,000)
Transfers from other funds	2,224,275	2,227,957	--	4,452,232
Transfers to other funds	(3,209,400)	(1,648,732)	(253,702)	(5,111,834)
Total other financing sources and uses	<u>4,014,875</u>	<u>579,225</u>	<u>(253,702)</u>	<u>4,340,398</u>
Net change in fund balance	7,408,719	690,432	(259,375)	7,839,776
Fund balances-beginning	15,085,464	5,382,408	1,039,147	21,507,019
Prior period adjustment - to transfer assets to Pension Trust fund	(95,840)	--	--	(95,840)
Fund balances-ending	<u>\$ 22,398,343</u>	<u>6,072,840</u>	<u>779,772</u>	<u>29,250,955</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, 2004

Exhibit D

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

Net changes in fund balances - total governmental funds	\$ 7,839,776
---	--------------

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

254,447

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

Compensated absences	(37,333)	
Advance funding of pension obligation	9,641	
Accrued interest expense	(22,051)	
Taxes receivable	<u>(41,233)</u>	
Combined adjustment		(90,976)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(3,205,787)

Total changes in net assets of governmental activities	\$ <u>4,797,460</u>
--	---------------------

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

Watauga County, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2004

	General Fund			
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 18,054,800	18,054,800	19,321,366	1,266,566
Local option sales tax	9,905,606	9,905,606	9,771,670	(133,936)
Other taxes and licenses	526,883	526,883	611,746	84,863
Unrestricted intergovernmental	7,000	7,000	25,294	18,294
Restricted intergovernmental	3,920,928	4,863,633	3,935,299	(928,334)
Permits and fees	875,148	890,148	868,616	(21,532)
Sales and services	470,462	541,362	522,691	(18,671)
Investment earnings	251,744	251,744	211,063	(40,681)
Miscellaneous	92,952	102,135	107,574	5,439
Total revenues	<u>34,105,523</u>	<u>35,143,311</u>	<u>35,375,319</u>	<u>232,008</u>
Expenditures:				
Current:				
General government	5,331,028	13,942,461	5,596,299	8,346,162
Public safety	5,017,705	5,714,282	5,454,846	259,436
Economic & Physical	632,953	751,991	729,466	22,525
Human services	7,327,078	7,467,908	7,102,590	365,318
Cultural and recreation	1,078,331	1,119,933	1,076,082	43,851
Education	9,325,577	10,193,025	9,494,868	698,157
Debt service:				
Principal retirement	1,875,420	1,875,420	1,711,810	79,828
Interest and other charges	1,041,274	973,309	731,714	325,377
Bond issuance costs	--	83,800	83,800	--
Total expenditures	<u>31,629,366</u>	<u>42,122,129</u>	<u>31,981,475</u>	<u>10,140,654</u>
Revenues over (under) expenditures	<u>2,476,157</u>	<u>(6,978,818)</u>	<u>3,393,844</u>	<u>10,372,662</u>
Other financing sources (uses):				
Proceeds from installment purchase	--	5,000,000	5,000,000	--
Proceeds from debt refunding	--	4,290,835	4,275,000	(15,835)
Payment to refunding debt escrow agent	--	(4,275,000)	(4,275,000)	--
Transfers from other funds	145,445	2,221,671	2,224,275	2,604
Transfers to other funds	(2,621,602)	(2,967,847)	(3,209,400)	(241,553)
Future project funding	--	--	--	--
Fund balance appropriated	--	2,709,159	--	(2,709,159)
Total other financing sources (uses)	<u>(2,476,157)</u>	<u>6,978,818</u>	<u>4,014,875</u>	<u>(2,963,943)</u>
Revenues and other sources over (under) expenditures and other uses	--	--	7,408,719	7,408,719
Fund balances, beginning of year	--	--	15,085,464	--
Prior period adjustment - to transfer assets to Pension Trust fund	--	--	(95,840)	--
Fund balances, end of year	<u>\$ --</u>	<u>--</u>	<u>22,398,343</u>	<u>--</u>

Watauga County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2004

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$	4,137,821
Receivables, net		225,433
Due from other governments		14,541
Total current assets		<u>4,377,795</u>
Capital assets:		
Land, improvements, and construction in progress		2,032,825
Other capital assets, net of depreciation		1,103,221
Total capital assets		<u>3,136,046</u>
Total assets		<u>7,513,841</u>
LIABILITIES		
Current liabilities:		
Accounts payable		340,548
Customer deposits		76
Installment purchase payable		25,753
Total current liabilities		<u>366,377</u>
Noncurrent liabilities:		
Deferred Revenue		135,936
Compensated absences		38,839
Total noncurrent liabilities		<u>174,775</u>
Total liabilities		<u>541,152</u>
NET ASSETS		
Invested in capital assets, net of related debt		3,110,293
Unrestricted		3,862,396
Total net assets	\$	<u><u>6,972,689</u></u>

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

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 2,728,003
Restricted intergovernmental revenues	19,117
Miscellaneous	39
	2,747,159
Total operating revenues	2,747,159
 OPERATING EXPENSES:	
Landfill operations	2,730,563
Depreciation	119,506
	2,850,069
Total operating expenses	2,850,069
Operating income (loss)	(102,910)
 NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	42,256
Interest paid on long term debt	(2,235)
	40,021
Total non operating revenue (expenses)	40,021
Income (loss) before transfers	(62,889)
Transfers to (from) other funds (net)	659,602
Change in net assets	596,713
Total net assets - beginning	6,375,976
Total net assets - ending	\$ 6,972,689

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

Watauga County, North Carolina
Statement of Cash Flows
Enterprise Fund
For The Fiscal Year Ended June 30, 2004

	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers	\$ 2,711,342
Cash paid for goods and services	(2,010,588)
Cash paid to employees for services	(702,782)
Other operating revenue	19,156
Net cash provided by operating activities	<u>17,128</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>659,602</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(503,306)
Principal paid on installment purchase contracts	(50,026)
Interest paid on installment purchase contracts	(2,235)
Net cash used by capital and related financing activities	<u>(555,567)</u>
Cash flows from investing activities:	
Interest on investments	<u>42,256</u>
Net increase (decrease) in cash and cash equivalents	163,419
Cash and cash equivalents, July 1	<u>3,974,402</u>
Cash and cash equivalents, June 30	<u>\$ 4,137,821</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (102,910)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	119,506
Changes in assets and liabilities:	
Increase in accounts receivable	(21,592)
Increase in deferred revenue	4,931
Increase in accounts payable and accrued liabilities	15,062
Increase in accrued vacation pay	2,131
Total adjustments	<u>120,038</u>
Net cash used by operating activities	<u>\$ 17,128</u>

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

**Watauga County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ <u>105,840</u>	<u>204,553</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u> --</u>	<u>204,553</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>105,840</u>	<u> --</u>

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

Watauga County, North Carolina
Statement of Changes in Fiduciary Net
Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

Exhibit J

	Pension Trust Fund <hr/> June 30, 2004 <hr/>
Additions:	
Employer contributions	\$ <u>40,283</u>
Deductions:	
Benefits	30,040
Administrative expense	<u>243</u>
Total deductions	<u>30,283</u>
Change in net assets	10,000
Net assets, beginning	--
Prior period adjustment - to transfer assets from General fund	<u>95,840</u>
Net assets, ending	\$ <u><u>105,840</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies:

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

A. Reporting Entity:

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

AppalCART

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

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

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statement: The statement of net assets and the statement of activities display information about the primary government (the County) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

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

The County reports the following major governmental funds:

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

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

The County reports the following major enterprise fund:

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

Agency Funds – Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the Health Benefits Fund, which accounts for moneys held for the County's self insurance; the Surety Bond Fund, which accounts for moneys held as security deposits for completion of subdivisions; and the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

municipalities within the County.

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2004

susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga

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

County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements. For those motor vehicles which are renewed and billed under the annual system, taxes are due on May 1 of each year, and the uncollected taxes are reported as a receivable on the financial statements offset by deferred revenues because the due date and the date upon which the interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the County's operations during the 2004 fiscal year.

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues, and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

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

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

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

C. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Reserve, the Substance Abuse Tax, the Emergency Telephone,

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2004

Fire District, and Revaluation Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Housing Rehabilitation Special Revenue Fund and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the

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

C. Budgetary Data (continued)

multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

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

The County and AppalCART's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

2. Cash and Cash Equivalents

The County pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

3. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2001.

4. Allowances for Doubtful Accounts

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

5. Inventory

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

6. Capital Assets

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

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

	<u>Years</u>
Buildings	30 to 50

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Improvements	8 to 10
Furniture and equipment	5 to 10
Vehicles	5 to 6
Computer equipment	3 to 6

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

6. Capital Assets (continued)

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

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

7. Long-term Obligations

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

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

8. Compensated Absences

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

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

9. Net Assets/Fund Balances

Net Assets

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2004

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

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

9. Net Assets/Fund Balances (continued)

Fund Balances

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

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

The governmental fund types classify fund balances as follows:

Reserved

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

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

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

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

Reserved for employees' retirement system – portion of total fund balance available for appropriation to

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

pay retirement benefits when due.

Unreserved

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2004-2005 budget ordinance.

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

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

E. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The government fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$(2,400,348) consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 35,718,362
Less accumulated depreciation	(16,491,654)
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds	34,862
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	51,109
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	583,369

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources. 401,986

Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:

Bonds and installment financing	(21,934,942)
Compensated absences	(661,244)
Accrued interest payable	<u>(102,196)</u>
Total adjustment	\$ <u><u>(2,400,348)</u></u>

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

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

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(3,042,316) as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 1,393,855
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(1,139,408)
New debt issued during the year is recorded as a source of funds on the fund statement; it has no effect on the statement of activities – it affects only the government-wide statements	(5,000,000)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide	1,711,810

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Expenses reported on fund statements that are capitalized on government-wide statements – bond issuance and refunding costs	83,800
The advance funding of pension obligations	9,641
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	(16,634)
Amortization of refunding costs not recorded on fund statements	(6,814)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(37,333)

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

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

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Reversal of deferred tax revenue recorded at 7/1/03	(624,794)
Recording of tax receipts deferred in the fund statements as of 6/30/04	583,368
Increase in accrued taxes receivable for year ended 6/30/04	<u>193</u>
Total adjustment	\$ <u>(3,042,316)</u>

Note 2 - Stewardship, Compliance, and Accountability

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Noncompliance with North Carolina General Statutes

There were no instances of noncompliance with North Carolina Statutes.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

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

Note 3 - Detail Notes on All Funds (continued)

1. Deposits (continued)

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or the AppalCART under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2004, the County's deposits had a carrying amount of \$28,780,985 and a bank balance of \$29,341,318. Of the bank balance, \$300,000 was covered by federal depository insurance, and \$25,730 in non-interest bearing deposits and \$29,026,815 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2004, Watauga County had \$1,750 cash on hand.

At June 30, 2004, the AppalCART's deposits had a balance of \$63,958 and a bank balance of \$81,356. All of the bank balance was covered by federal depository insurance.

2. Investments

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

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

At June 30, 2004, the County's investments consisted of \$3,752,776 in the North Carolina Capital Management Trust's Cash Portfolio.

At June 30, 2004, the AppalCART's investments consisted of \$436,000 in the North Carolina Capital Management Trust's Cash Portfolio.

Note 3 - Detail Notes on All Funds (continued)

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

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

Year Levied	Tax	Interest	Total
2001	\$ 298,150	84,227	382,377
2002	296,899	57,153	354,052
2003	507,376	52,006	559,382
2004	<u>478,158</u>	<u>--</u>	<u>478,158</u>
Total	\$ <u>1,580,583</u>	<u>193,386</u>	<u>1,773,969</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

4. Receivables

Receivables at the government-wide level at June 30, 2004, were as follows:

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 1,090,604	1,039,633	1,097,228	3,227,465
Other Governmental	<u>29,650</u>	<u>69,861</u>	--	<u>99,511</u>
Total receivables	1,120,254	1,109,494	1,097,228	3,326,976
Allowance for doubtful accounts	<u> --</u>	<u>(401,953)</u>	<u> --</u>	<u>(401,953)</u>
Total-governmental activities	\$ <u><u>1,120,254</u></u>	<u><u>707,541</u></u>	<u><u>1,097,228</u></u>	<u><u>2,925,023</u></u>
Business-type activities				
Solid Waste	\$ 225,433	--	14,541	239,974
Allowance for doubtful accounts	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total-business-type activities	\$ <u><u>225,433</u></u>	<u><u> --</u></u>	<u><u>14,541</u></u>	<u><u>239,974</u></u>

Note 3 - Detail Notes on All Funds (continued)

4. Receivables (continued)

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

Local option sales tax	\$ 1,097,228
Scrap tire tax	<u>14,541</u>
Total	\$ <u><u>1,111,769</u></u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Land	\$ 2,241,405	--	--	2,241,405
Construction in progress	<u>545,755</u>	<u>951,333</u>	<u>--</u>	<u>1,497,088</u>
Total capital assets not being depreciated	<u>2,787,160</u>	<u>951,333</u>	<u>--</u>	<u>3,738,493</u>
Capital assets being depreciated:				
Buildings	28,691,894	--	--	28,691,894
Other improvements	33,780	--	--	33,780
Equipment	1,855,724	272,843	243,029	1,885,538
Vehicles and motor equipment	<u>1,276,065</u>	<u>169,679</u>	<u>77,087</u>	<u>1,368,657</u>
Total capital assets being depreciated	<u>31,857,463</u>	<u>442,522</u>	<u>320,116</u>	<u>31,979,869</u>
Less accumulated depreciation for:				
Buildings	13,709,457	822,368	--	14,531,825
Improvements	17,160	2,770	--	19,930
Equipment	1,189,677	171,321	243,029	1,117,969
Vehicles and motor equipment	<u>756,068</u>	<u>142,949</u>	<u>77,087</u>	<u>821,930</u>
Total accumulated depreciation	<u>15,672,362</u>	<u>1,139,408</u>	<u>320,116</u>	<u>16,491,654</u>
Total capital assets being depreciated, net	<u>16,185,101</u>			<u>15,488,215</u>
Governmental activity capital assets, net	\$ <u>18,972,261</u>			<u>19,226,708</u>

Primary Government

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

General government	\$ 113,090
Public safety	262,816
Education	1,015
Economic and physical development	53,161
Human services	621,750
Cultural and recreational	<u>87,576</u>
Total depreciation expense	\$ <u>1,139,408</u>

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,377,212	--	--	1,377,212
Construction in progress	<u>152,307</u>	<u>503,306</u>	<u>--</u>	<u>655,613</u>
Total capital assets not being depreciated	<u>1,529,519</u>	<u>503,306</u>	<u>--</u>	<u>2,032,825</u>
Capital assets being depreciated:				
Improvements	470,081	--	--	470,081
Buildings	877,367	--	--	877,367
Equipment	1,118,864	--	2,943	1,115,921

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Vehicles	<u>841,346</u>	--	<u>51,940</u>	<u>789,406</u>
Total capital assets being depreciated	<u>3,307,658</u>	--	<u>54,883</u>	<u>3,252,775</u>
Less accumulated depreciation for:				
Improvements	263,800	10,480	--	274,280
Buildings	186,736	17,547	--	204,283
Equipment	980,041	33,594	2,943	1,010,692
Vehicles	<u>654,355</u>	<u>57,884</u>	<u>51,940</u>	<u>660,299</u>
Total accumulated depreciation	<u>2,084,932</u>	<u>119,506</u>	<u>54,883</u>	<u>2,149,554</u>
Total capital assets being depreciated, net	<u>1,222,726</u>			<u>1,103,221</u>
Business-type activities capital assets, net	<u>\$ 2,752,245</u>			<u>3,136,046</u>

Construction commitments

The government has active construction projects as of June 30, 2004. The projects include the Brookshire Park project that includes park construction, a new law enforcement facility, a new administration building, an addition to the existing courthouse, swimming pool renovations, and the construction of a transfer station at the solid waste facility. At June 30, 2004, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Brookshire Park	\$ 757,134	\$ 153,391
Transfer Station	655,613	1,490,834
Law enforcement facility	376,383	5,337,728
Administration building	284,276	1,392,286
Courthouse addition	19,237	1,040,763
Swimming pool renovations	<u>60,058</u>	<u>295,422</u>
Total	<u>\$ 2,152,701</u>	<u>\$ 9,710,424</u>

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Discretely presented component units

Actively for the AppalCART for the year ended June 30, 2004, was as follows:

	Restated Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Land	\$	--	1,114,242	--	1,114,242
Construction in progress		<u>29,228</u>	<u>6,473</u>	<u>--</u>	<u>35,701</u>
Total capital assets not being depreciated		<u>29,228</u>	<u>1,120,715</u>	<u>--</u>	<u>1,149,943</u>
Capital assets being depreciated:					
Land improvements		159,662	--	--	159,662
Office furniture and equipment		145,470	13,130	49,366	109,234
Vehicles		2,061,249	578,554	132,898	2,506,905
Shop equipment		<u>159,489</u>	<u>--</u>	<u>46,521</u>	<u>112,968</u>
Total capital assets being depreciated		<u>2,525,870</u>	<u>591,684</u>	<u>224,785</u>	<u>2,888,769</u>
Less accumulated depreciation for:					
Land improvements		92,876	12,308	--	105,184
Office furniture and equipment		111,962	11,568	48,302	75,228
Vehicles		1,263,159	6,297	130,469	1,375,898
Shop equipment		<u>130,588</u>	<u>243,208</u>	<u>46,221</u>	<u>90,664</u>
Total accumulated depreciation		<u>1,598,585</u>	<u>273,381</u>	<u>224,992</u>	<u>1,646,974</u>
Total capital assets being depreciated, net		<u>927,285</u>			<u>1,241,795</u>
AppalCART capital assets, net	\$	<u>956,513</u>			<u>2,391,738</u>

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2004, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

General	\$ 925,809	--	102,196	--	1,028,005
Other governmental	<u>10,803</u>	--	--	--	<u>10,803</u>
Total-governmental activities	<u>936,612</u>	--	<u>102,196</u>	--	<u>1,038,808</u>
Business-type activities:					
Solid Waste	\$ <u>340,548</u>	--	--	--	<u>340,548</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.8% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Watauga County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$809,902, \$763,589, and \$715,183, respectively. The contributions made by the County equaled the required contributions for each year.

Note 3 - Detail Notes on All Funds (continued)

2. Pension Plan Obligations

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description*

Watauga County administers a public employee retirement system (the *Separation Allowance*), a

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2003, the Separation Allowance's membership consisted of :

Retirees receiving benefits	4	
Active plan members		<u>35</u>
Total		<u>39</u>

2. 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. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the County.

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefits increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2003 was 27 years.

Note 3 - Detail Notes on All Funds (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

2. Contributions

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 24,192	115.23 %	\$ (15,139)
2003	26,782	137.64	(25,221)
2004	30,398	131.72	(34,862)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 required the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may voluntary contributions to the plan. Contributions for the year ended June 30, 2004 were \$70,117, which consisted of \$59,394 from the County and \$10,723 from the law enforcement officers.

d. Supplemental Retirement Income Plans for General Employees

Employees, other than law enforcement, have the choice of participating in a 401(k) plan or a 457 deferred compensation plan. The County contributes 4.5 percent of each employees salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2004 to these plans were \$468,370, which consisted of \$312,058 from the County and \$156,312 from employees.

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Register of Deeds' Supplemental Pension Fund, a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Note 3 - Detail Notes on All Funds (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

e. **Registers of Deeds' Supplemental Pension Fund (continued)**

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2004, the County's required and actual contributions were \$23,697.

f. **Other Post Employment Benefits – Watauga County**

Health Benefits

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

Death Benefits

The County has elected to provide death benefits to law enforcement employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are

Note 3 - **Detail Notes on All Funds (continued)**

f. **Other Post Employment Benefits – Watauga County (continued)**

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the County made contributions to the State for death benefits of \$1,554. The County's required contributions for employees engaged in law enforcement represented .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

g. Retirement System – AppalCART

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

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

This rate of contribution is subject to change due to funding constraints. The contribution requirement for June 30, 2004 and 2003 amounted to \$46,368 and \$47,720, respectively. Payments of \$62,671 were made for each fiscal year, respectively.

3. Deferred/Unearned Revenues

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

	<u>Unearned or Deferred Revenue</u>	<u>Full Accrual Unearned Revenue</u>
Prepaid taxes not year earned (General)	\$ 107,179	107,179
Taxes receivable, net (General)	630,467	--
Taxes receivable, net (Special Revenue)	75,482	--
Prepaid revenue	<u>80,075</u>	<u>202,655</u>
Total	\$ <u>893,203</u>	<u>309,834</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 3 - Detail Notes on All Funds (continued)

4. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in three self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these, pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$125.5 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits, and health and dental insurance for county employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. For health and dental insurance, the county is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through commercial carriers for individual losses in excess of \$100,000.

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

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

5. Contingent Liabilities

At June 30, 2004, the County was a defendant in various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

6. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 3 - Detail Notes on All Funds (continued)

6. Long-term Obligations (continued)

b. Installment Purchase

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

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

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

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

The County also has one installment purchase serviced by the Solid Waste Fund. The installment purchase was executed on November 14, 2001, for the purchase of a 2002 Freightliner Refuse Truck and requires twelve quarterly payments of \$13,065 which includes interest at 3.91% compounded quarterly.

For Watauga County, the future minimum payments as of June 30, 2004, including \$1,710,755 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2005	\$ 703,467	281,964	25,753	378
2006	721,983	252,649	--	--
2007	741,428	222,404	--	--
2008	761,850	191,181	--	--
2009	678,828	159,550	--	--
2010-2014	2,340,719	460,879	--	--
2015-2019	<u>1,666,667</u>	<u>141,750</u>	<u>--</u>	<u>--</u>
Principal payments	\$ <u>7,614,942</u>		<u>25,753</u>	
Total interest payments		\$ <u>1,710,377</u>		<u>378</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 3 - Detail Notes on All Funds (continued)

6. Long-term Obligations (continued)

c. General Obligation Indebtedness

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

The County's general obligation bonds payable at June 30, 2004 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$7,500,000 1993 School Facility Serial Bonds, due in semi-annual installments through June 1, 2014; interest at 4.40 percent	\$ 3,750,000
\$9,400,000 1994 School Facility Serial Bonds, due in semi-annual installments through June 1, 2004; interest at 5.70-5.90 percent	--
\$7,100,000 1995 Serial School Facility Serial Bonds, due in semi-annual installments through June 1, 2015; interest at 5.10-5.20 percent	350,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	5,945,000
\$4,275,000 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent	<u>4,275,000</u>
Total	\$ <u>14,320,000</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 3 - Detail Notes on All Funds (continued)

6. Long-term Obligations (continued)

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2005	\$ 1,405,000	556,530
2006	1,410,000	482,075
2007	1,385,000	438,055
2008	1,365,000	391,905
2009	1,350,000	344,027
2010-2014	6,250,000	964,843
2015-2019	<u>1,155,000</u>	<u>43,125</u>
Total	\$ <u>14,320,000</u>	<u>3,220,560</u>

At June 30, 2004, Watauga County had a legal debt margin of \$421,953,422.

d. Advance Refunding

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

next 11 years by \$293,305 and resulted in an economic gain of \$279,411.

Note 3 - Detail Notes on All Funds (continued)

6. Long-term Obligations (continued)

e. Long-Term Obligation Activity

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2004:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2004	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 15,355,000	4,275,000	5,310,000	14,320,000	1,405,000
Installment purchases	2,966,753	5,000,000	351,810	7,614,942	703,467
Compensated absences	623,911	550,442	512,983	661,370	--
Total governmental activities	<u>\$ 18,945,663</u>	<u>9,825,442</u>	<u>6,174,793</u>	<u>22,596,312</u>	<u>2,108,467</u>
Business-type activities:					
Installment purchases	\$ 75,779	--	50,026	25,753	25,753
Compensated absences	36,708	22,067	19,936	38,839	--
Total business-type activities	<u>\$ 112,487</u>	<u>22,067</u>	<u>69,962</u>	<u>64,592</u>	<u>25,753</u>
Discretely presented component units:					
Compensated absences	\$ 37,134	32,227	30,209	39,152	--

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2004, consists of the following:

From the General fund to the Capital Reserve fund to accumulate resources for future capital acquisitions \$ 2,227,957

From the Brookshire Park Capital Projects fund to the General fund to Transfer excess funds for completion of construction of park 253,702

From the Capital Reserve fund to the General fund for the new construction projects 1,648,732

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2004

From the General fund to the Solid Waste fund to supplement other funding sources	981,443
From the Solid Waste fund to the General fund to reimburse for an expense paid	<u>321,841</u>
Total	\$ <u>5,433,675</u>

Note 4 - Joint Ventures

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2004. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$367,399 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2004. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$463,735 to the Health Department to supplement its activities. Complete financial statements for the Health Department can be obtained from the Health Department's offices at 126 Poplar Grove Connector Road, Boone, NC 28607.

The County also participates in a joint venture to operate New River Behavioral Health Center with four other local governments. Each participating governmental appoints one County Commissioner to the Governing Board and they in turn appoint the other members. None of the participating governments have any equity interest in the Behavioral Health Center Department, so no equity interest has been reflected in the financial statements at June 30, 2004. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$212,687 to the Behavioral Health Care Department to supplement its activities. Complete financial statements for the Behavioral Health Care Department can be obtained at 895 State Farm Road, Suite 508, Boone, NC 28607.

Note 5 - Jointly Governed Organization

The County communally governs Caldwell Community College and Technical Institute with one other government and the community college system of the State of North Carolina. The County appoints two members of its fourteen members Board of Trustees. In accordance with the intergovernmental agreement

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

between the participating governments, the County appropriated \$604,989 to Caldwell Community Collage and Technical Institute to supplement its activities. Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

Note 6 - Benefit Payments Issued by the State

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

	Federal	State
Temporary assistance to needy families	\$ 112,542	--
Medicaid	15,211,061	6,706,665
Food stamp program	1,575,628	--
Energy assistance	54,328	--
Adoption assistance	120,267	35,815
Adoption subsidy	--	13,137
Adult assistance	--	155,562
Title IV-E, foster care	78,385	9,995
Total	<u>\$ 18,152,211</u>	<u>6,921,174</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 - Subsequent Events

The County has been in a dispute with the Appalachian Student Housing Corporation (ASHC) over whether or not the property held by the ASHC was exempt from property taxes. The County's position is that the property did not qualify for the tax exemption, and the state's Property Tax Commission sided with

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2004

the County. ASHC appealed the decision to the NC Court of Appeals, and the Court overturned the Commission's decision. The County applied to the NC Supreme Court to hear the case; however, the Supreme Court declined to hear the case. The County now owes ASHC a refund of the property taxes it has paid for the last three years and are awaiting final instructions from the Property Tax Commission. The refund should be approximately \$300,000.

Note 9 - Prior Period Adjustment

During the fiscal year 2004, an adjustment of \$95,840 was made to transfer assets held in the General Fund to the Pension Trust Fund for future payments of the Law Enforcement Officers' Special Separation Allowance.

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

Actuarial Valuation Date	Actuarial Value of Reserved Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll for Year Ending on Val Date (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/1998	45,840	131,268	85,428	34.92	758,755	11.26
12/31/1999	55,840	135,027	79,187	41.35	777,266	10.19
12/31/2000	65,840	237,850	172,010	27.68	809,782	21.24
12/31/2001	75,840	282,522	206,682	26.84	832,870	24.82
12/31/2002	85,840	334,449	248,609	25.67	1,015,925	24.47
12/31/2003	95,840	330,741	234,901	28.98	1,025,616	22.90

* The County has not established a pension trust fund. It has elected to reserve a portion of general fund balance to pay benefits when due. However, this reservation of general fund balance is not legally binding.

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Reserved</u>	
1999	\$ 12,835	77.91	%
2000	15,150	66.01	
2001	15,203	65.78	
2002	24,419	40.95	
2003	27,067	36.95	
2004	30,843	32.42	

Reservations of general fund balance were not made in accordance with the actuarially determined contribution requirements.

Watauga County
Law Enforcement Officers' Special Separation Allowance Schedule 3
Required Supplementary Information
Notes to the Required Schedules

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

Valuation date	12/31/03
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 – 9.8%
Includes inflation at	3.75%
Cost of living adjustments	N/A

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
Revenues:			
Taxes - ad valorem:			
Current year	\$	18,803,892	
Prior years		402,809	
Advertising and interest		114,665	
Total Taxes - ad valorem	<u>18,054,800</u>	<u>19,321,366</u>	<u>1,266,566</u>
Local Option Sales Taxes:			
Article 39 and 44		6,668,115	
Article 40 one-half of one percent		1,565,151	
Article 42 one-half of one percent		1,538,404	
Total Taxes - Local Option Sales	<u>9,905,606</u>	<u>9,771,670</u>	<u>(133,936)</u>
Taxes - other:			
Real estate transfer tax		423,350	
Animal tax		1,042	
ABC - .05/bottle		15,820	
Gross receipts tax - county		26,672	
Other		144,862	
Total Taxes - other	<u>526,883</u>	<u>611,746</u>	<u>84,863</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		25,294	
Total Unrestricted intergov. rev.	<u>7,000</u>	<u>25,294</u>	<u>18,294</u>
Restricted intergov. revenues:			
Grants-Federal & State		3,793,432	
Public School Facility Funds		--	
POA-Town of Boone		6,000	
Court facilities fees		135,867	
Total Restricted intergov. revenues	<u>4,863,633</u>	<u>3,935,299</u>	<u>(928,334)</u>
Permits and fees:			
Gun permits		17,265	
Serving civil summons		19,368	
Jail and officer fees		52,483	
Drug fees awarded by court		1,218	
Planning and inspection fees		262,110	
Marriage license		8,775	
Register of deeds fees		500,207	
Fire inspection fees		7,190	
Total Permits and fees	<u>890,148</u>	<u>868,616</u>	<u>(21,532)</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,339	
Recreation department revenues		284,916	
Sales of tax maps		466	
Data processing fees		491	
Rich Mtn. antenna rental		2,400	
Copy revenue		14,421	
Tax collection fees-Towns		73,924	
Jail medical service		5,822	
Other		124,912	
Total Sales and service	<u>541,362</u>	<u>522,691</u>	<u>(18,671)</u>
Investment earnings:			
Interest earned on investments	<u>251,744</u>	<u>211,063</u>	<u>(40,681)</u>
Miscellaneous:	<u>102,135</u>	<u>107,574</u>	<u>5,439</u>

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
TOTAL REVENUES	<u>35,143,311</u>	<u>35,375,319</u>	<u>232,008</u>
EXPENDITURES:			
General Government			
Governing body:			
Operating expenses	<u>54,131</u>	<u>37,789</u>	<u>16,342</u>
Administration:			
Salaries and benefits		250,905	
Operating expenses		<u>9,613</u>	
Total Administration	<u>260,518</u>	<u>260,518</u>	<u>--</u>
Finance:			
Salaries and benefits		310,069	
Operating expenses		<u>50,190</u>	
Total Finance	<u>365,783</u>	<u>360,259</u>	<u>5,524</u>
Tax Supervisor:			
Salaries and benefits		833,719	
Operating expenses		<u>108,338</u>	
Total Tax Supervisor	<u>1,036,188</u>	<u>942,057</u>	<u>94,131</u>
Tax Revaluation:			
Salaries and benefits		64,426	
Operating expenses		<u>5,185</u>	
Total Tax Revaluation	<u>134,729</u>	<u>69,611</u>	<u>65,118</u>
Legal Services:			
Operating expenses	<u>86,200</u>	<u>40,739</u>	<u>45,461</u>
Court facilities:			
Operating expenses	<u>13,203</u>	<u>3,220</u>	<u>9,983</u>
Elections:			
Salaries and benefits		140,953	
Operating expenses		<u>91,152</u>	
Total Elections	<u>199,041</u>	<u>177,599</u>	<u>21,442</u>
Register of Deeds:			
Salaries and benefits		330,958	
Operating expenses		<u>72,230</u>	
Total Register of Deeds	<u>437,509</u>	<u>403,188</u>	<u>34,321</u>
General administration:			
Operating expenses		682,880	
Capital outlay		<u>3,391</u>	
Total General administration	<u>1,061,180</u>	<u>686,271</u>	<u>374,909</u>
Information technologies:			
Salaries and benefits		206,981	
Operating expenses		152,865	
Capital outlay		<u>160,239</u>	
Total Information technologies	<u>558,267</u>	<u>520,085</u>	<u>38,182</u>
Maintenance:			
Salaries and benefits		868,519	
Operating expenses		<u>39,778</u>	

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		
	Budget	Actual	Variance
Total Maintenance	929,250	908,297	20,953

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
Public Buildings			
Courthouse:			
Operating expenses		94,698	
Capital Outlay		19,375	
Total Courthouse	290,185	114,073	176,112
East Courthouse Annex:			
Operating expenses	31,699	23,275	8,424
Heilig Meyers:			
Operating expenses		86,184	
Capital Outlay		187,183	
Total Heilig Meyers	1,659,007	273,367	1,385,640
Emergency Management:			
Operating expenses	1,050	636	414
Hannah:			
Operating expenses	10,928	10,928	--
Animal Shelter:			
Operating expenses	7,700	6,916	784
Old Cove Creek School			
Operating expenses	18,805	10,899	7,906
New Health Department			
Operating expenses		41,543	
Capital Outlay		1,567	
Total New Health Department	145,260	43,110	102,150
Public Building-APPALCART:			
Operating expenses	2,500	1,396	1,104
New Library:			
Operating expenses	35,784	24,989	10,795
Caldwell College & Tech. Inst:			
Operating expenses	8,600	214	8,386
Watauga Comm. Center:			
Operating expenses	24,902	16,535	8,367
Law Enforcement Center:			
Operating expenses	52,097	47,983	4,114
West Courthouse Annex:			
Operating expenses	27,938	21,665	6,273
Human Services Center:			
Operating expenses	74,126	61,384	12,742
Appalachian Enterprise Center:			
Operating expenses	12,490	11,474	1,016
Prison Camp Site			
Operating expenses	5,392,806	55,078	5,337,728
Recreation Administration Center:			
Operating expenses	2,816	1,037	1,779
Aquatics Center:			
Operating expenses		59,704	
Capital Outlay		45,733	

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		
	Budget	Actual	
	Variance		
Total Aquatics Center	450,411	105,437	344,974

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
Opt./Maintenance Facility:			
Operating expenses	29,091	25,756	3,335
Recreation Fields/Parks:			
Operating expenses		25,346	
Capital Outlay		4,309	
Total Recreation Fields/Parks	34,019	29,655	4,364
Brookshire Park:			
Operating expenses		5,281	
Capital Outlay		295,578	
Total Brookshire Park	494,248	300,859	193,389
Total Public Buildings	8,806,462	1,186,666	7,619,796
Total General Government	13,942,461	5,596,299	8,346,162
Public Safety			
Sheriff's department:			
Salaries and benefits		1,529,539	
Operating expenses		203,040	
Capital outlay		139,795	
Total Sheriff's department	1,919,076	1,872,374	46,702
Communications:			
Salaries and benefits		345,830	
Operating expenses		16,694	
Total Communications	379,269	362,524	16,745
321 Speed Reduction:			
Salaries and benefits		39,251	
Operating expenses		30	
Capital outlay		7,995	
Total 321 Speed Reduction	54,093	47,276	6,817
COPS Programs:			
Salaries and benefits		13,865	
Operating expenses		19,229	
Total COPS Program	70,625	33,094	37,531
Jail:			
Salaries and benefits		402,937	
Operating expenses		462,344	
Total Jail	856,425	865,281	(8,856)
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		170,950	
Operating expenses		491,829	
Total Emerg. Mgt. & Fire Protect.	717,744	662,779	54,965
Planning and Inspections:			
Salaries and benefits		447,650	
Operating expenses		38,524	
Total Planning and Inspections	500,369	486,174	14,195
Medical examiner:			
Operating expenses	25,000	23,450	1,550

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004	
Budget	Actual	Variance
Ambulance and rescue squad:		
Operating expenses	946,458	69,691
	1,016,149	

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
Animal control:			
Salaries and benefits		109,930	
Operating expenses		14,954	
Total Animal control	138,791	124,884	13,907
Forestry:			
Operating expenses	36,741	30,552	6,189
Total Public Safety	5,714,282	5,454,846	259,436
Economic & Physical Development			
Elderly & Disabled Transportation:			
Operating expenses	108,289	104,566	3,723
Special Appropriations:	354,843	351,738	3,105
Economic development:			
Operating expenses	19,016	19,015	1
Cooperative extension:			
Salaries and benefits		151,336	
Operating expenses		16,985	
Total Cooperative extension	177,392	168,321	9,071
Soil conservation:			
Salaries and benefits		75,362	
Operating expenses		10,464	
Total Soil conservation	92,451	85,826	6,625
Total Economic & Physical Development	751,991	729,466	22,525
Human Services			
Public health:			
Operating expenses	463,735	463,735	--
Mental health:			
Operating expenses	293,678	301,050	(7,372)
Social services - admin.:			
Salaries and benefits		2,018,706	
Operating expenses		307,025	
Total Social services - admin.	2,349,241	2,325,731	23,510
Beneficiary payments:	1,819,499	1,625,541	193,958
State foster care and daycare			
Room & Board		6,000	
Other		412	
Purchase-daycare XX		795,417	
Total State foster care and daycare	810,877	801,829	9,048
Project on aging:			
Salaries and benefits		1,236,927	
Operating expenses		239,729	
Total Project on aging	1,622,399	1,476,656	145,743
Veterans service officer:			
Salaries and benefits		104,856	
Operating expenses		3,192	
Total Veterans service officer	108,479	108,048	431

Watauga County, North Carolina
 General Fund
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE -- BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2004

	2004		Variance
	Budget	Actual	
Total Human Services	<u>7,467,908</u>	<u>7,102,590</u>	<u>365,318</u>
Education			
Public Schools - current		7,892,000	
Public Schools - capital outlay		989,379	
Community College - current		604,989	
Community College - capital outlay		<u>8,500</u>	
Total Education	<u>10,193,025</u>	<u>9,494,868</u>	<u>698,157</u>
Cultural and recreational			
Library:			
Operating expenses	<u>367,399</u>	<u>367,399</u>	<u>--</u>
Recreation:			
Salaries and benefits		441,803	
Operating expenses		<u>101,445</u>	
Total Recreation	<u>569,846</u>	<u>543,248</u>	<u>26,598</u>
Aquatics:			
Salaries and benefits		151,714	
Operating expenses		<u>7,520</u>	
Total Aquatics	<u>173,640</u>	<u>159,234</u>	<u>14,406</u>
Recreation - Maintenance:			
Operating expenses	<u>9,048</u>	<u>6,201</u>	<u>2,847</u>
Total Cultural and recreational	<u>1,119,933</u>	<u>1,076,082</u>	<u>43,851</u>
Debt Service			
Principal retirement		1,711,810	
Interest & fees		731,714	
Bond issuance costs		<u>83,800</u>	
Total Debt Service	<u>2,932,529</u>	<u>2,527,324</u>	<u>405,205</u>
TOTAL EXPENDITURES	<u>42,122,129</u>	<u>31,981,475</u>	<u>10,140,654</u>
Excess (deficiency) of revenues over expenditures	<u>(6,978,818)</u>	<u>3,393,844</u>	<u>10,372,662</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from installment purchase	5,000,000	5,000,000	--
Proceeds from refunding debt	4,290,835	4,275,000	(15,835)
Payment to refunding debt escrow agent	(4,275,000)	(4,275,000)	--
Operating transfers to other funds	(2,967,847)	(3,209,400)	(241,553)
Operating transfers from other funds	2,221,671	2,224,275	2,604
Fund balance appropriated	<u>2,709,159</u>	<u>--</u>	<u>(2,709,159)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,978,818</u>	<u>4,014,875</u>	<u>(2,963,943)</u>
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	<u>--</u>	<u>7,408,719</u>	<u>7,408,719</u>
Fund balances at beginning of year		15,085,464	
Prior period adjustment - to transfer assets to Pension Trust fund		<u>(95,840)</u>	
Fund balances at end of year		<u>\$ 22,398,343</u>	

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue Funds					Capital Projects Fund			
	Substance Abuse Tax Fund	E-911 Telephone Surcharge Fund	Fire Districts Fund	Revaluation Fund	CDBG Housing Rehabilitation Fund	Total Nonmajor Special Revenue Funds	Brookshire Park Capital Projects Fund	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS:									
Cash and cash equivalents	\$ 69,087	633,139	27,515	58,699	--	788,440	--	--	788,440
Accounts receivable, net	--	29,650	--	--	--	29,650	--	--	29,650
Taxes receivable, net	--	--	60,443	--	--	60,443	--	--	60,443
Total assets	<u>\$ 69,087</u>	<u>662,789</u>	<u>87,958</u>	<u>58,699</u>	<u>--</u>	<u>878,533</u>	<u>--</u>	<u>--</u>	<u>878,533</u>
LIABILITIES AND FUND BALANCE									
Liabilities:									
Accounts payable and accrued liabilities	--	10,803	--	--	--	10,803	--	--	10,803
Deferred revenue	--	--	87,958	--	--	87,958	--	--	87,958
Total Liabilities	<u>--</u>	<u>10,803</u>	<u>87,958</u>	<u>--</u>	<u>--</u>	<u>98,761</u>	<u>--</u>	<u>--</u>	<u>98,761</u>
Fund Balances:									
Reserved by state statute	--	29,650	--	--	--	29,650	--	--	29,650
Unreserved	69,087	622,336	--	58,699	--	750,122	--	--	750,122
Total fund balances	<u>69,087</u>	<u>651,986</u>	<u>--</u>	<u>58,699</u>	<u>--</u>	<u>779,772</u>	<u>--</u>	<u>--</u>	<u>779,772</u>
Total liabilities and fund balances	<u>\$ 69,087</u>	<u>662,789</u>	<u>87,958</u>	<u>58,699</u>	<u>--</u>	<u>878,533</u>	<u>--</u>	<u>--</u>	<u>878,533</u>

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	<u>Special Revenue Funds</u>					<u>Capital Projects Funds</u>			
	<u>Substance Abuse Tax</u>	<u>E-911 Telephone Surcharge</u>	<u>Fire Districts Fund</u>	<u>Revaluation Funds</u>	<u>CDBG Housing Rehabilitation Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>	<u>Brookshire Park Capital Projects Fund</u>	<u>Total Nonmajor Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES									
Ad valorem taxes	\$ --	--	1,169,165	--	--	1,169,165	--	--	1,169,165
Other taxes and licenses	--	273,953	--	--	--	273,953	--	--	273,953
Restricted intergovernmental	29,466	87,967	--	--	86,950	204,383	--	--	204,383
Investment earnings	--	6,799	--	590	--	7,389	2,603	2,603	9,992
Total revenues	<u>29,466</u>	<u>368,719</u>	<u>1,169,165</u>	<u>590</u>	<u>86,950</u>	<u>1,654,890</u>	<u>2,603</u>	<u>2,603</u>	<u>1,657,493</u>
EXPENDITURES									
Current:									
General government	--	--	--	--	86,950	86,950	--	--	86,950
Public safety	3,224	312,740	1,169,165	--	--	1,485,129	--	--	1,485,129
Capital outlay	17,341	73,746	--	--	--	91,087	--	--	91,087
Total expenditures	<u>20,565</u>	<u>386,486</u>	<u>1,169,165</u>	<u>--</u>	<u>86,950</u>	<u>1,663,166</u>	<u>--</u>	<u>--</u>	<u>1,663,166</u>
Excess (deficiency) of revenues over expenditures	<u>8,901</u>	<u>(17,767)</u>	<u>--</u>	<u>590</u>	<u>--</u>	<u>(8,276)</u>	<u>2,603</u>	<u>2,603</u>	<u>(5,673)</u>
OTHER FINANCING SOURCES (USES)									
Transfers to other funds	--	--	--	--	--	--	(253,702)	(253,702)	(253,702)
Total other financing sources and uses	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(253,702)</u>	<u>(253,702)</u>	<u>(253,702)</u>
Net change in fund balances	<u>8,901</u>	<u>(17,767)</u>	<u>--</u>	<u>590</u>	<u>--</u>	<u>(8,276)</u>	<u>(251,099)</u>	<u>(251,099)</u>	<u>(259,375)</u>
Fund balances - beginning	60,186	669,753	--	58,109	--	788,048	251,099	251,099	1,039,147
Fund balances - ending	<u>\$ 69,087</u>	<u>651,986</u>	<u>--</u>	<u>58,699</u>	<u>--</u>	<u>779,772</u>	<u>--</u>	<u>--</u>	<u>779,772</u>

WATAUGA COUNTY, NORTH CAROLINA
 Substance Abuse Tax Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2004

	2004		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Restricted intergovernmental	\$ 36,629	29,466	(7,163)
Total revenues	36,629	29,466	(7,163)
Expenditures:			
Public Safety	16,889	3,224	13,665
Capital Outlay	22,740	17,341	5,399
Total expenditures	39,629	20,565	19,064
Excess (deficiency) of revenues over expenditures	(3,000)	8,901	11,901
Appropriated fund balance	3,000	--	(3,000)
Excess (deficiency) of revenue and appropriated fund balance over expenditures	\$ --	8,901	8,901
Fund balance at beginning of year		60,186	
Fund balance at end of year		\$ 69,087	

WATAUGA COUNTY, NORTH CAROLINA
 E-911 Telephone Surcharge Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2004

	2004		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes and licenses: 911 subscriber fees	\$ 277,283	273,953	(3,330)
Restricted intergovernmental: Wireless 911 funds	70,000	87,967	17,967
Investment earnings	10,000	6,799	(3,201)
Total revenues	357,283	368,719	11,436
Expenditures:			
Public safety:			
911 system subscriber fees:			
Salaries and employee benefits	55,657	55,644	13
Operating expenses	204,686	188,376	16,310
Capital outlay	74,039	74,913	(874)
Total 911 system subscriber fees	334,382	318,933	15,449
Wireless 911:			
Operating expenses	24,409	18,194	6,215
Capital Outlay	47,503	49,359	(1,856)
Total Wireless 911	71,912	67,553	4,359
Total expenditures	406,294	386,486	19,808
Excess (deficiency) of revenues over expenditures	(49,011)	(17,767)	31,244
Appropriated fund balance	49,011	--	(49,011)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	(17,767)	(17,767)
Fund balance at beginning of year		669,753	
Fund balance at end of year		\$ 651,986	

WATAUGA COUNTY, NORTH CAROLINA
 Fire Districts Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2004

	2004		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 1,175,422	1,169,165	(6,257)
Total revenues	1,175,422	1,169,165	(6,257)
Expenditures:			
Public safety:			
Beaver Dam Fire District	67,846	67,977	(131)
Blowing Rock Fire District	162,388	160,105	2,283
Boone Fire District	203,755	202,725	1,030
Cove Creek Fire District	143,054	142,784	270
Deep Gap Fire District	72,504	73,340	(836)
Foscoe Fire District	249,915	250,130	(215)
Meat Camp Fire District	82,391	82,708	(317)
Meat Camp/Creston Fire District	3,302	3,219	83
Shawneehaw Fire District	52,654	52,326	328
Stewart Simmons Fire District	40,173	37,971	2,202
Todd Fire District	25,063	23,153	1,910
Zionville Fire District	72,377	72,727	(350)
Total expenditures	1,175,422	1,169,165	6,257
Excess (deficiency) of revenues over expenditures	\$ --	--	--
Fund balance at beginning of year		--	
Fund balance at end of year		\$ --	

WATAUGA COUNTY, NORTH CAROLINA
 Revaluation Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2004

	2004		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Investment earnings	\$ --	590	590
Expenditures:			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	590	590
Fund balance at beginning of year		58,109	
Fund balance at end of year		\$ 58,699	

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Housing Rehabilitation
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2004

	2004				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 400,000	13,500	86,950	100,450	(299,550)
Total revenues	400,000	13,500	86,950	100,450	(299,550)
Expenditures:					
Residence rehabilitation	186,000	--	285	285	185,715
Clearance activities	8,500	--	--	--	8,500
Relocation expenses	160,000	--	86,371	86,371	73,629
Planning	3,500	3,500	--	3,500	--
Code enforcement	2,000	--	--	--	2,000
Grant administration	40,000	10,000	294	10,294	29,706
Total expenditures	400,000	13,500	86,950	100,450	299,550
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year		\$	--		

WATAUGA COUNTY, NORTH CAROLINA
 Brookshire Park Capital Project
 Statement of Revenues and Expenditures and Changes in
 Fund Balance - Budget and Actual
 From Inception and For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental revenues	\$ 250,000	250,000	--	250,000	--
Investment earnings	13,992	3,833	2,603	6,436	(7,556)
Total revenues	<u>263,992</u>	<u>253,833</u>	<u>2,603</u>	<u>256,436</u>	<u>(7,556)</u>
Expenditures:					
Capital Projects	678,992	417,734	--	417,734	261,258
Excess (deficiency) of revenues over expenditures	(415,000)	(163,901)	--	(161,298)	253,702
Other financing sources (uses):					
Operating transfers - in (out):					
From capital reserve fund	415,000	415,000	--	415,000	--
To general fund	(251,099)	--	(253,702)	(253,702)	(2,603)
Appropriated fund balance	251,099	--	--	--	(251,099)
Total other financing sources (uses)	<u>415,000</u>	<u>415,000</u>	<u>(253,702)</u>	<u>161,298</u>	<u>(253,702)</u>
Increase (decrease) in fund balance	\$ <u> --</u>	<u>251,099</u>	(251,099)	<u> --</u>	<u> --</u>
Fund balance at beginning of year			<u>251,099</u>		
Fund balance at end of year			\$ <u> --</u>		

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures
Budget and Actual (NON-GAAP)
For the Fiscal Year Ended June 30, 2004

	2004		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenues:			
Landfill charges	\$	2,728,003	
Restricted intergovernmental revenues		19,117	
Other operating revenues		39	
Total	<u>2,480,196</u>	<u>2,747,159</u>	<u>266,963</u>
Non-operating revenues:			
Investment earnings	<u>50,000</u>	<u>42,256</u>	<u>(7,744)</u>
Total revenues	<u>2,530,196</u>	<u>2,789,415</u>	<u>259,219</u>
EXPENDITURES:			
Landfill operations:			
Salaries and employee benefits		702,782	
Other operating expenditures		2,025,650	
Total	<u>3,050,245</u>	<u>2,728,432</u>	<u>321,813</u>
Budgetary appropriations			
Interest paid		2,235	
Debt principal		50,026	
Capital outlay		503,306	
Total budgetary appropriations	<u>2,049,207</u>	<u>555,567</u>	<u>1,493,640</u>
Total expenditures	<u>5,099,452</u>	<u>3,283,999</u>	<u>1,815,453</u>
Revenues under expenditures	<u>(2,569,256)</u>	<u>(494,584)</u>	<u>2,074,672</u>
Other financing sources (uses):			
Operating transfers from other funds	981,443	981,443	--
Operating transfers to other fund	(321,841)	(321,841)	--
Appropriated fund balance	1,909,654	--	(1,909,654)
Total other financing sources (uses):	<u>2,569,256</u>	<u>659,602</u>	<u>(1,909,654)</u>
Revenues over expenditures and other sources (uses)	<u>\$ --</u>	<u>165,018</u>	<u>165,018</u>
Reconciliation from budgetary basis (modified accrual)			
to full accrual:			
Reconciling items:			
Capital outlays		503,306	
Depreciation		(119,506)	
Payment of debt principal		50,026	
Increase in accrued vacation pay		(2,131)	
Total reconciling items		<u>431,695</u>	
Change in net assets		<u>\$ 596,713</u>	

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Social Services:				
Assets:				
Cash and Investments	\$ <u>21,382</u>	<u>113,772</u>	<u>115,952</u>	<u>19,202</u>
Liabilities:				
Accounts Payable	\$ <u>21,382</u>	<u>113,772</u>	<u>115,952</u>	<u>19,202</u>
Surety Bond Funds:				
Assets:				
Cash and Investments	<u>18,655</u>	<u>--</u>	<u>18,655</u>	<u>--</u>
Liabilities:				
Accounts Payable	<u>18,655</u>	<u>--</u>	<u>18,655</u>	<u>--</u>
Health Benefits:				
Assets:				
Cash and Investments	<u>171,155</u>	<u>8,542</u>	<u>4,000</u>	<u>175,697</u>
Liabilities:				
Accounts Payable	<u>171,155</u>	<u>8,542</u>	<u>4,000</u>	<u>175,697</u>
Vehicle Tax-Towns:				
Assets:				
Cash and Investments	<u>6,262</u>	<u>95,497</u>	<u>92,105</u>	<u>9,654</u>
Liabilities:				
Accounts Payable	<u>6,262</u>	<u>95,497</u>	<u>92,105</u>	<u>9,654</u>
Total - All Agency Funds				
Assets:				
Cash and Investments	\$ <u>217,454</u>	<u>217,811</u>	<u>230,712</u>	<u>204,553</u>
Liabilities:				
Accounts Payable	\$ <u>217,454</u>	<u>217,811</u>	<u>230,712</u>	<u>204,553</u>

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2004

Fiscal year:	Uncollected Balance June 30, 2003	Additions	Collections and Credits	Uncollected Balance June 30, 2004
2003 - 2004	\$ --	19,222,442	18,803,892	418,550
2002 - 2003	480,492	--	322,203	158,289
2001 - 2002	134,632	--	47,107	87,525
2000 - 2001	85,529	--	23,247	62,282
1999 - 2000	56,352	--	10,829	45,523
1998 - 1999	47,223	--	5,966	41,257
1997 - 1998	37,039	--	4,507	32,532
1996 - 1997	27,108	--	2,440	24,668
1995 - 1996	24,527	--	1,098	23,429
1994 - 1995	27,650	--	782	26,868
1993 - 1994	25,063	--	25,063	--
	<u>\$ 945,615</u>	<u>19,222,442</u>	<u>19,247,134</u>	<u>920,923</u>

Plus: uncollected 2003 - 2004 ad valorem taxes receivable on annually registered vehicles	107,179
Less: allowance for uncollectible accounts General Fund	<u>(392,534)</u>
Ad valorem taxes receivable - net General Fund	<u>\$ 635,568</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 19,321,366
Reconciling items:	
Advertising and interest collected	(114,665)
Taxes written off	<u>40,433</u>
Total reconciling items	<u>(74,232)</u>
Total collections and credits	<u>\$ 19,247,134</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-Wide Levy
 For the Fiscal Year Ended June 30, 2004

	County-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 5,046,817,166	\$ 0.35	17,663,879	\$ 17,663,879	--
Motor vehicles taxed at current year's rate	205,897,067	0.35	720,705	--	720,705
Motor vehicles taxed at prior year's rate	142,813,250	0.37	528,672	--	528,672
Penalties	--		3,978	3,978	--
Total	<u>5,395,527,483</u>		<u>18,917,234</u>	<u>17,667,857</u>	<u>1,249,377</u>
Discoveries:					
Current year taxes	79,565,397	0.35	294,150	294,150	--
Prior year taxes	--		75,456	75,456	--
Penalties	--		12,043	12,043	--
Total	<u>79,565,397</u>		<u>381,649</u>	<u>381,649</u>	<u>--</u>
Abatements:	<u>(21,675,101)</u>		<u>(76,441)</u>	<u>(51,154)</u>	<u>(25,287)</u>
Total property valuation	<u>\$ 5,453,417,779</u>				
Net levy			19,222,442	17,998,352	1,224,090
Uncollected taxes at June 30, 2004			<u>418,550</u>	<u>311,371</u>	<u>107,179</u>
Current year's taxes collected			<u>\$ 18,803,892</u>	<u>17,686,981</u>	<u>1,116,911</u>
Current levy collection percentage			<u>97.82%</u>	<u>98.27%</u>	<u>91.24%</u>

WATAUGA COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2004

Statement 13-A

Secondary Market Disclosures:

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 4,875,742,171
Personal Property	507,270,722
Public Service Companies	<u>70,404,886</u>
Total Assessed Valuation	5,453,417,779
Tax Rate per \$100	0.35
Levy (includes discoveries, releases and abatements)	\$ <u><u>19,222,442</u></u>

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

Fire Protection Districts	\$ <u><u>1,168,986</u></u>
---------------------------	----------------------------

**WATAUGA COUNTY, NORTH CAROLINA
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2004**

Statement 13-B

Taxpayer	Type of Business	2003 Assessed Valuation	Percentage of Total Assessed Valuation
Blue Ridge Electric	Electric Utility	\$ 39,423,600	0.72 %
Spiritual Center of America	Resort/Real Estate	35,417,822	0.65
Maharishi Spiritual Center of America	Resort/Real Estate	23,453,400	0.43
Bell South	Telephone Utility	19,736,562	0.36
Innkeepers of Boone	Hotel	16,357,391	0.30
Boone Mall	Shopping Center	12,737,700	0.23
Appalachian South Inc.	Rental Properties	11,508,550	0.21
HE Club, Inc	Rental Properties	10,187,100	0.19
WM Land Partnership Ltd Partnership	Retail Sales	9,192,949	0.17
Heavenly Mtn. Resort, Inc.	Resort	9,191,449	0.17
		<u>\$ 187,206,523</u>	<u>3.43 %</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Fiscal Year Ended June 30, 2004

	Beaver Dam Fire District	Blowing Rock Fire District	Boone Fire District	Cove Creek Fire District	Deep Gap Fire District	Foscoe Fire District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawneehaw Fire District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.02</u>	<u>0.05</u>	<u>0.03</u>	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 67,394	161,027	200,786	142,705	72,944	251,066	82,431	3,340	52,379	37,991	23,391	73,530
Uncollected taxes at June 30, 2004	<u>2,037</u>	<u>4,255</u>	<u>3,616</u>	<u>4,573</u>	<u>2,520</u>	<u>5,757</u>	<u>2,843</u>	<u>275</u>	<u>1,749</u>	<u>1,409</u>	<u>842</u>	<u>4,029</u>
Current year's taxes collected	\$ <u>65,357</u>	<u>156,772</u>	<u>197,170</u>	<u>138,132</u>	<u>70,424</u>	<u>245,309</u>	<u>79,588</u>	<u>3,065</u>	<u>50,630</u>	<u>36,582</u>	<u>22,549</u>	<u>69,501</u>
Current levy collection percentage	<u>96.98%</u>	<u>97.36%</u>	<u>98.20%</u>	<u>96.80%</u>	<u>96.55%</u>	<u>97.71%</u>	<u>96.55%</u>	<u>91.77%</u>	<u>96.66%</u>	<u>96.29%</u>	<u>96.40%</u>	<u>94.52%</u>

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

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the basic financial statements of Watauga County, North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We did not audit the financial statements of AppalCART. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Bryce Holder, CPA, P.A.

September 22, 2004

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

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2004. Watauga County=s major federal programs are identified in the summary of auditor=s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Watauga County=s management. Our responsibility is to express an opinion on Watauga County=s compliance based on our audit.

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

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

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

Bryce Holder, CPA, P.A.

September 22, 2004

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

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. Watauga County=s major State programs are identified in the summary of auditor=s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Watauga County=s management. Our responsibility is to express an opinion on Watauga County=s compliance based on our audit.

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

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

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

Bryce Holder, CPA, P.A.

September 22, 2004

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

I. Summary of Auditor=s Results

- A. An unqualified opinion was issued on the financial statements of Watauga County.
- B. Our audit of the basic financial statements disclosed no reportable conditions in internal controls.
- C. Our audit of the basic financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements that are material to the basic financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the County=s major programs disclosed no reportable conditions in internal controls over major programs.
- E. An unqualified opinion was issued on Watauga County=s compliance with the types of compliance requirements applicable to its major federal programs.
- F. An unqualified opinion was issued on Watauga County=s compliance with the types of compliance requirements applicable to its major State programs.
- G. Major federal programs for Watauga County for the fiscal year ended June 30, 2004 are:

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

- H. Major State programs for Watauga County for the fiscal year ended June 30, 2004 are:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778

- I. The threshold for determining Type A programs for Watauga County is \$580,563.
- J. Watauga County qualified as a low risk auditee under Section .530 of Circular No. A-133.

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

There were no findings or questioned costs.

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

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2004

The prior year audit report disclosed no audit findings.

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2004

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Federal Grants:					
U.S. Dept. of Agriculture					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Food Stamp Cluster:					
Food Stamp Program-Noncash	10.551		\$ 1,575,628	--	--
State Administrative Matching Grants for the Food Stamp Program	10.561		204,602	--	204,602
Total Food Stamp Cluster			1,780,230	--	204,602
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly					
	10.570		27,034	--	--
Total U.S. Dept. of Agriculture			1,807,264	--	204,602
U.S. Dept. of Housing and Urban Development					
Passed-through the N.C. Dept. of Health and Commerce:					
Community Development Block Grant	14.228		86,950	--	--
U.S. Dept of Transportation					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Passed-through the N.C. Dept of Transportation					
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605		41,854	--	13,951
U.S. Dept of Homeland Security					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Hazard Mitigation Grant					
	97.039		3,611	--	1,204
Emergency Management Performance Grant	97.042		9,246	--	--
Emergency Management Performance Grant Supplemental	97.042		10,301	--	10,301
State and Local Emergency Operations Planning Grant	97.051		19,675	--	--
State Homeland Security Program	97.073		41,725	--	--
Total U.S. Dept of Homeland Security			84,558	--	11,505
U.S. Dept. of Justice					
Bulletproof Vests Partnership Program					
	16.607		6,250	--	6,250
Passed-through the N.C. Dept of Justice:					
Public Safety Partnership and Community Policing Grants (COPS)					
	16.710		33,976	--	--
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Western Public Safety Alliance					
	16.592		2,683	--	894
Total U.S. Dept of Justice			42,909	--	7,144
U.S. Dept. of Health & Human Services					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		3,911	250	462
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		25,718	10,265	3,987
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		60,243	38,170	10,935
In Home Services - State Funds			--	70,704	7,826
Senior Center			--	15,538	282
Family Caregiver Support Program	93.052		7,729	493	914
Social Services Block Grant (SSBG)					
In-home Services	93.667		13,718	--	1,517
Total Aging Cluster			111,319	135,420	25,923
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Temporary Assistance for Needy Families					
Administration					
	93.558		223,548	--	174,347
Direct Benefit Payments	93.558		112,542	--	--
Low-Income Home Energy Assistance Block Grant:					
Administration					
	93.568		72,797	--	--
Direct Benefit Payments	93.568		54,328	--	--
Childcare Development Fund-Administration	93.596		60,000	--	--

WATAUGA COUNTY, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2004

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
U.S. Dept. of Health & Human Services (cont.)					
Child Welfare Services	93.645		8,756	2,919	--
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	13,137	3,817
Title IV-E Foster Care	93.658		116,457	12,047	104,410
Foster Care - Direct Benefit Payments	93.658		78,385	9,995	36,503
Adoption Assistance - Direct Benefit Payments	93.659		120,267	35,815	35,815
Social Services Block Grant	93.667		176,358	22,068	79,065
DCD Smart Start			--	42,300	--
Division of Child Development:					
Subsidized Child Care Cluster:					
Child Care and Development					
Fund - - Discretionary	93.575		296,922	--	--
Child Care and Development					
Fund - - Mandatory	93.596		117,238	--	--
Child Care and Development					
Fund - - Match	93.596		102,860	60,923	--
Social Services Block Grant	93.667		5,670	--	--
TANF	93.558		62,854	--	--
Smart Start			--	55,795	--
TANF - Maintenance of Effort			--	87,180	--
Total Subsidized Child Care Cluster			<u>585,544</u>	<u>203,898</u>	<u>--</u>
Health Care Financing Administration					
Passed-through the N.C. Dept. of Health and					
Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		15,211,061	6,706,665	1,085,275
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		419,278	26,908	359,439
Health Choice	93.767		24,361	1,644	6,932
Links	93.674		504	126	--
Passed-through the N.C. State Board of Elections					
Help America Vote Act of 2002	93.617		<u>41,499</u>	<u>--</u>	<u>--</u>
Total U.S. Department of Health & Human Services			<u>17,417,004</u>	<u>7,212,942</u>	<u>1,911,526</u>
Total Federal Awards			<u>19,480,539</u>	<u>7,212,942</u>	<u>2,148,728</u>
State Awards:					
N.C. Dept. of Health and Human Services					
Division of Social Services					
State/County Special Assistance for Adults-					
Direct Benefit Payments			--	155,562	155,562
State Foster Care Benefits Program			--	17,009	17,009
Program Integrity			--	318	--
State Aid to Counties			--	20,725	--
State Adult Protective Service			--	17,675	--
Foster Care at Risk			--	4,055	2,409
Total N.C. Dept. of Health and Human Services			<u>--</u>	<u>215,344</u>	<u>174,980</u>

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2004

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Office of the Governor					
Department of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention Council Programs			--	120,435	51,615
N.C. Dept. of Public Instruction					
Public School Bond Fund			--	162,884	--
Public School National Forest Service			--	638	--
Total N.C. Dept. of Public Instruction			--	163,522	--
N.C. Dept. of Transportation					
Workfirst/Employment Transportation Operating Assistance			--	3,539	--
Elderly and Disabled Transportation Assistance Program (E&DTAP)			--	42,974	--
Rural General Public Program			--	33,114	--
Total N.C. Dept. of Transportation			--	79,627	--
N.C. Dept. of Environment, Health, and Natural Resources					
Soil Conservation Assistance			--	4,000	40,286
Soil Conservation Cost Sharing			--	20,770	20,770
Division of Waste Management Scrap Tire Disposal Grant			--	4,517	--
Total N.C. Dept. of Environment, Health, and Natural Resources			--	29,287	61,056
N.C. Dept. of Cultural Resources					
Transportation Equity Act of the 21st Century Grant			--	7,600	1,900
N.C. Heart Disease and Stroke Prevention Task Force					
Start with Your Heart Grant			--	4,173	--
N.C. Dept. of Corrections					
Criminal Justice Partnership Program		95-0703-I-A	--	66,054	--
N.C. Division of Veteran's Affairs					
Veteran's Service Program			--	2,000	106,048
Total State awards			--	688,042	395,599
Total federal and State awards			\$ 19,480,539	7,900,984	2,544,327

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Watauga County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements. Benefit payments are paid directly to recipients and are not included in the county's general purpose financial statements. However, due to the county's involvement in determining eligibility, they are considered federal awards to the county and are included on this schedule.

2. Subrecipients

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

Program Title	CFDA Number	Federal Expenditures	State Expenditures
Food Stamp Program-noncash	10.551	\$ 1,575,628	--
Temporary Assistance for Needy Families	93.558	112,542	--
Medical Assistance Program	93.778	15,211,061	6,706,665
Low Income Home Energy Assistance Block Grant	93.568	54,328	--
Child Welfare - Adoption Subsidy	93.645	--	13,137
Foster Care	93.658	78,385	9,995
Adoption Assistance	93.659	120,267	35,815
Adult Assistance	--	--	155,562