

WATAUGA COUNTY, NORTH CAROLINA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2006, 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, 2006, 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 7, 2006 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.

Bryce Holder, CPA, PA

September 7, 2006

BASIC FINANCIAL STATEMENTS

FINANCIAL SECTION

Watauga County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2006

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, 2006. 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 \$49,051,993.
- The County's total net assets increased by \$9,444,277 primarily due to an increase in revenues (fueled by an increase in the tax rate for education that generated an additional \$2.6 million and an increase in the tax levy from properties being added) and a decrease in expenditures (some budgeted expenditures for capital outlay were not expended in the current fiscal year).
- The County's unreserved fund balance for the general fund was \$13,770,671 at the end of the year, representing 34.1% of total General Fund expenditures.
- Watauga County's total debt decreased by \$672,842 during the current fiscal year. The key factor in this decrease was the scheduled payments of existing debt.
- Watauga County maintained its A bond rating.

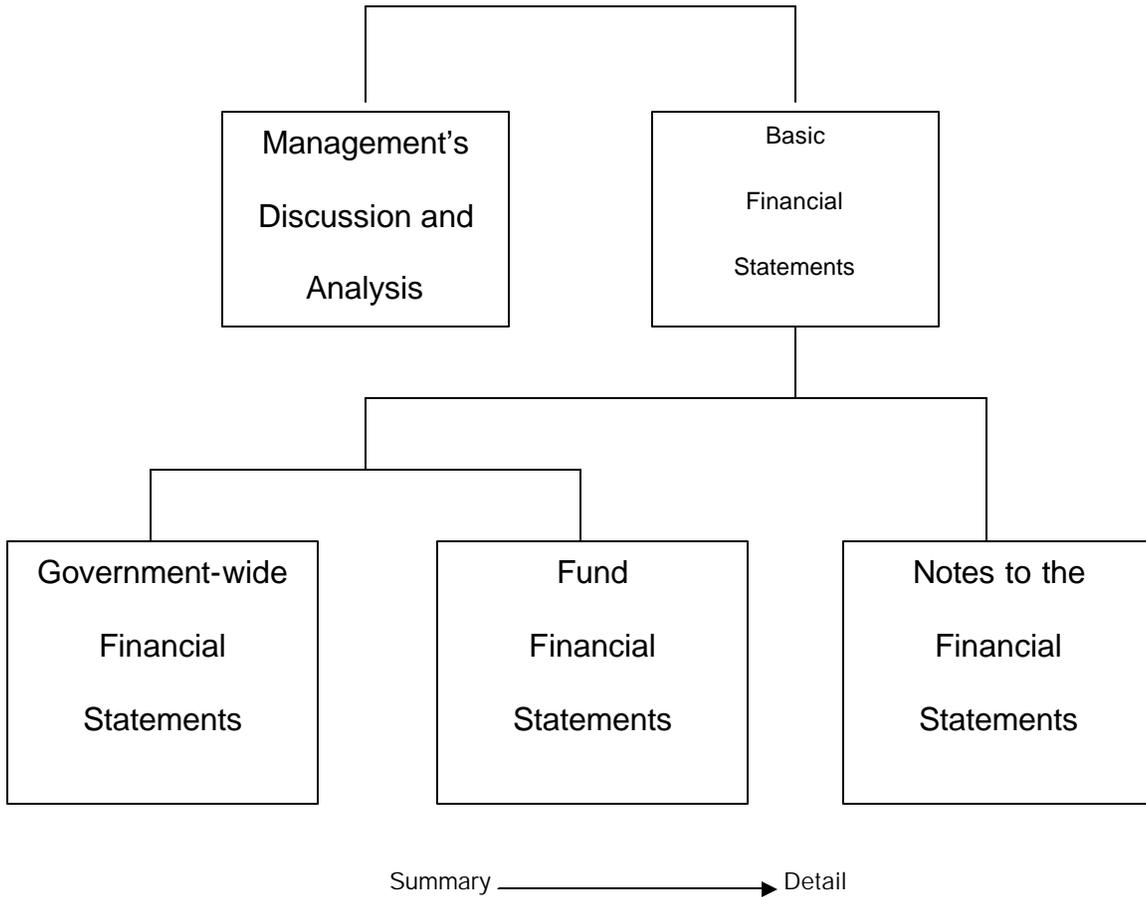
Overview of the Financial Statements

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

The next section of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. 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 gauge the County's financial condition.

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

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 him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Proprietary Funds - Watauga County has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-like activities in the government-wide financial statements. Watauga County uses enterprise funds to account for its 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 14 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 42 of this report.

Government-Wide Financial Analysis

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

| | Governmental | | Business | | Total | |
|--|----------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | Activities | | Activities | | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | \$ 29,408,366 | 27,516,217 | 3,637,491 | 3,444,330 | 33,045,857 | 30,960,547 |
| Capital assets | <u>33,261,940</u> | <u>26,975,790</u> | <u>4,730,779</u> | <u>4,647,836</u> | <u>37,992,719</u> | <u>31,623,626</u> |
| Total asset | <u>62,670,306</u> | <u>54,492,007</u> | <u>8,368,270</u> | <u>8,092,166</u> | <u>71,038,576</u> | <u>62,584,173</u> |
| Long-term liabilities, outstanding | 19,970,732 | 20,560,831 | 326,088 | 349,091 | 20,296,820 | 20,909,922 |
| Other liabilities | <u>1,319,484</u> | <u>1,634,075</u> | <u>370,279</u> | <u>432,460</u> | <u>1,689,763</u> | <u>2,066,535</u> |
| Total liabilities | <u>21,290,216</u> | <u>22,194,906</u> | <u>696,367</u> | <u>781,551</u> | <u>21,986,583</u> | <u>22,976,457</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 25,571,505 | 20,063,795 | 4,515,138 | 4,340,234 | 30,086,643 | 24,404,029 |
| Restricted | 731,264 | 869,165 | -- | -- | 731,264 | 869,165 |
| Unrestricted | <u>15,077,321</u> | <u>11,364,141</u> | <u>3,156,765</u> | <u>2,970,381</u> | <u>18,234,086</u> | <u>14,334,522</u> |
| Total net assets | <u>\$ 41,380,090</u> | <u>32,297,101</u> | <u>7,671,903</u> | <u>7,310,615</u> | <u>49,051,993</u> | <u>39,607,716</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 \$49,051,993 at June 30, 2006. The County's net assets increased by \$9,444,277 for the fiscal year ended June 30, 2006. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$30,086,643, Restricted net assets of \$731,264 and Unrestricted net assets of \$18,234,086.

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, 2006, 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 98.32%, higher than the 2005 statewide average of 97.04%.
- Increase in charges for services due to economic growth.

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

| | Government Activities | | Business-type Activities | | Total | |
|---|--------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$1,961,872 | 2,696,681 | 3,744,117 | 3,244,959 | 5,705,989 | 5,941,640 |
| Operating grants and contributions | 5,757,594 | 4,243,474 | 10,208 | 22,555 | 5,767,802 | 4,266,029 |
| General revenues: | | | | | | |
| Property taxes | 24,476,446 | 20,944,307 | -- | -- | 24,476,446 | 20,944,307 |
| Other taxes | 12,661,243 | 11,792,720 | -- | -- | 12,661,243 | 11,792,720 |
| Grants and contributions not restricted to specific programs | 13,276 | 13,054 | -- | -- | 13,276 | 13,054 |
| Donations | 1,009,506 | -- | -- | -- | 1,009,506 | -- |
| Other | 1,055,250 | 656,211 | 97,395 | 59,911 | 1,152,645 | 716,122 |
| Total revenues | <u>46,935,187</u> | <u>40,346,447</u> | <u>3,851,720</u> | <u>3,327,425</u> | <u>50,786,907</u> | <u>43,673,872</u> |
| Expenses: | | | | | | |
| General government | 5,718,350 | 5,266,136 | -- | -- | 5,718,350 | 5,266,136 |
| Public safety | 9,652,800 | 7,546,298 | -- | -- | 9,652,800 | 7,546,298 |
| Economic and physical development | 867,004 | 789,593 | -- | -- | 867,004 | 789,593 |
| Human services | 8,112,903 | 7,817,570 | -- | -- | 8,112,903 | 7,817,570 |
| Cultural and recreation | 1,350,570 | 1,207,295 | -- | -- | 1,350,570 | 1,207,295 |
| Education | 11,143,551 | 10,946,838 | -- | -- | 11,143,551 | 10,946,838 |
| Interest on long-term debt | 744,452 | 854,586 | -- | -- | 744,452 | 854,586 |
| Solid Waste | -- | -- | 3,753,000 | 3,296,450 | 3,753,000 | 3,296,450 |
| Total expenses | <u>37,589,630</u> | <u>34,428,316</u> | <u>3,753,000</u> | <u>3,296,450</u> | <u>41,342,630</u> | <u>37,724,766</u> |
| Increase in net assets before transfers and special item | 9,345,557 | 5,918,131 | 98,720 | 30,975 | 9,444,277 | 5,949,106 |
| Special Item: Property tax refund to Appalachian Student Housing Corporation | -- | (296,521) | -- | (32,400) | -- | (328,921) |
| Transfers | (262,568) | (339,351) | 262,568 | 339,351 | -- | -- |
| Increase in net assets | 9,082,989 | 5,282,259 | 361,288 | 337,926 | 9,444,277 | 5,620,185 |
| Net assets, July 1 | 32,297,101 | 26,850,607 | 7,310,615 | 6,972,689 | 39,607,716 | 33,823,296 |
| Prior Period adjustment | -- | 164,235 | -- | -- | -- | 164,235 |
| Net assets, June 30 | <u>41,380,090</u> | <u>32,297,101</u> | <u>7,671,903</u> | <u>7,310,615</u> | <u>49,051,993</u> | <u>39,607,716</u> |

Governmental activities. Governmental activities increased the County's net assets by \$9,082,989 thereby accounting for 96.0% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Increase in interest earned on investment revenue above budgeted amounts
- Increased collections of property tax revenue above budgeted amounts
- Solicitation of additional grant revenues for the Public Safety
- Maintenance of the County's high tax collections rate of 98.32%

Business-type activities: Business-type activities increased Watauga County's net assets by \$361,288, accounting for 4.0 % of the total growth in the government's net assets. Key elements of this increase are as follows:

- Increase in revenues due to increased use of County solid waste 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 \$13,770,671 while total fund balance reached \$21,146,087. 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 34.1 percent of total General Fund expenditures, while total fund balance represents 52.3 percent of that same amount.

At June 30, 2006, the governmental funds of Watauga County reported a combined fund balance of \$27,235,886, a 9.05 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 \$12,963,486.

The actual operating revenues for the General Fund were \$1,286,278 more than the budgeted amount. Actual operating expense was less than budgeted by \$6,653,154.

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 \$3,156,765. The total growth in net assets was \$361,288.

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, 2006, totals \$37,992,719 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles for County departments
 - Completed construction of new solidwaste transfer station
 - Continued construction of new jail and law enforcement center
 - Continued renovation of new administration building
 - Purchased new front end loader, recycling truck, and trash truck for solid waste operations
 - Purchased approximately 73 acres of land adjacent to Brookshire Park
 - Began renovation and addition to Watauga County Courthouse
-

Watauga County's Capital Assets

Figure 4

WATAUGA COUNTY'S CAPITAL ASSETS

(net of depreciation)

| | Governmental | Business | Total |
|--------------------------|---------------|------------|------------|
| | Activities | Activities | |
| | 2006 | 2006 | 2006 |
| Land | \$ 9,144,031 | 1,377,212 | 10,521,243 |
| Buildings | 13,045,599 | 2,739,477 | 15,785,076 |
| Other improvements | 68,090 | 176,366 | 244,456 |
| Equipment | 1,071,209 | 44,506 | 1,115,715 |
| Vehicles | 775,292 | 352,302 | 1,127,594 |
| Construction in progress | 9,157,719 | 40,916 | 9,198,635 |
| Total | \$ 33,261,940 | 4,730,779 | 37,992,719 |

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, 2006, Watauga County had bonded debt outstanding of \$11,505,000 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

| | <u>Governmental Activities</u> | | | |
|--------------------------|--------------------------------|-------------|-------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| General obligation bonds | \$ 11,505,000 | 12,915,000 | 14,320,000 | 15,355,000 |

Watauga County's total debt decreased by \$672,842 or (3.32%) during the past fiscal due to annual debt service payments.

As mentioned in the financial highlights section of this document, Watauga County maintained its 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.

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 \$458,004,741.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 35 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 is experiencing a low unemployment rate of 3.6%, third lowest in the state
- The County continues to experience growth in the tourism industry with an annual economic impact of approximately \$164 million.
- Appalachian State University's economic impact is estimated at \$407.1 million a year and provides stability to the local economy

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental activities - The County's first four year property revaluation cycle was completed with values to be effective with tax bills for FY 2006/07. The County's property tax rate was reduced to the revenue neutral rate of 31.3 cents per \$100 in property valuation. 3.4 cents of the tax rate which generates approximately \$2.5 million in property tax revenue is earmarked for education. Sales tax revenue is projected to increase due to continued economic growth. Planning and Inspections fees were increased to comparable fees for surrounding towns and counties.

Budgeted expenditures in the General Fund includes a 7.3% increase in the current expense appropriation to the school system as well as \$2,522,858 to be transferred to the Capital Reserve Fund to fund future high school renovations, construction and/or debt service. In addition, \$290,000 is set a side in the Capital Reserve Fund for an elementary school capital improvement plan.

Businesses-type Activities: The County budgeted increases in tipping, green box and landfill fees in the Solidwaste Landfill Fund. These increases will generate approximately \$477,860.

Requests for Information

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

Watauga County, North Carolina
Statement of Net Assets
June 30, 2006

Exhibit A

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|------------|----------------|
| | Governmental Activities | Business-type Activities | Total | AppalCART |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 24,594,960 | 3,310,715 | 27,905,675 | 502,478 |
| Receivables (net) | 2,023,021 | 311,234 | 2,334,255 | 2,259 |
| Due from other governments | 2,176,616 | 15,542 | 2,192,158 | 643,429 |
| Inventories | -- | -- | -- | 104,868 |
| Prepaid items | 169,476 | -- | 169,476 | 10,450 |
| Deferred charges - issuance cost | 79,609 | -- | 79,609 | -- |
| Deferred charges - refunding | 308,749 | -- | 308,749 | -- |
| Intangible asset - advanced funding of pension obligation | 55,935 | -- | 55,935 | -- |
| Capital assets: | | | | |
| Land, improvements, and construction in progress | 18,301,750 | 1,888,209 | 20,189,959 | -- |
| Other capital assets, net of depreciation | 14,960,190 | 2,842,570 | 17,802,760 | 3,649,147 |
| Total capital assets | 33,261,940 | 4,730,779 | 37,992,719 | 3,649,147 |
| Total assets | 62,670,306 | 8,368,270 | 71,038,576 | 4,912,631 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 1,035,808 | 275,881 | 1,311,689 | 637,281 |
| Unearned revenue | 167,423 | 153,934 | 321,357 | 18,819 |
| Accrued interest payable | 116,253 | -- | 116,253 | -- |
| Customer deposits | -- | 76 | 76 | -- |
| Long-term liabilities: | | | | |
| Due within one year | 2,126,384 | 94,322 | 2,220,706 | -- |
| Due in more than one year | 17,844,348 | 172,154 | 18,016,502 | -- |
| Total liabilities | 21,290,216 | 696,367 | 21,986,583 | 656,100 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 25,571,505 | 4,515,138 | 30,086,643 | 3,649,147 |
| Restricted for: | | | | |
| Public safety | 581,299 | -- | 581,299 | -- |
| Register of Deeds | 149,965 | -- | 149,965 | -- |
| Unrestricted (deficit) | 15,077,321 | 3,156,765 | 18,234,086 | 607,384 |
| Total net assets | \$ 41,380,090 | 7,671,903 | 49,051,993 | 4,256,531 |

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, 2006

Program Revenues

| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
|-----------------------------------|----------------------|---------------------------------|---|---|
| Primary government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 5,718,350 | 867,380 | 47,659 | -- |
| Public safety | 9,652,800 | 704,877 | 1,792,213 | -- |
| Economic and physical development | 867,004 | -- | 209,254 | -- |
| Human service | 8,112,903 | 21,339 | 3,708,468 | -- |
| Cultural and recreation | 1,350,570 | 368,276 | -- | -- |
| Education | 11,143,551 | -- | -- | -- |
| Interest on long-term debt | 744,452 | -- | -- | -- |
| Total governmental activities | <u>37,589,630</u> | <u>1,961,872</u> | <u>5,757,594</u> | <u>--</u> |
| Business-type activities: | | | | |
| Solid waste | <u>3,753,000</u> | <u>3,744,117</u> | <u>10,208</u> | <u>--</u> |
| Total | <u>\$ 41,342,630</u> | <u>5,705,989</u> | <u>5,767,802</u> | <u>--</u> |
| Component unit: | | | | |
| AppalCART | <u>\$ 2,137,117</u> | <u>865,650</u> | <u>956,809</u> | <u>1,025,567</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
- Donations, unrestricted
- Loss on sale of assets
- Transfers
 - Total general revenues, special items, and transfers
 - Change in net assets
- Net assets - beginning
- Net assets - ending

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

| Net (Expense) Revenues and Changes in Net Assets | | | | |
|---|-----------------------------|--------------|----------------|--|
| Primary Government | | | Component Unit | |
| Governmental Activities | Business-type Activities | Total | AppalCART | |
| (4,803,311) | -- | (4,803,311) | | |
| (7,155,710) | -- | (7,155,710) | | |
| (657,750) | -- | (657,750) | | |
| (4,383,096) | -- | (4,383,096) | | |
| (982,294) | -- | (982,294) | | |
| (11,143,551) | -- | (11,143,551) | | |
| (744,452) | -- | (744,452) | | |
| (29,870,164) | -- | (29,870,164) | | |
| -- | | | | |
| -- | 1,325 | 1,325 | | |
| (29,870,164) | 1,325 | (29,868,839) | | |
| | | | 710,909 | |
| \$ 24,476,446 | -- | 24,476,446 | -- | |
| 11,327,346 | -- | 11,327,346 | -- | |
| 1,333,897 | -- | 1,333,897 | -- | |
| 13,276 | -- | 13,276 | -- | |
| 863,935 | 97,395 | 961,330 | 13,113 | |
| 191,315 | -- | 191,315 | -- | |
| 1,009,506 | | 1,009,506 | | |
| -- | -- | - | (10,617) | |
| (262,568) | 262,568 | - | -- | |
| 38,953,153 | 359,963 | 39,313,116 | 2,496 | |
| 9,082,989 | 361,288 | 9,444,277 | 713,405 | |
| 32,297,101 | 7,310,615 | 39,607,716 | 3,543,126 | |
| \$ 41,380,090 | 7,671,903 | 49,051,993 | 4,256,531 | |

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

Watauga County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2006

Exhibit C

| | General | Capital Reserve Fund | Other Governmental Funds | Total Governmental Fund |
|--|----------------------|-------------------------------------|---|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 18,517,308 | 5,432,302 | 645,350 | 24,594,960 |
| Taxes receivable, net | 573,499 | -- | 54,708 | 628,207 |
| Due from other governments | 2,176,616 | -- | -- | 2,176,616 |
| Due from other funds | 117,799 | -- | -- | 117,799 |
| Accounts receivable, net | 1,177,628 | -- | 185,522 | 1,363,150 |
| Other assets | 169,476 | -- | -- | 169,476 |
| Total assets | \$ 22,732,326 | 5,432,302 | 885,580 | 29,050,208 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 980,945 | -- | 54,863 | 1,035,808 |
| Unearned revenue | 8,879 | -- | 796 | 9,675 |
| Deferred revenue | 596,415 | -- | 54,625 | 651,040 |
| Due to other funds | -- | -- | 117,799 | 117,799 |
| Total liabilities | 1,586,239 | -- | 228,083 | 1,814,322 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| State statute | 3,641,518 | -- | 185,522 | 3,827,040 |
| Encumbrances | 3,583,933 | -- | -- | 3,583,933 |
| Register of Deeds | 149,965 | -- | -- | 149,965 |
| Unreserved | 13,770,671 | 5,432,302 | -- | 19,202,973 |
| Unreserved, reported in nonmajor: | | | | |
| Special revenue funds | -- | -- | 12,355 | 12,355 |
| Capital projects funds | -- | -- | 459,620 | 459,620 |
| Total fund balances | 21,146,087 | 5,432,302 | 657,497 | 27,235,886 |
| Total liabilities and fund balances | \$ 22,732,326 | 5,432,302 | 885,580 | |

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.

55,935

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

33,261,940

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

31,664

Liabilities for earned but deferred revenues in fund statements.

493,292

Deferred charges based on refunding issues.

388,358

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3).

(20,086,985)

Net assets of governmental activities

\$ 41,380,090

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, 2006

Exhibit D

| | General | Capital Reserve Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-------------------------------------|---|---|
| REVENUES | | | | |
| Ad valorem taxes | \$ 23,233,814 | -- | 1,294,585 | 24,528,399 |
| Local option sales taxes | 11,327,346 | -- | -- | 11,327,346 |
| Other taxes and licenses | 1,080,261 | -- | 253,636 | 1,333,897 |
| Unrestricted intergovernmental | 13,276 | -- | -- | 13,276 |
| Restricted intergovernmental | 4,160,620 | 45,000 | 1,988,043 | 6,193,663 |
| Permits and fees | 922,003 | -- | -- | 922,003 |
| Sales and services | 587,413 | -- | -- | 587,413 |
| Investment earnings | 677,597 | 183,471 | 19,254 | 880,322 |
| Donations | 1,009,506 | -- | 1,306 | 1,010,812 |
| Miscellaneous | 190,009 | -- | -- | 190,009 |
| Total revenues | <u>43,201,845</u> | <u>228,471</u> | <u>3,556,824</u> | <u>46,987,140</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 10,379,316 | -- | 124,551 | 10,503,867 |
| Public safety | 6,440,079 | -- | 5,064,680 | 11,504,759 |
| Economic and physical development | 810,252 | -- | -- | 810,252 |
| Human services | 7,518,811 | -- | -- | 7,518,811 |
| Cultural and recreational | 1,232,727 | -- | -- | 1,232,727 |
| Intergovernmental: | | | | |
| Education | 11,142,536 | -- | -- | 11,142,536 |
| Capital outlay | -- | -- | 383,834 | 383,834 |
| Debt service: | | | | |
| Principal | 2,131,560 | -- | -- | 2,131,560 |
| Interest | 735,132 | -- | -- | 735,132 |
| Total expenditures | <u>40,390,413</u> | <u>--</u> | <u>5,573,065</u> | <u>45,963,478</u> |
| Excess (deficiency) of revenues over expenditures | <u>2,811,432</u> | <u>228,471</u> | <u>(2,016,241)</u> | <u>1,023,662</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | 3,549,079 | 4,187,858 | -- | 7,736,937 |
| Transfers to other funds | (5,046,129) | (3,469,678) | 516,302 | (7,999,505) |
| Proceeds from loan | 1,500,000 | -- | -- | 1,500,000 |
| Total other financing sources and uses | <u>2,950</u> | <u>718,180</u> | <u>516,302</u> | <u>1,237,432</u> |
| Net change in fund balance | 2,814,382 | 946,651 | (1,499,939) | 2,261,094 |
| Fund balances-beginning | 18,331,705 | 4,485,651 | 2,157,436 | 24,974,792 |
| Fund balances-ending | <u>\$ 21,146,087</u> | <u>5,432,302</u> | <u>657,497</u> | <u>27,235,886</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, 2006

Exhibit D

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

| | |
|---|--------------|
| Net changes in fund balances - total governmental funds | \$ 2,261,094 |
|---|--------------|

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

6,286,151

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 | (41,461) | |
| Advance funding of pension obligation | 8,315 | |
| Accrued interest expense | (3,903) | |
| Taxes receivable | <u>(51,953)</u> | |
| Combined adjustment | | (89,002) |

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.

624,746

| | |
|--|---------------------|
| Total changes in net assets of governmental activities | \$ <u>9,082,989</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, 2006

| | General Fund | | | |
|---|---------------------|--------------------|-------------------|--|
| | Budget | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
| | Original | Final | | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 22,470,083 | 22,470,083 | 23,233,814 | 763,731 |
| Local option sales tax | 11,283,996 | 11,283,996 | 11,327,346 | 43,350 |
| Other taxes and licenses | 675,500 | 675,500 | 1,080,261 | 404,761 |
| Unrestricted intergovernmental | 12,500 | 12,500 | 13,276 | 776 |
| Restricted intergovernmental | 3,783,446 | 4,607,762 | 4,160,620 | (447,142) |
| Permits and fees | 833,731 | 836,512 | 922,003 | 85,491 |
| Sales and services | 547,108 | 547,757 | 587,413 | 39,656 |
| Investment earnings | 312,500 | 312,500 | 677,597 | 365,097 |
| Donations | -- | 1,000,981 | 1,009,506 | 8,525 |
| Miscellaneous | 111,376 | 167,976 | 190,009 | 22,033 |
| Total revenues | <u>40,030,240</u> | <u>41,915,567</u> | <u>43,201,845</u> | <u>1,286,278</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 6,195,781 | 15,579,700 | 10,379,316 | 5,200,384 |
| Public safety | 6,652,779 | 7,128,342 | 6,440,079 | 688,263 |
| Economic & Physical | 837,676 | 880,125 | 810,252 | 69,873 |
| Human services | 7,659,971 | 7,849,113 | 7,518,811 | 330,302 |
| Cultural and recreation | 1,280,686 | 1,286,454 | 1,232,727 | 53,727 |
| Education | 10,559,792 | 11,452,124 | 11,142,536 | 309,588 |
| Debt service: | | | | |
| Principal retirement | 2,064,845 | 2,131,573 | 2,131,560 | 13 |
| Interest and other charges | 713,878 | 736,136 | 735,132 | 1,004 |
| Total expenditures | <u>35,965,408</u> | <u>47,043,567</u> | <u>40,390,413</u> | <u>6,653,154</u> |
| Revenues over (under) expenditures | <u>4,064,832</u> | <u>(5,128,000)</u> | <u>2,811,432</u> | <u>7,939,432</u> |
| Other financing sources (uses): | | | | |
| Transfers from other funds | 69,109 | 3,562,321 | 3,549,079 | (13,242) |
| Transfers to other funds | (4,539,412) | (5,046,129) | (5,046,129) | -- |
| Future project funding | -- | -- | -- | -- |
| Loan proceeds | -- | 1,500,000 | 1,500,000 | -- |
| Fund balance appropriated | 405,471 | 5,111,808 | -- | (5,111,808) |
| Total other financing sources (uses) | <u>(4,064,832)</u> | <u>5,128,000</u> | <u>2,950</u> | <u>(5,125,050)</u> |
| Revenues and other sources over (under) expenditures and other uses | -- | -- | 2,814,382 | 2,814,382 |
| Fund balances, beginning of year | -- | -- | 18,331,705 | -- |
| Fund balances, end of year | \$ -- | -- | <u>21,146,087</u> | -- |

Watauga County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2006

| | Enterprise Fund |
|--|-------------------------|
| | Solid Waste Fund |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 3,310,715 |
| Receivables, net | 311,234 |
| Due from other governments | 15,542 |
| Total current assets | 3,637,491 |
| Capital assets: | |
| Land, improvements, and construction in progress | 1,888,209 |
| Other capital assets, net of depreciation | 2,842,570 |
| Total capital assets | 4,730,779 |
| Total assets | 8,368,270 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 275,881 |
| Customer deposits | 76 |
| Installment purchase payable | 94,322 |
| Total current liabilities | 370,279 |
| Noncurrent liabilities: | |
| Deferred Revenue | 153,934 |
| Compensated absences | 50,835 |
| Installment purchase payable | 121,319 |
| Total noncurrent liabilities | 326,088 |
| Total liabilities | 696,367 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 4,515,138 |
| Unrestricted | 3,156,765 |
| Total net assets | \$ 7,671,903 |

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, 2006

| | <u>Enterprise Fund</u> |
|--|-------------------------|
| | <u>Solid Waste Fund</u> |
| OPERATING REVENUES: | |
| Charges for services | \$ 3,744,117 |
| Restricted intergovernmental revenues | 10,208 |
| | 3,754,325 |
| Total operating revenues | |
| OPERATING EXPENSES: | |
| Landfill operations | 3,567,949 |
| Depreciation | 177,998 |
| | 3,745,947 |
| Total operating expenses | |
| Operating income (loss) | 8,378 |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest and investment revenue | 97,395 |
| Interest paid on long term debt | (7,053) |
| | 90,342 |
| Total non operating revenue (expenses) | |
| Income (loss) before transfers | 98,720 |
| Transfers to (from) other funds (net) | 262,568 |
| | 361,288 |
| Change in net assets | |
| Total net assets - beginning | 7,310,615 |
| Total net assets - ending | \$ 7,671,903 |

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, 2006

| | Solid Waste Fund |
|---|---------------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 3,722,488 |
| Cash paid for goods and services | (2,692,533) |
| Cash paid to employees for services | (871,572) |
| Other operating revenue | 10,208 |
| Net cash provided by operating activities | 168,591 |
| Cash flows from noncapital financing | |
| Operating transfers (net) | 262,568 |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (260,941) |
| Principal paid on installment purchase contracts | (91,960) |
| Interest paid on installment purchase contracts | (7,053) |
| Net cash used by capital and related financing activities | (359,954) |
| Cash flows from investing activities: | |
| Interest on investments | 97,395 |
| Net increase (decrease) in cash and cash equivalents | 168,600 |
| Cash and cash equivalents, July 1 | 3,142,115 |
| Cash and cash equivalents, June 30 | \$ 3,310,715 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 8,378 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 177,998 |
| Changes in assets and liabilities: | |
| Increase in accounts receivable | (24,562) |
| Increase in deferred revenue | 2,933 |
| Decrease in accounts payable and accrued liabilities | (5,502) |
| Increase in accrued vacation pay | 9,346 |
| Total adjustments | 160,213 |
| Net cash used by operating activities | \$ 168,591 |

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, 2006**

| | <u>Pension Trust Fund</u> | <u>Agency Fund</u> |
|---|-----------------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$ <u>131,075</u> | <u>257,595</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ <u> --</u> | <u>257,595</u> |
| Net Assets: | | |
| Assets held in trust for pension benefits | \$ <u>131,075</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, 2006

Exhibit J

| | | Pension Trust Fund <hr/> June 30, 2006 <hr/> |
|------------------------|----|--|
| Additions: | | |
| Employer contributions | \$ | 38,803 |
| Interest earned | | <u>3,438</u> |
| Total additions | | <u>42,241</u> |
| Deductions: | | |
| Benefits | | 28,560 |
| Administrative expense | | <u>243</u> |
| Total deductions | | <u>28,803</u> |
| Change in net assets | | 13,438 |
| Net assets, beginning | | <u>117,637</u> |
| Net assets, ending | \$ | <u><u>131,075</u></u> |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2006

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.

The County reports the following fund types:

Pension Trust Fund- The County has a Pension Trust Fund, that accounts for the Law Enforcement Officer's Special Separation Allowance, a single-employer, public employee retirement system

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 for disability and retiree insurance; and the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle

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

property taxes that are billed and collected by the County for various municipalities within the County.

Measurement Focus and Basis of Accounting

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

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

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

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

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 susceptible to accrual. At June 30, taxes receivable are materially past due and are not

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

considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that are previously annually registered will be in the staggered system.

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.

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, Fire District, Disaster Relief, Lance Creek Restoration, and Revaluation

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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

C. Budgetary Data (continued)

Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Housing Rehabilitation, the CDBG Rehabilitation Grant, and the CDBG Urgent Needs Special Revenue Funds 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 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

The County pools money from several funds, except the Pension Trust Fund, to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. AppalCART considers demand deposits and investments purchased with an original maturity of

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

2. Cash and Cash Equivalents (continued)

three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2005.

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:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 30 to 50 |
| 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, 2006

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.

Unreserved

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2006-2007 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 \$14,144,204 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) | \$ 52,060,273 |
| Less accumulated depreciation | (18,798,333) |
| 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 | 55,935 |
| 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 | 31,664 |
| Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide | 493,292 |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources. 388,358

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 | (19,195,435) |
| Compensated absences | (775,297) |
| Accrued interest payable | <u>(116,253)</u> |
| Total adjustment | \$ <u>14,144,204</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 \$6,821,895 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 | \$ 7,488,648 |
| 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 | (1,201,181) |
| Loss on disposal of assets that is recorded in the statement of activities but not in the fund statements | (1,316) |
| 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 | 545,137 |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | |
|---|----------|
| Expenses reported on fund statements that are capitalized on government-wide statements – bond issuance and refunding costs | 79,609 |
| The advance funding of pension obligations | 8,315 |
| 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) | 2,911 |
| 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 | (41,461) |

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 7/1/05 | (519,826) |
| Recording of tax receipts deferred in the fund statements as of 6/30/06 | 493,292 |
| Increase in accrued taxes receivable for year ended 6/30/06 | <u>(25,419)</u> |
| Total adjustment | \$ <u><u>6,821,895</u></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, 2006

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, 2006, the County's deposits had a carrying amount of \$27,278,639 and a bank balance of \$27,601,917. Of the bank balance, \$300,000 was covered by federal depository insurance, and \$20,351 in non-interest bearing deposits and \$27,281,566 in interest bearing deposits were covered by collateral held under the Pooling Method.

The County has no formal policy regarding custodial credit risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The AppalCART has no formal policy regarding custodial credit risk for deposits.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

At June 30, 2006 Watauga County had \$1,800 cash on hand.

At June 30, 2006, the AppalCART's deposits had a balance of \$370,441 and a bank balance of \$432,046. All of the bank balance was covered by federal depository insurance.

2. Investments

At June 30, 2006, the County's investments consisted of \$1,013,906 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's. The County has no policy on credit risk.

At June 30, 2006, the AppalCART's investments consisted of \$132,037 in the North Carolina Capital Management Trust's Cash Portfolio. The AppalCART has no policy on credit risk.

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

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

3. Property Tax – Use – Value Assessment on Certain Lands (continued)

| Year Levied | Tax | Interest | Total |
|----------------|---------------------|----------------|------------------|
| 2003 | \$ 507,376 | 143,334 | 650,710 |
| 2004 | 478,158 | 92,045 | 570,203 |
| 2005 | 481,800 | 49,385 | 531,185 |
| 2006 | <u>535,213</u> | <u>--</u> | <u>535,213</u> |
| Total | \$ <u>2,002,547</u> | <u>284,764</u> | <u>2,287,311</u> |

4. Receivables

Receivables at the government-wide level at June 30, 2006, were as follows:

| Accounts | Taxes and Related Accrued Interest | Due from Other Governments | Total |
|----------|---|----------------------------------|-------|
| | | | |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | | | | |
|---------------------------------|---------------------|------------------|------------------|------------------|
| Governmental Activities: | | | | |
| General | \$ 1,177,628 | 1,029,255 | 2,176,616 | 4,383,499 |
| Other Governmental | <u>185,522</u> | <u>68,462</u> | <u>--</u> | <u>253,984</u> |
| Total receivables | 1,363,150 | 1,097,717 | 2,176,616 | 4,637,483 |
| Allowance for doubtful accounts | <u>--</u> | <u>(437,847)</u> | <u>--</u> | <u>(437,847)</u> |
| Total-governmental activities | \$ <u>1,363,150</u> | <u>659,870</u> | <u>2,176,616</u> | <u>4,199,636</u> |
| Business-type activities | | | | |
| Solid Waste | \$ 311,234 | -- | 15,542 | 326,776 |
| Allowance for doubtful accounts | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total-business-type activities | \$ <u>311,234</u> | <u>--</u> | <u>15,542</u> | <u>326,776</u> |

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

| | |
|--------------------------------------|---------------------|
| Local option sales tax | \$ 1,796,356 |
| Scrap tire tax | 11,276 |
| White goods tax | 4,266 |
| Criminal Justice Partnership Program | 18,956 |
| Daycare | 62,253 |
| County Administration | 270,608 |
| Foster Care | 4,017 |
| Adoption Assistance | 2,612 |
| Government Crime Commissions | 1,341 |
| NWNC Methamphetamine Grant | <u>20,473</u> |
| Total | \$ <u>2,192,158</u> |

5. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|------------------|---------------|--------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 5,496,312 | 3,647,719 | -- | 9,144,031 |
| Construction in progress | <u>6,140,803</u> | <u>3,016,916</u> | <u>--</u> | <u>9,157,719</u> |
| Total capital assets not being depreciated | <u>11,637,115</u> | <u>6,664,635</u> | <u>--</u> | <u>18,301,750</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 29,185,826 | -- | -- | 29,185,826 |
| Other improvements | 95,201 | -- | -- | 95,201 |
| Equipment | 2,038,971 | 519,992 | -- | 2,558,963 |
| Vehicles and motor equipment | <u>1,641,272</u> | <u>304,020</u> | <u>26,759</u> | <u>1,918,533</u> |
| Total capital assets being depreciated | <u>32,961,270</u> | <u>824,012</u> | <u>26,759</u> | <u>33,758,523</u> |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | | | | |
|---|----------------------|------------------|---------------|-------------------|
| Less accumulated depreciation for: | | | | |
| Buildings | 15,338,269 | 801,958 | -- | 16,140,227 |
| Improvements | 22,766 | 4,345 | -- | 27,111 |
| Equipment | 1,292,827 | 194,927 | -- | 1,487,754 |
| Vehicles and motor equipment | <u>968,733</u> | <u>199,951</u> | <u>25,443</u> | <u>1,143,241</u> |
| Total accumulated depreciation | <u>17,622,595</u> | <u>1,201,181</u> | <u>25,443</u> | <u>18,798,333</u> |
| Total capital assets being depreciated, net | <u>15,338,675</u> | | | <u>14,960,190</u> |
| Governmental activity capital assets, net | \$ <u>26,975,790</u> | | | <u>33,261,940</u> |

Primary Government

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

| | |
|-----------------------------------|---------------------|
| General government | \$ 109,650 |
| Public safety | 311,892 |
| Education | 1,015 |
| Economic and physical development | 55,465 |
| Human services | 607,742 |
| Cultural and recreational | <u>115,417</u> |
| Total depreciation expense | \$ <u>1,201,181</u> |

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>1,902,689</u> | <u>260,941</u> | <u>2,122,714</u> | <u>40,916</u> |
| Total capital assets not being depreciated | <u>3,279,901</u> | <u>260,941</u> | <u>2,122,714</u> | <u>1,418,128</u> |
| Capital assets being depreciated: | | | | |
| Improvements | 470,081 | -- | -- | 470,081 |
| Buildings | 877,367 | 2,122,714 | -- | 3,000,081 |
| Equipment | 1,098,161 | -- | -- | 1,098,161 |
| Vehicles | <u>1,190,988</u> | -- | -- | <u>1,190,988</u> |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | | | | |
|--|------------------|---------------------|----|------------------|
| Total capital assets being depreciated | <u>3,636,597</u> | <u>2,122,714</u> | -- | <u>5,759,311</u> |
| Less accumulated depreciation for: | | | | |
| Improvements | 284,036 | 9,679 | -- | 293,715 |
| Buildings | 221,830 | 38,774 | -- | 260,604 |
| Equipment | 1,025,013 | 28,642 | -- | 1,053,655 |
| Vehicles | <u>737,783</u> | <u>100,903</u> | -- | <u>838,686</u> |
| Total accumulated depreciation | <u>2,268,662</u> | <u>177,998</u> | -- | <u>2,446,660</u> |
| Total capital assets being depreciated, net | <u>1,367,935</u> | | | <u>3,312,651</u> |
| Business-type activities capital assets, net | | <u>\$ 4,647,836</u> | | <u>4,730,779</u> |

Construction commitments

The government has active construction projects as of June 30, 2006. The projects include a new law enforcement facility, a new administration building, an addition to the existing courthouse. At June 30, 2006, the government's commitments with contractors are as follows:

| Project | Spent-to-date | Remaining Commitment |
|--------------------------|---------------------|-------------------------|
| Law enforcement facility | 6,295,723 | 89,758 |
| Administration building | 2,011,976 | 183,079 |
| Courthouse addition | <u>850,020</u> | <u>2,300,932</u> |
| Total | <u>\$ 9,157,719</u> | <u>\$ 2,573,769</u> |

Discretely presented component units

Actively for the AppalCART for the year ended June 30, 2006, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|---------------|-----------|--------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,114,242 | -- | -- | 1,114,242 |
| Construction in progress | <u>51,061</u> | <u>50,924</u> | -- | <u>101,985</u> |
| Total capital assets not being depreciated | <u>1,165,303</u> | <u>50,924</u> | -- | <u>1,216,227</u> |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

| | | | | |
|---|---------------------|------------------|----------------|------------------|
| Capital assets being depreciated: | | | | |
| Land improvements | 159,662 | -- | -- | 159,662 |
| Office furniture and equipment | 111,979 | 2,138 | 10,987 | 103,130 |
| Vehicles | 3,135,776 | 1,072,857 | 387,882 | 3,820,751 |
| Shop equipment | <u>114,862</u> | <u>--</u> | <u>--</u> | <u>114,862</u> |
| Total capital assets being depreciated | <u>3,522,279</u> | <u>1,074,995</u> | <u>398,869</u> | <u>4,198,405</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 115,360 | 10,177 | -- | 125,537 |
| Office furniture and equipment | 85,350 | 9,248 | 10,987 | 83,611 |
| Vehicles | 1,505,148 | 323,399 | 373,207 | 1,455,340 |
| Shop equipment | <u>95,751</u> | <u>5,246</u> | <u>--</u> | <u>100,997</u> |
| Total accumulated depreciation | <u>1,801,609</u> | <u>348,070</u> | <u>384,194</u> | <u>1,765,485</u> |
| Total capital assets being depreciated, net | <u>1,720,670</u> | | | <u>2,432,920</u> |
| AppalCART capital assets, net | \$ <u>2,885,973</u> | | | <u>3,649,147</u> |

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2006, were as follows:

| | Vendors | Salaries and Benefits | Accrued Interest | Other | Total |
|-------------------------------|-------------------|--------------------------|---------------------|-----------|------------------|
| Governmental activities: | | | | | |
| General | \$ 980,945 | -- | 116,253 | -- | 1,097,198 |
| Other governmental | <u>54,863</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>54,863</u> |
| Total-governmental activities | <u>1,035,808</u> | <u>--</u> | <u>116,253</u> | <u>--</u> | <u>1,152,061</u> |
| Business-type activities: | | | | | |
| Solid Waste | \$ <u>275,881</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>275,881</u> |

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Note 3 - Plan Description. Watauga County contributes to the statewide Local Governmental Employees' **Detail Notes on All Funds (continued)**

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 4.96% 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, 2006, 2005, and 2004 were \$968,939, \$868,194, and \$809,902, respectively. The contributions made by the County equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description*

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of :

| | | |
|-----------------------------|---|-----------|
| Retirees receiving benefits | 3 | |
| Active plan members | | <u>37</u> |
| Total | | <u>40</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.

Note 3 - Detail Notes on All Funds (continued)

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, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% 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, 2006 was 25 years.

3 Year Trend Information

| For Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------|------------------------------|----------------------------------|---------------------------|
| 2004 | \$ 30,398 | 131.72 % | \$ (34,862) |
| 2005 | 30,251 | 142.17 | (47,620) |
| 2006 | 30,245 | 127.49 | (55,935) |

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 make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were \$73,733, which consisted of \$65,887 from the County and \$7,846 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 5.0 percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2006 to these plans were \$614,213, which consisted of \$440,308 from the County and \$173,905 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)

Note 3 -

Detail Notes on All Funds (continued)

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)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

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.

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, 2006, the County's required and actual contributions were \$22,223.

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 employee 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 all eligible employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not be less than \$25,000 and no more than \$50,000. All death benefit payments are made from the Death Benefit Plan.

The County has no liability beyond the payment of monthly contributions. Contributions are determined as a

Note 3 - Detail Notes on All Funds (continued)

percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

the number of eligible participants. For the fiscal year ended June 30, 2006, the County made contributions to the State for death benefits of \$13,916. The County's required contributions for employees 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, 2006 and 2005 amounted to \$68,939 and \$51,125, respectively. Payments of \$42,040 and \$39,455 were made for each fiscal year, respectively.

3. Groundwater Contamination/Landfill Closure

In March 1993, the County's engineers found groundwater contamination at the County's landfill site which exceeded State and Federal maximum contaminant levels for some constituents. On April 8, 1994, the County stopped accepting municipal solid waste at the County's landfill, and closure procedures were initiated. The County's engineers developed an assessment plan, which was approved by the NCDEHNR Solid Waste Management Division, to determine the extent, nature, and source of the contamination. The County installed groundwater monitoring wells in and around the landfill property to test for the presence of possible contaminants. On January 12, 1996, the County's engineers issued a Remedial Investigation and Alternative Report which proposed a remedial cap with some supplemental steps (including some continued assessment monitoring activities). In February 1996, the Board of Commissioners approved the engineer's proposal with some adjustments based on public comment. The County, after advertisement and bidding, awarded a contract for construction of the cap in May 1996. The approximate cost to date of the assessment and remedial cap is \$2,700,000. The capping project is complete and groundwater conditions remain stable. Groundwater testing continues, as required by NCDENR. Also, due to NCDENR directive, in fiscal year 2004/2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

4. Deferred/Unearned Revenues

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

| | Unearned or Deferred Revenue | Full Accrual Unearned Revenue |
|---|------------------------------------|-------------------------------------|
| Prepaid taxes not yet earned (General) | \$ 22,916 | 157,748 |
| Prepaid user fees not yet earned (Enterprise) | 153,934 | 153,934 |
| Taxes receivable, net (General) | 573,499 | -- |
| Taxes receivable, net (Special Revenue) | 54,625 | -- |
| Prepaid revenue | <u>9,675</u> | <u>9,675</u> |
| Total | <u>\$ 814,649</u> | <u>321,357</u> |

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in 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 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 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 flood insurance through the National Flood Insurance Plan (NFIP). Because the County is an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. The County also is eligible to and has purchased commercial flood insurance for another \$692,000 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 - Detail Notes on All Funds (continued)

5. Risk Management (continued)

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Finance Director, Tax Administrator, and County Manager are each individually bonded for \$50,000 each.

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.

6. Contingent Liabilities

At June 30, 2006, 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.

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements.

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 four 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Annex Building, and the construction of the new Watauga County Health Department, and requires forty quarterly principal and interest payments of \$51,219.

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

b. Installment Purchase (continued)

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 fourth installment purchase was executed on November 3, 2005, for the Brookshire Land. This installment purchase requires five annual payments of \$344,071 which includes interest at 4.75%.

The County also has one installment purchase serviced by the Solid Waste Fund. The installment purchase was executed on September 15, 2004 for the purchase of equipment and requires twelve quarterly payments of \$24,753 which includes interest at 2.60% compounded quarterly.

For Watauga County, the future minimum payments as of June 30, 2006, including \$1,403,300 of interest, are:

| Year Ending June 30 | Governmental Activities | | Business Activities | |
|-------------------------|-------------------------|---------------------|---------------------|--------------|
| | Principal | Interest | Principal | Interest |
| 2007 | \$ 1,014,205 | 293,698 | 94,322 | 4,692 |
| 2008 | 1,047,584 | 249,518 | 96,799 | 2,216 |
| 2009 | 979,216 | 204,290 | 24,520 | 159 |
| 2010 | 906,129 | 164,497 | -- | -- |
| 2011 | 934,769 | 125,058 | -- | -- |
| 2012-2016 | 1,808,530 | 306,522 | -- | -- |
| 2017-2021 | <u>1,000,000</u> | <u>52,650</u> | <u>--</u> | <u>--</u> |
| Principal payments | \$ <u>7,690,433</u> | | <u>215,641</u> | |
| Total interest payments | | \$ <u>1,396,233</u> | | <u>7,067</u> |

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

c. General Obligation Indebtedness (continued)

The County's general obligation bonds payable at June 30, 2006 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 | \$ 3,000,000 |
| \$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent | 4,690,000 |
| \$4,275,000 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent | <u>3,815,000</u> |
| Total | \$ <u>11,505,000</u> |

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

| Year Ending June 30 | Governmental Activities | |
|------------------------|-------------------------|------------------|
| | Principal | Interest |
| 2007 | \$ 1,385,000 | 438,055 |
| 2008 | 1,365,000 | 391,905 |
| 2009 | 1,350,000 | 344,027 |
| 2010 | 1,335,000 | 294,003 |
| 2011 | 1,275,000 | 242,728 |
| 2012-2016 | <u>4,795,000</u> | <u>471,237</u> |
| Total | \$ <u>11,505,000</u> | <u>2,181,955</u> |

At June 30, 2006, Watauga County had a legal debt margin of \$458,004,741.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

d. Advance Refunding

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

In April 2004, the County issued \$4,275,000 of general obligation advance refunding bonds to provide resources to purchase U.S. government securities that were placed into an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,950,000 general obligation bonds. The refunding debt consists of \$3,950,000 1995 School Facility Serial Bonds (partially refunded for the maturities in the years 2005-2015). As a result the refunded bonds are considered to be 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 \$293,305 and resulted in an economic gain of \$279,411.

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, 2006:

| | Balance | | | Current | |
|--------------------------------|----------------------|------------------|------------------|-------------------|------------------|
| | July 1, 2006 | Increases | Decreases | Balance | Portion of |
| | | | | June 30, 2006 | Balance |
| Governmental activities: | | | | | |
| General obligation debt | \$ 12,915,000 | -- | 1,410,000 | 11,505,000 | 1,385,000 |
| Installment purchases | 6,911,995 | 1,500,000 | 721,560 | 7,690,435 | 1,014,205 |
| Compensated absences | 733,836 | 827,257 | 785,924 | 775,169 | -- |
| Total governmental activities | <u>\$ 20,560,831</u> | <u>2,327,257</u> | <u>2,917,484</u> | <u>19,970,604</u> | <u>2,399,205</u> |
| Business-type activities: | | | | | |
| Installment purchases | \$ 307,602 | -- | 91,961 | 215,641 | 94,322 |
| Compensated absences | 41,489 | 39,373 | 30,027 | 50,835 | -- |
| Total business-type activities | <u>\$ 349,091</u> | <u>39,373</u> | <u>121,988</u> | <u>266,476</u> | <u>94,322</u> |

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Discretely presented component units:

| | | | | | | |
|----------------------|----|--------|--------|--------|--------|----|
| Compensated absences | \$ | 40,259 | 41,627 | 35,423 | 46,463 | -- |
|----------------------|----|--------|--------|--------|--------|----|

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.

Note 3 - Detail Notes on All Funds (continued)

7. Long-term Obligations (continued)

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2006, consists of the following:

| | | |
|---|----|------------------|
| From the General fund to the Capital Reserve fund to accumulate resources for future capital acquisitions | \$ | 4,187,858 |
| From the Special Revenue fund to the General fund to reimburse For an expense paid | | 69,109 |
| From the Capital Reserve fund to the General fund for the new construction projects | | 3,390,984 |
| From the General fund to the Solid Waste fund to supplement other funding sources | | 351,554 |
| From the Solid Waste fund to the Debt Service fund for debt service payments owed to the General fund | | 88,986 |
| From the General fund to the Law Enforcements Capital Projects fund for construction projects | | 506,717 |
| From the Capital Reserve fund to the Law Enforcement Capital Projects fund for construction projects | | <u>78,694</u> |
| Total | \$ | <u>8,673,902</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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

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, 2006. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$414,435 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.

Note 4 - Joint Ventures (continued)

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, 2006. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$504,838 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, 2006. 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 between the participating governments, the County appropriated \$655,408 to Caldwell Community College and Technical Institute to supplement its activities. Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 | \$ 126,060 | -- |
| Medicaid | 15,623,017 | 7,402,516 |
| Food stamp program | 1,887,718 | -- |
| Energy assistance | 43,274 | -- |
| Adoption assistance | 140,708 | 40,589 |
| Adoption subsidy | -- | 24,222 |
| Adult assistance | -- | 159,498 |
| Title IV-E, foster care | 82,786 | 13,376 |
| Total | <u>\$ 17,903,563</u> | <u>7,640,201</u> |

Note 7 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

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

Note 8 - Interest on Unpaid Motor Vehicle Taxes

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

registration and collection system. Due to the immateriality of the amounts collected, the County has chosen not to establish an agency fund, but to include the amounts due in accounts payable.

The following reports the total collections and disbursements of the interest collected by Watauga County for the fiscal year ending June 30, 2006:

| | |
|--|-----------------|
| Total interest collected: | \$ 3,462 |
| Total interest remitted | <u>2,201</u> |
| Amount due to Department of State Treasurer as of June 30, 2006 | \$ <u>1,261</u> |

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) |
|--------------------------------|--|---|------------------------------------|--------------------------|--|---|
| 12/31/2000 | 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 |
| 12/31/2004 | 105,840 | 318,853 | 213,013 | 33.19 | 1,089,341 | 19.55 |
| 12/31/2005 | 121,075 | 314,210 | 193,135 | 38.53 | 1,320,159 | 14.63 |

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> | % |
|-------------------------------|---|--------------------------------|---|
| 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 | |
| 2005 | 30,962 | 32.30 | |
| 2006 | 32,874 | 30.42 | |

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 | 12/31/05 |
| Actuarial cost method | Project unit credit |
| Amortization method | Level percent of pay closed |
| Remaining amortization period | 25 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Projected salary increases | 4.5 – 12.3% |
| 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, 2006

| | 2006 | | Variance |
|-------------------------------------|-------------------|-------------------|------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Taxes - ad valorem: | | | |
| Current year | \$ | 22,743,850 | |
| Prior years | | 370,794 | |
| Advertising and interest | | 119,170 | |
| Total Taxes - ad valorem | <u>22,470,083</u> | <u>23,233,814</u> | <u>763,731</u> |
| Local Option Sales Taxes: | | | |
| Article 39 and 44 | | 7,620,290 | |
| Article 40 one-half of one percent | | 1,865,610 | |
| Article 42 one-half of one percent | | 1,841,446 | |
| Total Taxes - Local Option Sales | <u>11,283,996</u> | <u>11,327,346</u> | <u>43,350</u> |
| Taxes - other: | | | |
| Real estate transfer tax | | 781,257 | |
| Animal tax | | 887 | |
| ABC - .05/bottle | | 18,047 | |
| Gross receipts tax - county | | 30,278 | |
| Other | | 249,792 | |
| Total Taxes - other | <u>675,500</u> | <u>1,080,261</u> | <u>404,761</u> |
| Unrestricted intergov. rev.: | | | |
| Payments in lieu of taxes | | 13,276 | |
| Total Unrestricted intergov. rev. | <u>12,500</u> | <u>13,276</u> | <u>776</u> |
| Restricted intergov. revenues: | | | |
| Grants-Federal & State | | 3,964,650 | |
| Public School Facility Funds | | -- | |
| POA-Town of Boone | | 6,000 | |
| Court facilities fees | | 189,970 | |
| Total Restricted intergov. revenues | <u>4,607,762</u> | <u>4,160,620</u> | <u>(447,142)</u> |
| Permits and fees: | | | |
| Gun permits | | 14,722 | |
| Serving civil summons | | 39,656 | |
| Jail and officer fees | | 34,866 | |
| Drug fees awarded by court | | -- | |
| Planning and inspection fees | | 334,766 | |
| Marriage license | | 9,653 | |
| Register of deeds fees | | 477,548 | |
| Fire inspection fees | | 10,792 | |
| Total Permits and fees | <u>836,512</u> | <u>922,003</u> | <u>85,491</u> |
| Sales and service: | | | |
| POA In-home svc. - soc. serv. | | 15,339 | |
| Recreation department revenues | | 368,276 | |
| Sales of tax maps | | 686 | |
| Data processing fees | | 309 | |
| Rich Mtn. antenna rental | | -- | |
| Copy revenue | | 13,471 | |
| Tax collection fees-Towns | | 78,010 | |
| Jail medical service | | 11,396 | |
| Other | | 99,926 | |
| Total Sales and service | <u>547,757</u> | <u>587,413</u> | <u>39,656</u> |
| Investment earnings: | | | |
| Interest earned on investments | <u>312,500</u> | <u>677,597</u> | <u>365,097</u> |
| Donations : | <u>1,000,981</u> | <u>1,009,506</u> | <u>8,525</u> |
| Miscellaneous: | <u>167,976</u> | <u>190,009</u> | <u>22,033</u> |
| TOTAL REVENUES | <u>41,915,567</u> | <u>43,201,845</u> | <u>1,286,278</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, 2006

| | 2006 | | Variance |
|--------------------------------|-----------|-----------|----------|
| | Budget | Actual | |
| EXPENDITURES: | | | |
| General Government | | | |
| Governing body: | | | |
| Operating expenses | 57,049 | 46,662 | 10,387 |
| Administration: | | | |
| Salaries and benefits | | 311,701 | |
| Operating expenses | | 49,406 | |
| Capital outlay | | 1,919 | |
| Total Administration | 366,989 | 363,026 | 3,963 |
| Finance: | | | |
| Salaries and benefits | | 308,176 | |
| Operating expenses | | 70,821 | |
| Total Finance | 437,566 | 378,997 | 58,569 |
| Tax Supervisor: | | | |
| Salaries and benefits | | 900,130 | |
| Operating expenses | | 99,062 | |
| Capital Outlay | | 38,190 | |
| Total Tax Supervisor | 1,231,457 | 1,037,382 | 194,075 |
| Tax Revaluation: | | | |
| Salaries and benefits | | 68,261 | |
| Operating expenses | | 134,257 | |
| Total Tax Revaluation | 268,074 | 202,518 | 65,556 |
| Legal Services: | | | |
| Operating expenses | 44,776 | 44,775 | 1 |
| Court facilities: | | | |
| Operating expenses | 10,431 | 8,545 | 1,886 |
| Elections: | | | |
| Salaries and benefits | | 148,035 | |
| Operating expenses | | 100,347 | |
| Capital Outlay | | 33,141 | |
| Total Elections | 330,944 | 281,523 | 49,421 |
| Register of Deeds: | | | |
| Salaries and benefits | | 327,007 | |
| Operating expenses | | 57,505 | |
| Capital Outlay | | 13,670 | |
| Total Register of Deeds | 468,138 | 398,182 | 69,956 |
| General administration: | | | |
| Operating expenses | | 525,179 | |
| Capital outlay | | 3,664,182 | |
| Total General administration | 4,614,550 | 4,189,361 | 425,189 |
| Information technologies: | | | |
| Salaries and benefits | | 237,028 | |
| Operating expenses | | 196,696 | |
| Capital outlay | | 134,421 | |
| Total Information technologies | 651,257 | 568,145 | 83,112 |
| Maintenance: | | | |
| Salaries and benefits | | 947,600 | |
| Operating expenses | | 39,415 | |
| Capital Outlay | | 6,536 | |
| Total Maintenance | 1,040,333 | 993,551 | 46,782 |

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, 2006

| | 2006 | | Variance |
|-----------------------------------|-----------|---------|-----------|
| | Budget | Actual | |
| Public Buildings | | | |
| Courthouse: | | | |
| Operating expenses | | 144,133 | |
| Capital Outlay | | 593,340 | |
| Total Courthouse | 3,087,988 | 737,473 | 2,350,515 |
| East Courthouse Annex: | | | |
| Operating expenses | 29,506 | 20,616 | 8,890 |
| Administration Building: | | | |
| Operating expenses | | 22,741 | |
| Capital Outlay | | 438,579 | |
| Total Administration Building | 780,001 | 461,320 | 318,681 |
| Emergency Management: | | | |
| Operating expenses | 1,550 | 37 | 1,513 |
| Hannah: | | | |
| Operating expenses | 11,614 | 10,344 | 1,270 |
| Animal Shelter: | | | |
| Operating expenses | 6,114 | 5,244 | 870 |
| Old Cove Creek School: | | | |
| Operating expenses | 24,940 | 12,651 | 12,289 |
| New Health Department: | | | |
| Operating expenses | 50,177 | 47,629 | 2,548 |
| Public Building-APPALCART: | | | |
| Operating expenses | 2,675 | 2,531 | 144 |
| New Library: | | | |
| Operating expenses | 156,981 | 152,582 | 4,399 |
| Caldwell College & Tech. Inst: | | | |
| Operating expenses | 12,900 | 8,971 | 3,929 |
| Watauga Comm. Center: | | | |
| Operating expenses | 34,199 | 12,104 | 22,095 |
| New Law Enforcement Center: | | | |
| Operating expenses | | 57,415 | |
| Capaital outlay | | 18,071 | |
| Total New Law Enforcement Center | 1,479,078 | 75,486 | 1,403,592 |
| Law Enforcement Center: | | | |
| Operating expenses | | 32,397 | |
| Capital outlay | | 3,888 | |
| Total Law Enforcement Center | 37,359 | 36,285 | 1,074 |
| West Courthouse Annex: | | | |
| Operating expenses | 23,629 | 21,966 | 1,663 |
| Human Services Center: | | | |
| Operating expenses | | 59,806 | |
| Capital outlay | | 3,325 | |
| Total Human Service Center | 68,079 | 63,131 | 4,948 |
| Appalachian Enterprise Center: | | | |
| Operating expenses | 26,193 | 9,076 | 17,117 |
| Recreation Administration Center: | | | |
| Operating expenses | 4,116 | 1,585 | 2,531 |
| Aquatics Center: | | | |
| Operating expenses | 137,534 | 120,396 | 17,138 |

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, 2006

| | 2006 | | Variance |
|--|-------------------|-------------------|------------------|
| | Budget | Actual | |
| Opt./Maintenance Facility: Operating expenses | 32,158 | 28,327 | 3,831 |
| Recreation Fields/Parks: Operating expenses | 27,658 | 20,114 | 7,544 |
| Brookshire Park: Operating expenses | 23,687 | 18,781 | 4,906 |
| Total Public Buildings | 6,058,136 | 1,866,649 | 4,191,487 |
| Total General Government | 15,579,700 | 10,379,316 | 5,200,384 |
| Public Safety | | | |
| Sheriff's department: | | | |
| Salaries and benefits | | 1,788,406 | |
| Operating expenses | | 313,013 | |
| Capital outlay | | 200,882 | |
| Total Sheriff's department | 2,374,082 | 2,302,301 | 71,781 |
| Communications: | | | |
| Salaries and benefits | | 337,381 | |
| Operating expenses | | 13,998 | |
| Total Communications | 420,725 | 351,379 | 69,346 |
| 321 Speed Reduction: | | | |
| Salaries and benefits | 42,644 | 42,643 | 1 |
| NW Methamphetamine Task Force: | | | |
| Salaries and benefits | | 39,686 | |
| Operating expenses | | 2,694 | |
| Capital Outlay | | 11,647 | |
| Total NW Methamphetamine Task Force | 116,616 | 54,027 | 62,589 |
| Governor's Crime Commission: | | | |
| Salaries and benefits | 30,000 | 30,000 | -- |
| COPS Programs: | | | |
| Operating expenses | 5,874 | 5,857 | 17 |
| Jail: | | | |
| Salaries and benefits | | 892,814 | |
| Operating expenses | | 465,336 | |
| Capital outlay | | 16,284 | |
| Total Jail | 1,607,336 | 1,374,434 | 232,902 |
| Emerg. Mgt. & Fire Protect.: | | | |
| Salaries and benefits | | 190,318 | |
| Operating expenses | | 383,683 | |
| Capital Outlay | | 27,566 | |
| Total Emerg. Mgt. & Fire Protect. | 723,182 | 601,567 | 121,615 |
| Planning and Inspections: | | | |
| Salaries and benefits | | 499,896 | |
| Operating expenses | | 83,985 | |
| Capital outlay | | 19,095 | |
| Total Planning and Inspections | 720,857 | 602,976 | 117,881 |
| Medical examiner: | | | |
| Operating expenses | 23,500 | 18,700 | 4,800 |
| Ambulance and rescue squad: | | | |
| Operating expenses | 850,748 | 850,748 | -- |

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, 2006

| | 2006 | | Variance |
|--|------------------|------------------|----------------|
| | Budget | Actual | |
| Animal control: | | | |
| Salaries and benefits | | 132,109 | |
| Operating expenses | | 17,890 | |
| Capital outlay | | 16,800 | |
| Total Animal control | 174,130 | 166,799 | 7,331 |
| Forestry: | | | |
| Operating expenses | 38,648 | 38,648 | -- |
| Total Public Safety | 7,128,342 | 6,440,079 | 688,263 |
| Economic & Physical Development | | | |
| Elderly & Disabled Transportation: | | | |
| Operating expenses | 129,517 | 108,578 | 20,939 |
| Special Appropriations: | 410,078 | 401,358 | 8,720 |
| Economic Development: | | | |
| Operating expenses | 55,000 | 38,212 | 16,788 |
| Cooperative extension: | | | |
| Salaries and benefits | | 152,145 | |
| Operating expenses | | 15,944 | |
| Total Cooperative extension | 187,750 | 168,089 | 19,661 |
| Soil conservation: | | | |
| Salaries and benefits | | 84,425 | |
| Operating expenses | | 8,150 | |
| Capital Outlay | | 1,440 | |
| Total Soil conservation | 97,780 | 94,015 | 3,765 |
| Total Economic & Physical Development | 880,125 | 810,252 | 69,873 |
| Human Services | | | |
| Public health: | | | |
| Operating expenses | 504,838 | 504,838 | -- |
| Mental health: | | | |
| Operating expenses | 300,129 | 303,726 | (3,597) |
| Social services - admin.: | | | |
| Salaries and benefits | | 2,170,048 | |
| Operating expenses | | 318,033 | |
| Total Social services - admin. | 2,480,761 | 2,488,081 | (7,320) |
| Beneficiary payments: | 2,129,109 | 1,861,708 | 267,401 |
| State foster care and daycare | | | |
| Room & Board | | 6,015 | |
| Other | | 142 | |
| Purchase-daycare XX | | 854,120 | |
| Total State foster care and daycare | 904,660 | 860,277 | 44,383 |
| Project on aging: | | | |
| Salaries and benefits | | 1,115,966 | |
| Operating expenses | | 255,623 | |
| Capital Outlay | | 3,826 | |
| Total Project on aging | 1,413,805 | 1,375,415 | 38,390 |
| Veterans service officer: | | | |
| Salaries and benefits | | 122,212 | |
| Operating expenses | | 2,554 | |
| Total Veterans service officer | 115,811 | 124,766 | (8,955) |
| Total Human Services | 7,849,113 | 7,518,811 | 330,302 |

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, 2006

| | 2006 | | Variance |
|---|-------------------|-------------------|--------------------|
| | Budget | Actual | |
| Education | | | |
| Public Schools - current | | 9,076,117 | |
| Public Schools - capital outlay | | 1,402,511 | |
| Community College - current | | 655,408 | |
| Community College - capital outlay | | 8,500 | |
| Total Education | 11,452,124 | 11,142,536 | 309,588 |
| Cultural and recreational | | | |
| Library: | | | |
| Operating expenses | 421,935 | 414,435 | 7,500 |
| Recreation: | | | |
| Salaries and benefits | | 475,403 | |
| Operating expenses | | 122,872 | |
| Capital Outlay | | 4,496 | |
| Total Recreation | 635,266 | 602,771 | 32,495 |
| Aquatics: | | | |
| Salaries and benefits | | 182,261 | |
| Operating expenses | | 17,233 | |
| Capital Outlay | | 6,107 | |
| Total Aquatics | 218,473 | 205,601 | 12,872 |
| Recreation - Maintenance: | | | |
| Operating expenses | 10,780 | 9,920 | 860 |
| Total Cultural and recreational | 1,286,454 | 1,232,727 | 53,727 |
| Debt Service | | | |
| Principal retirement | | 2,131,560 | |
| Interest & fees | | 735,132 | |
| Total Debt Service | 2,867,709 | 2,866,692 | 1,017 |
| TOTAL EXPENDITURES | 47,043,567 | 40,390,413 | 6,653,154 |
| Excess (deficiency) of revenues over expenditures | (5,128,000) | 2,811,432 | 7,939,432 |
| OTHER FINANCING SOURCES (USES): | | | |
| Loan proceeds | 1,500,000 | 1,500,000 | -- |
| Transfers to other funds | (5,046,129) | (5,046,129) | -- |
| Transfers from other funds | 3,562,321 | 3,549,079 | (13,242) |
| Fund balance appropriated | 5,111,808 | -- | (5,111,808) |
| TOTAL OTHER FINANCING SOURCES (USES) | 5,128,000 | 2,950 | (5,125,050) |
| Excess (deficiency) of revenues over expenditures & other sources (uses) \$ | -- | 2,814,382 | 2,814,382 |
| Fund balances at beginning of year | | 18,331,705 | |
| Fund balances at end of year | | \$ 21,146,087 | |

**Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

| | Special Revenue Funds | | | | | | | | | Capital Projects Fund | | | |
|--|--------------------------|--------------------------------|---------------------|------------------|----------------------|----------------------------------|-------------------------------------|---------------------------|-------------------|---|--|--------------------------------------|-----------------------------------|
| | Substance Abuse Tax Fund | E-911 Telephone Surcharge Fund | Fire Districts Fund | Revaluation Fund | Disaster Relief Fund | CDBG Housing Rehabilitation Fund | Lance Creek Stream Restoration Fund | CDBG Rehabilitation Grant | CDBG Urgent Needs | Total Nonmajor Governmental Revenue Funds | Law Enforcement Center Capital Projects Fund | Total Nonmajor Capital Projects Fund | Total Nonmajor Governmental Funds |
| ASSETS: | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 97,089 | 446,389 | 23,603 | 2,604 | -- | 2,071 | 61,239 | -- | -- | 632,995 | 12,355 | 12,355 | 645,350 |
| Accounts receivable, net | -- | 52,839 | -- | -- | 89,787 | -- | -- | 27,000 | 15,896 | 185,522 | -- | -- | 185,522 |
| Taxes receivable, net | -- | -- | 54,708 | -- | -- | -- | -- | -- | -- | 54,708 | -- | -- | 54,708 |
| Total assets | \$ 97,089 | 499,228 | 78,311 | 2,604 | 89,787 | 2,071 | 61,239 | 27,000 | 15,896 | 873,225 | 12,355 | 12,355 | 885,580 |
| LIABILITIES AND FUND BALANCE | | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | | |
| Accounts payable and accrued liabilities | 617 | 14,401 | 22,890 | -- | -- | 2,071 | -- | -- | 14,884 | 54,863 | -- | -- | 54,863 |
| Deferred revenue | -- | -- | 55,421 | -- | -- | -- | -- | -- | -- | 55,421 | -- | -- | 55,421 |
| Due to other funds | -- | -- | -- | -- | 89,787 | -- | -- | 27,000 | 1,012 | 117,799 | -- | -- | 117,799 |
| Total Liabilities | 617 | 14,401 | 78,311 | -- | 89,787 | 2,071 | -- | 27,000 | 15,896 | 228,083 | -- | -- | 228,083 |
| Fund Balances: | | | | | | | | | | | | | |
| Reserved by state statute | -- | 52,839 | -- | -- | -- | -- | -- | -- | -- | 52,839 | -- | -- | 52,839 |
| Unreserved | 96,472 | 431,988 | -- | 2,604 | -- | -- | 61,239 | -- | -- | 592,303 | 12,355 | 12,355 | 604,658 |
| Total fund balances | 96,472 | 484,827 | -- | 2,604 | -- | -- | 61,239 | -- | -- | 645,142 | 12,355 | 12,355 | 657,497 |
| Total liabilities and fund balances | \$ 97,089 | 499,228 | 78,311 | 2,604 | 89,787 | 2,071 | 61,239 | 27,000 | 15,896 | 873,225 | 12,355 | 12,355 | 885,580 |

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

| | Special Revenue Funds | | | | | | | | | Capital Projects Funds | | | |
|---|-----------------------|---------------------------|---------------------|-------------------|----------------------|----------------------------------|-------------------------------------|---------------------------|-------------------|--------------------------------------|--|--------------------------------------|-----------------------------------|
| | Substance Abuse Tax | E-911 Telephone Surcharge | Fire Districts Fund | Revaluation Funds | Disaster Relief Fund | CDBG Housing Rehabilitation Fund | Lance Creek Stream Restoration Fund | CDBG Rehabilitation Grant | CDBG Urgent Needs | Total Nonmajor Special Revenue Funds | Law Enforcement Center Capital Projects Fund | Total Nonmajor Capital Projects Fund | Total Nonmajor Governmental Funds |
| REVENUES | | | | | | | | | | | | | |
| Ad valorem taxes | \$ -- | -- | 1,294,585 | -- | -- | -- | -- | -- | -- | 1,294,585 | -- | -- | 1,294,585 |
| Other taxes and licenses | -- | 253,636 | -- | -- | -- | -- | -- | -- | -- | 253,636 | -- | -- | 253,636 |
| Restricted intergovernmental | 76,870 | 118,229 | -- | -- | 1,607,154 | 58,561 | 84,333 | 27,000 | 15,896 | 1,988,043 | -- | -- | 1,988,043 |
| Investment earnings | 1,850 | 16,387 | -- | 1,017 | -- | -- | -- | -- | -- | 19,254 | -- | -- | 19,254 |
| Donations | 1,306 | -- | -- | -- | -- | -- | -- | -- | -- | 1,306 | -- | -- | 1,306 |
| Total revenues | 80,026 | 388,252 | 1,294,585 | 1,017 | 1,607,154 | 58,561 | 84,333 | 27,000 | 15,896 | 3,556,824 | -- | -- | 3,556,824 |
| EXPENDITURES | | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | | |
| General government | -- | -- | -- | -- | -- | 58,561 | 23,094 | 27,000 | 15,896 | 124,551 | -- | -- | 124,551 |
| Public safety | 9,806 | 251,614 | 1,294,585 | -- | 1,607,209 | -- | -- | -- | -- | 3,163,214 | 1,901,466 | 1,901,466 | 5,064,680 |
| Capital outlay | 60,003 | 323,831 | -- | -- | -- | -- | -- | -- | -- | 383,834 | -- | -- | 383,834 |
| Total expenditures | 69,809 | 575,445 | 1,294,585 | -- | 1,607,209 | 58,561 | 23,094 | 27,000 | 15,896 | 3,671,599 | 1,901,466 | 1,901,466 | 5,573,065 |
| Excess (deficiency) of revenues over expenditures | 10,217 | (187,193) | -- | 1,017 | (55) | -- | 61,239 | -- | -- | (114,775) | (1,901,466) | (1,901,466) | (2,016,241) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | | | |
| Transfers to (from) other funds | -- | (11,000) | -- | (58,109) | -- | -- | -- | -- | -- | (69,109) | 585,411 | 585,411 | 516,302 |
| Total other financing sources and uses | -- | (11,000) | -- | (58,109) | -- | -- | -- | -- | -- | (69,109) | 585,411 | 585,411 | 516,302 |
| Net change in fund balances | 10,217 | (198,193) | -- | (57,092) | (55) | -- | 61,239 | -- | -- | (183,884) | (1,316,055) | (1,316,055) | (1,499,939) |
| Fund balances - beginning | 86,255 | 683,020 | -- | 59,696 | 55 | -- | -- | -- | -- | 829,026 | 1,328,410 | 1,328,410 | 2,157,436 |
| Fund balances - ending | \$ 96,472 | 484,827 | -- | 2,604 | -- | -- | 61,239 | -- | -- | 645,142 | 12,355 | 12,355 | 657,497 |

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, 2006

| | 2006 | | |
|---|---------------------------|------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Restricted intergovernmental | \$ 26,645 | 76,870 | 50,225 |
| Investment Earnings | -- | 1,850 | 1,850 |
| Donations | -- | 1,306 | 1,305 |
| | Total revenues | 80,026 | 53,379 |
| Expenditures: | | | |
| Public Safety | 19,090 | 9,806 | 9,284 |
| Capital Outlay | 50,877 | 60,003 | (9,126) |
| | Total expenditures | 69,809 | 158 |
| Excess (deficiency) of revenues over expenditures | (43,322) | 10,217 | 53,537 |
| Appropriated fund balance | 43,322 | -- | (43,322) |
| Excess (deficiency) of revenue and appropriated fund balance over expenditures | \$ -- | 10,217 | 10,215 |
| Fund balance at beginning of year | | 86,255 | |
| Fund balance at end of year | | \$ 96,472 | |

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, 2006

| | 2006 | | |
|---|----------------|----------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Other taxes and licenses: 911 subscriber fees | \$ 265,000 | 253,636 | (11,365) |
| Restricted intergovernmental: Wireless 911 funds | 95,000 | 118,229 | 23,229 |
| Investment earnings | -- | 16,387 | 16,387 |
| Total revenues | 360,000 | 388,252 | 28,251 |
| Expenditures: | | | |
| Public safety: | | | |
| 911 system subscriber fees: | | | |
| Salaries and employee benefits | 67,876 | 70,324 | (2,448) |
| Operating expenses | 200,184 | 181,290 | 18,894 |
| Capital outlay | 292,193 | 224,032 | 68,161 |
| Total 911 system subscriber fees | 560,253 | 475,646 | 84,607 |
| Wireless 911: | | | |
| Project Revenues | 95,000 | -- | 95,000 |
| Capital Outlay | 168,528 | 99,799 | 68,729 |
| Total Wireless 911 | 263,528 | 99,799 | 163,729 |
| Total expenditures | 823,781 | 575,445 | 248,336 |
| Excess (deficiency) of revenues over expenditures | (463,781) | (187,193) | 276,587 |
| Other Financing Sources (Uses): | | | |
| Transfers to other funds | (11,000) | (11,000) | -- |
| Appropriated fund balance | 474,781 | -- | (474,781) |
| Total Other Financing Sources | 463,781 | (11,000) | (474,781) |
| Excess (deficiency) of revenues and appropriated fund balance over expenditures | \$ -- | (198,193) | (198,194) |
| Fund balance at beginning of year | | 683,020 | |
| Fund balance at end of year | | \$ 484,827 | |

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, 2006

| | 2006 | | |
|---|------------------------|-------------------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Ad valorem taxes | \$ 1,299,224 | 1,294,585 | (4,639) |
| Total revenues | 1,299,224 | 1,294,585 | (4,639) |
| Expenditures: | | | |
| Public safety: | | | |
| Beaver Dam Fire District | 73,995 | 74,210 | (215) |
| Blowing Rock Fire District | 178,420 | 177,761 | 659 |
| Boone Fire District | 219,028 | 217,602 | 1,426 |
| Cove Creek Fire District | 156,385 | 157,905 | (1,520) |
| Deep Gap Fire District | 78,020 | 77,408 | 612 |
| Foscoe Fire District | 284,500 | 284,292 | 208 |
| Meat Camp Fire District | 90,095 | 88,945 | 1,150 |
| Meat Camp/Creston Fire District | 3,311 | 2,705 | 606 |
| Shawneehaw Fire District | 57,540 | 57,303 | 237 |
| Stewart Simmons Fire District | 44,760 | 43,143 | 1,617 |
| Todd Fire District | 30,260 | 29,301 | 959 |
| Zionville Fire District | 82,910 | 84,010 | (1,100) |
| Total expenditures | 1,299,224 | 1,294,585 | 4,639 |
| Excess (deficiency) of revenues over expenditures | \$ <u> --</u> | -- | <u> --</u> |
| Fund balance at beginning of year | | -- | |
| Fund balance at end of year | | \$ <u> --</u> | |

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, 2006

| | 2006 | | |
|--|----------|----------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Investment earnings | \$ -- | 1,017 | 1,017 |
| Expenditures: | | | |
| General government | -- | -- | -- |
| Excess (deficiency) of revenues over expenditures | -- | 1,017 | 1017 |
| Other Financing Sources (Uses): | | | |
| Transfer to other funds | (58,109) | (58,109) | -- |
| Appropriated fund balance | 58,109 | -- | (58,109) |
| Total other financing sources | -- | (58,109) | (58,109) |
| Excess (deficiency) of revenues and appropriated fund balance over expenditures | \$ -- | (57,092) | (57,092) |
| Fund balance at beginning of year | | 59,696 | |
| Fund balance at end of year | | \$ 2,604 | |

WATAUGA COUNTY, NORTH CAROLINA
 Disaster Relief Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2006

| | 2006 | | |
|--|------------------------|----------------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Restricted intergovernmental | \$ <u>2,008,069</u> | <u>1,607,154</u> | <u>(400,915)</u> |
| Total revenues | <u>2,008,069</u> | <u>1,607,154</u> | <u>(400,915)</u> |
| Expenditures: | | | |
| Public Safety | <u>2,008,069</u> | <u>1,607,209</u> | <u>400,860</u> |
| Total expenditures | <u>2,008,069</u> | <u>1,607,209</u> | <u>400,860</u> |
| Excess (deficiency) of revenues over expenditures | \$ <u> --</u> | <u> (55)</u> | <u> (55)</u> |
| Fund balance at beginning of year | | <u> 55</u> | |
| Fund balance at end of year | | <u><u> --</u></u> | |

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, 2006

| | 2006 | | | | |
|--|--------------------------|---------------|--------|---------------------|--|
| | Project Authorization | Prior Year | Actual | Total to Date | Variance Favorable (Unfavorable) |
| Revenues: | | | | | |
| Restricted intergovernmental | \$ 400,000 | 341,487 | 58,561 | 400,048 | 48 |
| Total revenues | 400,000 | 341,487 | 58,561 | 400,048 | 48 |
| Expenditures: | | | | | |
| Residence rehabilitation | 60,000 | 33,106 | 3,845 | 36,951 | 23,049 |
| Clearance activities | 10,500 | -- | 4,900 | 4,900 | 5,600 |
| Relocation expenses | 286,000 | 268,165 | 46,566 | 314,731 | (28,731) |
| Planning | 3,500 | 3,500 | -- | 3,500 | -- |
| Grant administration | 40,000 | 36,716 | 3,250 | 39,966 | 34 |
| Total expenditures | 400,000 | 341,487 | 58,561 | 400,048 | (48) |
| Excess (deficiency) of revenues over expenditures | \$ -- | -- | -- | -- | -- |
| Fund balance at beginning of year | | | -- | | |
| Fund balance at end of year | | | \$ -- | | |

WATAUGA COUNTY, NORTH CAROLINA
 Lance Creek Stream Restoration Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2006

| | 2006 | | Variance Favorable (Unfavorable) |
|--|------------|-----------|--|
| | Budget | Actual | |
| Revenues: | | | |
| Restricted intergovernmental | \$ 253,000 | 84,333 | (168,667) |
| Total revenues | 253,000 | 84,333 | (168,667) |
| Expenditures: | | | |
| Stream Restoration | 253,000 | 23,094 | 229,906 |
| Total expenditures | 253,000 | 23,094 | 229,906 |
| Excess (deficiency) of revenues over expenditures | \$ -- | 61,239 | 61,239 |
| Fund balance at beginning of year | | -- | |
| Fund balance at end of year | | \$ 61,239 | |

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Rehabilitation Grant
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2006

| | 2006 | | | | |
|--|--------------------------|---------------|--------|---------------------|--|
| | Project Authorization | Prior Year | Actual | Total to Date | Variance Favorable (Unfavorable) |
| Revenues: | | | | | |
| Restricted intergovernmental | \$ 210,750 | -- | 27,000 | 27,000 | (183,750) |
| Total revenues | 210,750 | -- | 27,000 | 27,000 | (183,750) |
| Expenditures: | | | | | |
| Repair and rehabilitaion | 57,750 | -- | -- | -- | 57,750 |
| Replacement | 99,000 | -- | -- | -- | 99,000 |
| Aid to local government | 54,000 | -- | 27,000 | 27,000 | 27,000 |
| Total expenditures | 210,750 | -- | 27,000 | 27,000 | 183,750 |
| Excess (deficiency) of revenues over expenditures | \$ -- | -- | -- | -- | -- |
| Fund balance at beginning of year | | | -- | | |
| Fund balance at end of year | | | \$ -- | | |

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Urgent Needs
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2006

| | 2006 | | | | |
|---|--------------------------|---------------|--------|---------------------|--|
| | Project Authorization | Prior Year | Actual | Total to Date | Variance Favorable (Unfavorable) |
| Revenues: | | | | | |
| Restricted intergovernmental | \$ 460,000 | -- | 15,896 | 15,896 | (444,104) |
| Total revenues | 460,000 | -- | 15,896 | 15,896 | (444,104) |
| Expenditures: | | | | | |
| Residence rehabilitation | 330,000 | -- | 8,097 | 8,097 | 321,903 |
| Sewer improvements | 80,000 | -- | -- | -- | 80,000 |
| Grant administration | 50,000 | -- | 7,799 | 7,799 | 42,201 |
| Total expenditures | 460,000 | -- | 15,896 | 15,896 | 444,104 |
| Excess (deficiency) of revenues over expenditures | \$ -- | -- | -- | -- | -- |
| Fund balance at beginning of year | | | -- | | |
| Fund balance at end of year | | | \$ -- | | |

WATAUGA COUNTY, NORTH CAROLINA
 Law Enforcement Center 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, 2006

| | <u>Budget</u> | <u>Prior Years</u> | <u>Actual Current Year</u> | <u>Total-to Date</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|------------------------|------------------------|------------------------------------|--------------------------|---|
| Expenditures: | | | | | |
| Capital Projects | 6,308,077 | 4,394,256 | 1,901,466 | 6,295,722 | 12,355 |
| Excess (deficiency) of revenues over expenditures | <u>(6,308,077)</u> | <u>4,394,256</u> | <u>(1,901,466)</u> | <u>6,295,722</u> | <u>12,355</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers - in (out): | | | | | |
| From capital reserve fund | 506,717 | -- | 506,717 | 506,717 | -- |
| From general fund | 801,360 | 722,666 | 78,694 | -- | -- |
| Loan proceeds | <u>5,000,000</u> | <u>5,000,000</u> | <u>--</u> | <u>5,000,000</u> | <u>--</u> |
| Total other financing sources (uses) | <u>6,308,077</u> | <u>5,722,666</u> | <u>585,411</u> | <u>6,308,077</u> | <u>--</u> |
| Increase (decrease) in fund balance | \$ <u> --</u> | <u>1,328,410</u> | <u>(1,316,055)</u> | <u>12,355</u> | <u>12,355</u> |
| Fund balance at beginning of year | | | <u>1,328,410</u> | | |
| Fund balance at end of year | | | <u>\$ 12,355</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, 2006

| | 2006 | | Variance Favorable (Unfavorable) |
|--|------------------|-------------------|--|
| | Budget | Actual | |
| Revenues: | | | |
| Operating revenues: | | | |
| Landfill charges | \$ | 3,744,117 | |
| Restricted intergovernmental revenues | | 10,208 | |
| Total | <u>3,356,620</u> | <u>3,754,325</u> | <u>397,705</u> |
| Non-operating revenues: | | | |
| Investment earnings | 40,000 | 97,395 | 57,395 |
| Total revenues | <u>3,396,620</u> | <u>3,851,720</u> | <u>455,100</u> |
| EXPENDITURES: | | | |
| Landfill operations: | | | |
| Salaries and employee benefits | | 871,572 | |
| Other operating expenditures | | 2,687,031 | |
| Total | <u>3,652,319</u> | <u>3,558,603</u> | <u>93,716</u> |
| Budgetary appropriations | | | |
| Interest paid | | 7,053 | |
| Debt principal | | 91,960 | |
| Capital outlay | | 260,941 | |
| Total budgetary appropriations | <u>485,595</u> | <u>359,954</u> | <u>125,641</u> |
| Total expenditures | <u>4,137,914</u> | <u>3,918,557</u> | <u>219,357</u> |
| Revenues under expenditures | <u>(741,294)</u> | <u>(66,837)</u> | <u>674,457</u> |
| Other financing sources (uses): | | | |
| Transfers from other funds | 351,554 | 351,554 | -- |
| Transfers to general fund for debt payment | (88,986) | (88,986) | -- |
| Appropriated fund balance | 478,726 | -- | (478,726) |
| Total other financing sources (uses): | <u>741,294</u> | <u>262,568</u> | <u>(478,726)</u> |
| Revenues over expenditures and other sources (uses) | <u>\$ --</u> | <u>195,731</u> | <u>195,731</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Reconciling items: | | | |
| Capital outlays | | 260,941 | |
| Depreciation | | (177,998) | |
| Payment of debt principal | | 91,960 | |
| Increase in accrued vacation pay | | (9,346) | |
| Total reconciling items | | <u>165,557</u> | |
| Change in net assets | | <u>\$ 361,288</u> | |

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2006

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 |
|---------------------------------|-------------------------|----------------|----------------|--------------------------|
| Social Services: | | | | |
| Assets: | | | | |
| Cash and Investments | \$ <u>18,052</u> | <u>152,530</u> | <u>158,351</u> | <u>12,231</u> |
| Liabilities: | | | | |
| Accounts Payable | \$ <u>18,052</u> | <u>152,530</u> | <u>158,351</u> | <u>12,231</u> |
| | | | | |
| Health Benefits: | | | | |
| Assets: | | | | |
| Cash and Investments | <u>183,644</u> | <u>64,888</u> | <u>7,305</u> | <u>241,227</u> |
| Liabilities: | | | | |
| Accounts Payable | <u>183,644</u> | <u>64,888</u> | <u>7,305</u> | <u>241,227</u> |
| | | | | |
| Vehicle Tax-Towns: | | | | |
| Assets: | | | | |
| Cash and Investments | <u>4,473</u> | <u>104,701</u> | <u>105,037</u> | <u>4,137</u> |
| Liabilities: | | | | |
| Accounts Payable | <u>4,473</u> | <u>104,701</u> | <u>105,037</u> | <u>4,137</u> |
| | | | | |
| Total - All Agency Funds | | | | |
| Assets: | | | | |
| Cash and Investments | \$ <u>206,169</u> | <u>322,119</u> | <u>270,693</u> | <u>257,595</u> |
| Liabilities: | | | | |
| Accounts Payable | \$ <u>206,169</u> | <u>322,119</u> | <u>270,693</u> | <u>257,595</u> |

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2006

| | <u>Uncollected Balance June 30, 2005</u> | <u>Additions</u> | <u>Collections and Credits</u> | <u>Uncollected Balance June 30, 2006</u> |
|---|--|-------------------|--|--|
| <u>Fiscal year:</u> | | | | |
| 2005 - 2006 | \$ -- | 23,133,132 | \$22,743,850 | 389,282 |
| 2004 - 2005 | 364,822 | -- | 243,569 | 121,253 |
| 2003 - 2004 | 144,299 | -- | 63,728 | 80,571 |
| 2002 - 2003 | 99,335 | -- | 33,240 | 66,095 |
| 2001 - 2002 | 68,266 | -- | 15,442 | 52,824 |
| 2000 - 2001 | 52,513 | -- | 9,993 | 42,520 |
| 1999 - 2000 | 38,501 | -- | 3,561 | 34,940 |
| 1998 - 1999 | 37,022 | -- | 2,788 | 34,234 |
| 1997 - 1998 | 29,759 | -- | 2,137 | 27,622 |
| 1996 - 1997 | 23,353 | -- | 1,329 | 22,024 |
| 1995 - 1996 | 21,850 | -- | 21,850 | -- |
| | <u>\$ 879,720</u> | <u>23,133,132</u> | <u>23,141,487</u> | <u>871,365</u> |
| Plus: 2006 - 2007 receivable | | | | 126,227 |
| Less: allowance for uncollectible accounts General Fund | | | | <u>(424,093)</u> |
| Ad valorem taxes receivable - net General Fund | | | | <u>\$ 573,499</u> |

Reconciliation with revenues:

| | |
|------------------------------------|----------------------|
| Ad valorem taxes - General Fund | \$ 23,233,813 |
| Reconciling items: | |
| Advertising and interest collected | (118,670) |
| Taxes written off | <u>26,344</u> |
| Total reconciling items | <u>(92,326)</u> |
| Total collections and credits | <u>\$ 23,141,487</u> |

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-Wide Levy
 For the Fiscal Year Ended June 30, 2006

| | 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 | \$ 5,381,305,382 | \$ 0.395 | 21,251,462 | \$ 21,251,462 | -- |
| Motor vehicles taxed at current year's rate | 254,171,371 | 0.395 | 554,071 | -- | 554,071 |
| Motor vehicles taxed at prior year's rate | 158,157,755 | 0.35 | 1,008,107 | -- | 1,008,107 |
| Penalties | -- | | 7,196 | 7,196 | -- |
| Total | <u>5,793,634,508</u> | | <u>22,820,836</u> | <u>21,258,658</u> | <u>1,562,178</u> |
| Discoveries: | | | | | |
| Current year taxes | 86,480,896 | 0.395 | 322,967 | 322,967 | -- |
| Prior year taxes | -- | | 51,063 | 51,063 | -- |
| Penalties | -- | | 5,144 | 5,144 | -- |
| Total | <u>86,480,896</u> | | <u>379,174</u> | <u>379,174</u> | <u>--</u> |
| Abatements: | <u>(16,931,139)</u> | | <u>(66,878)</u> | <u>(40,444)</u> | <u>(26,434)</u> |
| Total property valuation | <u>\$ 5,863,184,265</u> | | | | |
| Net levy | | | 23,133,132 | 21,597,388 | 1,535,744 |
| Uncollected taxes at June 30, 2006 | | | <u>389,282</u> | <u>255,699</u> | <u>133,583</u> |
| Current year's taxes collected | | | <u>\$ 22,743,850</u> | <u>21,341,689</u> | <u>1,402,161</u> |
| Current levy collection percentage | | | <u>98.32%</u> | <u>98.82%</u> | <u>91.30%</u> |

WATAUGA COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2006

Statement 17-A

Secondary Market Disclosures:

| | |
|--|-----------------------------|
| Assessed Valuation: | |
| Assessment Ratio | 100% |
| Real Property | \$ 5,208,131,598 |
| Personal Property | 587,196,610 |
| Public Service Companies | <u>67,856,057</u> |
| Total Assessed Valuation | 5,863,184,265 |
| Tax Rate per \$100 | 0.395 |
| Levy (includes discoveries, releases and abatements) | \$ <u><u>23,133,132</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>1,282,146</u></u> |
|---------------------------|----------------------------|

**WATAUGA COUNTY, NORTH CAROLINA
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2006**

Statement 17-B

| Taxpayer | Type of Business | 2005 Assessed Valuation | Percentage of Total Assessed Valuation |
|--|----------------------|-------------------------------|--|
| Blue Ridge Electric | Electric Utility | \$ 43,670,047 | 0.75 % |
| Spiritual Center of America | Resort/Real Estate | 38,582,440 | 0.66 |
| Maharishi Spiritual Center of America | Resort/Real Estate | 23,453,400 | 0.40 |
| Lowe's Home Centers | Home Supply Center | 18,818,000 | 0.32 |
| BellSouth | Telephone Utility | 18,350,129 | 0.31 |
| Mountaineer Village LLC | Rental Properties | 16,479,000 | 0.28 |
| Appalachian South | Rental Properties | 11,782,000 | 0.20 |
| Templeton Properties | Rental / Real Estate | 11,435,910 | 0.19 |
| Heavenly Mountain Resort Inc | Resort / Real Estate | 10,670,290 | 0.18 |
| Boone Mall | Shopping Center | <u>10,205,900</u> | <u>0.17</u> |
| | | <u>\$ 203,447,116</u> | <u>3.46 %</u> |

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Fiscal Year Ended June 30, 2006

| | 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>0.04</u> |
| Net levy | \$ 72,905 | 176,542 | 216,996 | 155,681 | 77,510 | 283,179 | 88,782 | 2,553 | 56,994 | 42,137 | 27,116 | 81,752 |
| Uncollected taxes at June 30, 2006 | <u>1,998</u> | <u>1,728</u> | <u>3,742</u> | <u>3,809</u> | <u>2,481</u> | <u>4,375</u> | <u>2,833</u> | <u>114</u> | <u>1,550</u> | <u>1,048</u> | <u>498</u> | <u>2,293</u> |
| Current year's taxes collected | \$ <u>70,907</u> | <u>174,814</u> | <u>213,254</u> | <u>151,872</u> | <u>75,029</u> | <u>278,804</u> | <u>85,949</u> | <u>2,439</u> | <u>55,444</u> | <u>41,089</u> | <u>26,618</u> | <u>79,459</u> |
| Current levy collection percentage | <u>97.26%</u> | <u>99.02%</u> | <u>98.28%</u> | <u>97.55%</u> | <u>96.80%</u> | <u>98.45%</u> | <u>96.81%</u> | <u>95.54%</u> | <u>97.28%</u> | <u>97.51%</u> | <u>98.16%</u> | <u>97.20%</u> |

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

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated September 7, 2006. 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.

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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watauga County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

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 7, 2006

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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, 2006. 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, 2006.

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 reportable 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 caused by error or fraud 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 7, 2006

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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, 2006. 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, 2006.

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 reportable 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 caused by error or fraud 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 7, 2006

federal programs (Subsidized Childcare Cluster).

Statement 19 (page 2 of 2)

Watauga County, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2006

Federal Awards (cont.)

Dollar threshold used to distinguish
Between Type A and Type B Programs: \$ 642,150

Auditee qualified as low-risk auditee X Yes No

State Awards

Internal control over major State Programs:

- Material weakness(es) identified? Yes X No
- Reportable condition(s) identified
that are not considered to be
material weaknesses Yes X No

Identification of major State programs:

Program Name

Subsidized Childcare cluster

II. Financial Statement Findings:

There were no findings or questioned costs.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs.

IV. State Award Findings and Questioned Costs

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

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, 2006

| 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 | | \$ 1,887,718 | -- | -- |
| State Administrative Matching Grants for the Food Stamp Program | 10.561 | | 221,815 | -- | 221,815 |
| Total Food Stamp Cluster | | | 2,109,533 | -- | 221,815 |
| Passed-through the N.C. Dept. of Health and Human Services: | | | | | |
| Nutrition Program for the Elderly | 10.570 | | 26,666 | -- | -- |
| Passed-through the N.C. Division of Emergency Management: | | | | | |
| Watershed Protection and Flood Prevention | 10.906 | | 1,270,201 | 311,975 | -- |
| Total U.S. Dept. of Agriculture | | | 3,406,400 | 311,975 | 221,815 |
| U.S. Dept. of Housing and Urban Development | | | | | |
| Passed-through the N.C. Dept. of Commerce | | | | | |
| Community Development Block Grant | 14.228 | | 58,561 | -- | -- |
| Entrepreneur Development Partnership | 14.228 | 04-R-1285 | 25,000 | -- | -- |
| Total U.S. Dept. of Housing and Urban Development | | | 83,561 | -- | -- |
| 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 | | 4,497 | -- | 5,188 |
| U.S. Dept of Homeland Security | | | | | |
| Passed-through the N.C. Dept of Crime Control and Public Safety: | | | | | |
| Hazardous Material Emergency Preparedness Planning | 97.021 | | 1,375 | -- | -- |
| Emergency Management Performance Grant | 97.042 | | 20,381 | -- | -- |
| State Homeland Security Program | 97.073 | | 9,045 | -- | -- |
| Total U.S. Dept of Homeland Security | | | 30,801 | -- | -- |
| U.S. Dept. of Justice | | | | | |
| State Criminal Alien Assistance Program | 16.606 | | 1,096 | -- | -- |
| Bulletproof Vest Partnership Program | 16.607 | | 5,555 | -- | 5,555 |
| Passed-through the N.C. Dept of Justice: | | | | | |
| Public Safety Partnership and Community Policing Grants (COPS) | 16.710 | | 5,857 | -- | -- |
| Passed-through the N.C. Dept of Crime Control and Public Safety: | | | | | |
| Northwest Methamphetamine Task Force | 16.592 | | 39,767 | -- | 13,256 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | 22,484 | -- | 7,494 |
| Total U.S. Dept of Justice | | | 74,759 | -- | 26,305 |
| 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 | | 2,397 | 153 | 283 |
| Special Programs for the Aging - Title III B | | | | | |
| Grants for Supportive Services and Senior Centers | 93.044 | | 21,320 | 5,320 | 2,960 |
| Special Programs for the Aging - Title III C | | | | | |
| Nutritional Services | 93.045 | | 69,564 | 33,255 | 11,424 |
| In Home Services - State Funds | | | -- | 82,001 | 9,111 |
| Senior Center | | | -- | 22,598 | 87 |
| Family Caregiver Support Program | 93.052 | | 5,849 | 373 | 691 |
| Social Services Block Grant (SSBG) | | | | | |
| In-home Services | 93.667 | | 5,000 | -- | 556 |
| Total Aging Cluster | | | 104,130 | 143,700 | 25,112 |
| 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 | | 224,803 | -- | 209,044 |
| Direct Benefit Payments | 93.558 | | 96,004 | -- | -- |
| Low-Income Home Energy Assistance Block Grant: | | | | | |
| Administration | 93.568 | | 72,465 | 14,535 | -- |
| Direct Benefit Payments | 93.568 | | 43,274 | -- | -- |
| 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, 2006

| 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 | | 14,162 | 3,542 | 1,179 |
| Child Welfare Services: | | | | | |
| Adoption Subsidy - Direct Benefit Payments | 93.645 | | -- | 24,222 | 5,931 |
| Title IV-E Foster Care | 93.658 | | 51,917 | 11,088 | 37,865 |
| Foster Care - Direct Benefit Payments | 93.658 | | 82,786 | 13,376 | 37,443 |
| Adoption Assistance - Administration | 93.659 | | 87,105 | -- | 87,105 |
| Adoption Assistance - Direct Benefit Payments | 93.659 | | 140,708 | 40,589 | 40,589 |
| Social Services Block Grant | 93.667 | | 168,146 | 26,554 | 55,699 |
| DCD Smart Start | | | -- | 42,300 | -- |
| Division of Child Development: | | | | | |
| Subsidized Child Care Cluster: | | | | | |
| Child Care and Development | | | | | |
| Fund - - Discretionary | 93.575 | | 251,320 | -- | -- |
| Child Care and Development | | | | | |
| Fund - - Mandatory | 93.596 | | 117,032 | -- | -- |
| Child Care and Development | | | | | |
| Fund - - Match | 93.596 | | 85,557 | 49,143 | -- |
| Total Child Care Development Fund Cluster | | | <u>453,909</u> | <u>49,143</u> | <u>--</u> |
| Social Services Block Grant | 93.667 | | 13,818 | -- | -- |
| Temporary Assistance for Needy Families | 93.558 | | 77,877 | -- | -- |
| Smart Start | | | -- | 174,931 | -- |
| TANF - Maintenance of Effort | | | -- | 78,479 | -- |
| Total Subsidized Child Care (Note 3) | | | <u>545,604</u> | <u>302,553</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 | | 15,623,017 | 7,402,516 | 1,262,857 |
| Division of Social Services: | | | | | |
| Medical Assistance Program | | | | | |
| Administration | 93.778 | | 419,078 | 25,698 | 383,046 |
| Health Choice | 93.767 | | 23,458 | 1,608 | 6,434 |
| Links | 93.674 | | 2,065 | 516 | -- |
| Passed-through High Country Council of Governments: | | | | | |
| Medicare Transitional Drug Assistance Program for States | 93.783 | | 10,000 | -- | -- |
| Passed-through the N.C. Dept. of Health and | | | | | |
| Human Services: | | | | | |
| Division of Facility Services: | | | | | |
| National Bioterrorism Hospital Preparedness Program | 93.889 | | 18,224 | -- | -- |
| Passed-through the N.C. State Board of Elections | | | | | |
| Help America Vote Act of 2002 | 93.617 | | 18,048 | -- | -- |
| Total U.S. Department of Health & Human Services | | | <u>17,804,994</u> | <u>8,052,797</u> | <u>2,152,304</u> |
| Total Federal Awards | | | <u>21,405,012</u> | <u>8,364,772</u> | <u>2,405,612</u> |
| State Awards: | | | | | |
| N.C. Dept. of Health and Human Services | | | | | |
| Division of Social Services | | | | | |
| State/County Special Assistance for Adults- | | | | | |
| Direct Benefit Payments | | | -- | 159,498 | 159,498 |
| State Foster Care Benefits Program | | | -- | 9,952 | 9,952 |
| Program Integrity | | | -- | 249 | -- |
| State Aid to Counties | | | -- | 20,725 | -- |
| State Adult Protective Service | | | -- | 25,610 | -- |
| Total N.C. Dept. of Health and Human Services | | | <u>--</u> | <u>216,034</u> | <u>169,450</u> |

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2005

| 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 | | | -- | 117,981 | 36,945 |
| North Carolina Helping Neighbors Fund | | | -- | 2,830 | -- |
| Total Office of the Governor | | | <u>--</u> | <u>120,811</u> | <u>36,945</u> |
| N.C. Dept. of Public Instruction | | | | | |
| Public School National Forest Service | | | -- | 314 | -- |
| Total N.C. Dept. of Public Instruction | | | <u>--</u> | <u>314</u> | <u>--</u> |
| N.C. Dept. of Transportation | | | | | |
| Workfirst/Employment Transportation | | | | | |
| Operating Assistance | | | -- | 3,641 | -- |
| Elderly and Disabled Transportation Assistance Program (E&DTAP) | | | -- | 42,665 | -- |
| Rural General Public Program | | | -- | 45,659 | -- |
| Total N.C. Dept. of Transportation | | | <u>--</u> | <u>91,965</u> | <u>--</u> |
| N.C. Dept. of Environment, Health, and Natural Resources | | | | | |
| Soil Conservation Assistance | | | -- | 4,000 | 51,085 |
| Soil Conservation Cost Sharing | | | -- | 19,465 | 19,465 |
| Division of Waste Management | | | | | |
| Scrap Tire Disposal Grant | | | -- | 10,208 | -- |
| Total N.C. Dept. of Environment, Health, and Natural Resources | | | <u>--</u> | <u>33,673</u> | <u>70,550</u> |
| N.C. Dept. of Corrections | | | | | |
| Criminal Justice Partnership Program | | 95-0704-I-A | -- | 66,856 | -- |
| N.C. Division of Veteran's Affairs | | | | | |
| Veteran's Service Program | | | -- | 2,000 | 122,766 |
| Total State awards | | | <u>--</u> | <u>531,653</u> | <u>399,711</u> |
| Total federal and State awards | | | <u>\$ 21,405,012</u> | <u>8,896,425</u> | <u>2,805,323</u> |

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Watauga County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements. Benefit payments are paid directly to recipients and are not included in the county's 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 | \$ 1,887,718 | -- |
| Temporary Assistance for Needy Families | 93.558 | 126,060 | -- |
| Medical Assistance Program | 93.778 | 15,623,017 | 7,402,516 |
| Low Income Home Energy Assistance Block Grant | 93.568 | 43,274 | -- |
| Child Welfare - Adoption Subsidy | 93.645 | -- | 24,222 |
| Foster Care | 93.658 | 82,786 | 13,376 |
| Adoption Assistance | 93.659 | 140,708 | 40,589 |
| Adult Assistance | -- | -- | 159,498 |

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

 Subsidized Child Care