

**WATAUGA COUNTY, NORTH CAROLINA**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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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, 2007, 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, 2007, 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 October 11, 2007 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*

October 11, 2007

# BASIC FINANCIAL STATEMENTS

## FINANCIAL SECTION

## Watauga County

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

#### Management's Discussion and Analysis

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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, 2007. 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

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- The assets of the County exceeded its liabilities at the close of the fiscal year by \$58,239,219.
- The County's total net assets increased by \$9,187,226 primarily due to an increase in revenues (mainly resulted from an increase in investment income) 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 \$16,346,474 at the end of the year, representing 40.92% of total General Fund expenditures.
- Watauga County's total debt increased by \$4,523,382 during the current fiscal year. The key factor in this increase was financing the purchase of land to construct a new county-wide high school.
- Watauga County maintained its A bond rating.

#### Overview of the Financial Statements

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

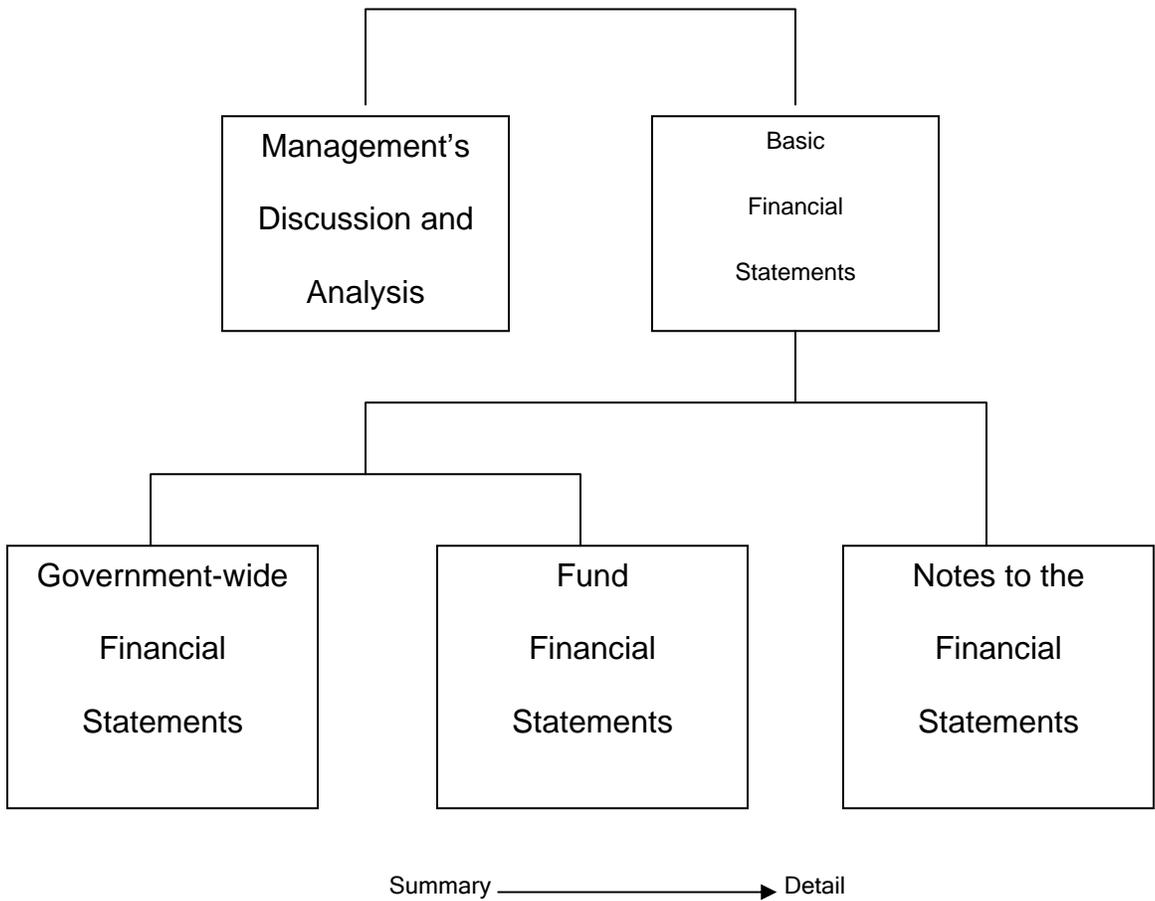
The basic financial statements present two different views of the County's finances through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding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

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## Required Components of Annual Financial Report

Figure 1

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### Basic Financial Statements

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

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

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### Government-wide Financial Statements

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

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

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes landfill services offered by Watauga County. The final category are the component units. 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. Effective July 1, 2006, the Watauga County Board of Commissioners levied six percent occupancy tax and created a Tourism Development Authority to administer funds collected to promote tourism in the county. The seven member Authority Board is appointed by the County Board of Commissioners.

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

### Fund Financial Statements

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

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**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has 7 fiduciary funds, one which is a health insurance trust fund and 6 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**

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	Current and other assets	\$ 33,963,581	29,408,366	3,774,200	3,444,330	37,737,781
Capital assets	<u>42,840,254</u>	<u>33,261,940</u>	<u>4,696,143</u>	<u>4,647,836</u>	<u>47,536,397</u>	<u>37,992,719</u>
Total asset	<u>76,803,835</u>	<u>62,670,306</u>	<u>8,470,343</u>	<u>8,092,166</u>	<u>85,274,178</u>	<u>71,038,576</u>
Long-term liabilities, outstanding	22,161,111	17,844,348	87,414	349,091	22,248,525	18,170,436
Other liabilities	<u>4,065,761</u>	<u>3,445,868</u>	<u>720,673</u>	<u>432,460</u>	<u>4,786,434</u>	<u>3,816,147</u>
Total liabilities	<u>26,226,872</u>	<u>21,290,216</u>	<u>808,087</u>	<u>781,551</u>	<u>27,034,959</u>	<u>21,986,583</u>
Net assets:						
Invested in capital assets, net of related debt	29,227,771	25,571,505	4,574,841	4,340,234	33,802,612	30,086,643
Restricted	952,579	731,264	--	--	952,579	731,264
Unrestricted	<u>20,396,613</u>	<u>15,077,321</u>	<u>3,087,415</u>	<u>2,970,381</u>	<u>23,484,028</u>	<u>18,234,086</u>
Total net assets	\$ <u>50,576,963</u>	<u>41,380,090</u>	<u>7,662,256</u>	<u>7,310,615</u>	<u>58,239,219</u>	<u>49,051,993</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 \$58,239,219 at June 30, 2007. The County's net assets increased by \$9,187,226 for the fiscal year ended June 30, 2007. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$33,802,612, Restricted net assets of \$952,579 and Unrestricted net assets of \$23,484,028.

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, 2007, 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 98.23%, higher than the 2006 statewide average of 96.63%.
- Increase in charges for services due to economic growth.

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

	Government Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$1,832,771	1,961,872	3,789,419	3,744,117	5,622,190	5,705,989
Operating grants and contributions	4,839,141	5,757,594	76,409	10,208	4,915,550	5,700,218
Capital grants	19,907	--	--	--	19,907	--
General revenues:						
Property taxes	26,270,125	24,476,446	--	--	26,270,125	24,476,446
Other taxes	14,457,968	12,661,243	--	--	14,457,968	12,661,243
Grants and contributions not restricted to specific programs	13,349	13,276	--	--	13,349	13,276
Donations	--	1,009,506	--	--	--	1,009,506
Other	1,405,681	1,055,250	135,131	97,395	1,540,812	1,152,645
Total revenues	48,838,942	46,935,187	4,000,959	3,851,720	52,839,901	50,719,323
Expenses:						
General government	7,522,708	5,718,350	--	--	7,532,708	5,718,350
Public safety	9,305,827	9,652,800	--	--	9,305,827	9,652,800
Economic and physical development	982,810	867,004	--	--	982,810	867,004
Human services	8,214,048	8,112,903	--	--	8,214,048	8,112,903
Cultural and recreation	1,380,012	1,350,570	--	--	1,380,012	1,350,570
Education	11,497,358	11,143,551	--	--	11,497,358	11,143,551
Interest on long-term debt	872,006	744,452	--	--	872,006	744,452
Solid Waste	--	--	3,867,906	3,753,000	3,867,906	3,753,000
Total expenses	39,784,769	37,589,630	3,867,906	3,753,000	43,652,675	41,342,630
Increase in net assets before transfers	9,054,173	9,345,557	133,053	98,720	9,187,226	9,376,693
Transfers	142,700	(262,568)	(142,700)	262,568	--	--
Increase in (decrease) net assets	9,196,873	9,082,989	(9,647)	361,288	9,187,226	9,376,693
Net assets, July 1	41,380,090	32,297,101	7,671,903	7,310,615	49,051,993	39,607,716
Net assets, June 30	50,576,963	41,380,090	7,662,256	7,671,903	58,239,219	48,984,409

**Governmental activities.** Governmental activities increased the County's net assets by \$9,015,405 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
- Increase in cable TV franchise fees above budgeted amounts
- Solicitation of additional grant revenues for the Public Safety and housing rehabilitation
- Maintenance of the County's high tax collections rate of 98.23%

**Business-type activities:** Business-type activities decreased Watauga County's net assets by \$9,647. Key element of this decrease is as follows:

- No operating transfers from the governmental funds

### Financial Analysis of the County's Funds

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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 \$16,346,474 while total fund balance reached \$23,314,584. 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 40.9 percent of total General Fund expenditures, while total fund balance represents 58.4 percent of that same amount.

At June 30, 2007, the governmental funds of Watauga County reported a combined fund balance of \$31,386,185, 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 \$1,837,777.

The actual operating revenues for the General Fund were \$899,204 more than the budgeted amount. Actual operating expense was less than budgeted by \$4,810,297.

**Proprietary Funds** - Watauga County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid waste Landfill Fund at the end of the fiscal year amounted to \$3,087,415. The total decrease in net assets was \$9,647.

### 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, 2007, totals \$47,536,397 (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
  - Demolished old law enforcement center to provide additional parking adjacent to the courthouse
  - Continued improvement of 75+ acres of land at Brookshire Park for mixed uses of recreation, affordable housing, and a commerce park
  - Purchased 90+ acres for the site of a new county-wide high school and began the pre-construction phase
  - Entered into a long term lease with the Town of Boone on property adjacent to the current Watauga County Parks and recreation facilities to provide additional recreation facilities which includes two regulation softball fields
  - 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	
	2007	2007	2007
Land	\$ 9,392,067	1,377,212	10,769,279
Buildings	19,511,222	2,679,466	22,190,688
Other improvements	63,745	218,304	282,049
Equipment	1,727,812	110,798	1,838,610
Vehicles	736,666	253,746	990,412
Construction in progress	11,408,743	56,607	11,465,350
Total	\$ 42,840,255	4,696,133	47,536,888

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, 2007, Watauga County had bonded debt outstanding of \$10,120,000 all of which is backed by the good faith and credit of the County.

## Watauga County's Outstanding Debt

### General Obligation Bonds

Figure 5

	Governmental Activities	
	2007	2006
General obligation bonds	\$ 10,120,000	11,505,000
Installment purchase		

Watauga County's total debt increased by \$4,523,382 or (23.56%) during the past fiscal due to financing the purchase of 90+ acres to construct a new county-wide high school.

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

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 \$583,219,583.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 38 of this report.

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

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

- The County is experiencing a low unemployment rate of 3.2%, well below the state average of 4.8%
- The County continues to experience growth in the tourism industry with an annual economic impact of approximately \$179 million.
- Appalachian State University's economic impact is estimated at \$407.1 million a year and provides stability to the local economy
- The county continues to experience growth in residential building projects with the 5,100 acre Ginn/Laurelmor project leading the way

### Budget Highlights for the Fiscal Year Ending June 30, 2008

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**Governmental activities** -The County's property tax rate is maintained at to the revenue neutral rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate which generates approximately \$2.7 million in property tax revenue is earmarked for education. Sales tax revenue is projected to increase due to continued economic growth.

Budgeted expenditures in the General Fund includes a 8.5% increase in the current expense appropriation to the school system as well as \$2,744,700 to be transferred to the Capital Reserve Fund to fund high school renovations, construction and/or debt service. In addition, \$250,000 is set a side in the Capital Reserve Fund for an elementary school capital improvement plan.

Businesses-type Activities: Budgeted revenues for tipping, greenbox, and landfill fees in the Solid waste Fund reflect an increase due to anticipated continued growth in waste stream. Budgeted expenditures include funding for an increase county-wide focus on recycling efforts as well as the construction of a new scale house facility to complete the upgrade of Solid waste facilities.

#### 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, 2007**

Exhibit A

	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County Tourism Developmen Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 28,946,946	3,433,107	32,380,053	605,006	632,547
Receivables (net)	2,323,587	324,888	2,648,475	4,342	84,156
Due from other governments	2,091,967	16,205	2,108,172	135,670	--
Inventories	--	--	--	99,696	--
Other assets	157,207	--	157,207	--	--
Deferred charges - issuance cost	78,212	--	78,212	--	--
Deferred charges - refunding	303,332	--	303,332	--	--
Intangible asset - advanced funding of pension obligation	62,330	--	62,330	--	--
Capital assets:					
Land, improvements, and construction in progress	20,800,810	1,433,819	22,445,700	--	--
Other capital assets, net of depreciation	22,039,444	3,262,324	25,090,697	3,365,260	5,424
Total capital assets	42,840,254	4,696,143	47,536,397	3,365,260	5,424
Total assets	76,803,835	8,470,343	85,274,178	4,209,974	722,127
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	1,507,286	450,560	1,957,846	104,270	8,684
Unearned revenue	18,396	173,239	191,635	18,819	--
Accrued interest payable	127,506	--	127,506	--	--
Customer deposits	--	76	76	--	--
Long-term liabilities:					
Due within one year	2,412,573	96,798	2,509,371	--	--
Due in more than one year	22,161,111	87,414	22,248,525	--	--
Total liabilities	26,226,872	808,087	27,034,959	123,089	8,684
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	29,227,771	4,574,841	33,802,612	3,365,260	5,424
Restricted for:					
Public safety	751,714	--	751,714	--	--
Register of Deeds	200,865	--	200,865	--	--
Unrestricted (deficit)	20,396,613	3,087,415	23,484,028	721,625	708,019
Total net assets	\$ 50,576,963	7,662,256	58,239,219	4,086,885	713,443

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, 2007**

Program Revenues

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 7,532,708	753,038	630,069	--
Public safety	9,305,827	696,654	667,831	19,907
Economic and physical development	982,810	--	24,826	--
Human service	8,214,048	15,339	3,516,091	--
Cultural and recreation	1,380,012	367,740	--	--
Education	11,497,358	--	324	--
Interest on long-term debt	872,006	--	--	--
Total governmental activities	<u>39,784,769</u>	<u>1,832,771</u>	<u>4,839,141</u>	<u>19,907</u>
			--	
Business-type activities:				
Solid waste	<u>3,867,906</u>	<u>3,789,419</u>	<u>76,409</u>	<u>--</u>
Total	<u>\$ 43,652,675</u>	<u>5,622,190</u>	<u>4,915,550</u>	<u>19,907</u>
Component units:				
AppalCART	<u>\$ 2,338,104</u>	<u>966,713</u>	<u>1,089,125</u>	<u>81,237</u>
Watauga County Development Authority	<u>\$ 16,271</u>	<u>--</u>	<u>710,899</u>	<u>--</u>

General revenues:

- Taxes:
  - Property taxes, levied for general purpose
  - Local option sales tax
  - Other taxes and licenses
- Grants and contributions not restricted to specific programs
- Investment earnings, unrestricted
- Miscellaneous, unrestricted
- Donations, unrestricted
- Gain 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, 2007

Exhibit B

Net (Expense) Revenues and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County Tourism Development Authority	
(6,149,601)	--	(6,149,601)			
(7,921,435)	--	(7,921,435)			
(957,984)	--	(957,984)			
(4,682,618)	--	(4,682,618)			
(1,012,272)	--	(1,012,272)			
(11,497,034)	--	(11,497,034)			
(872,006)	--	(872,006)			
(33,092,950)	--	(33,092,950)			
--					
--	(2,078)	(2,078)			
(33,092,950)	(2,078)	(33,095,028)			
			(201,029)	694,628	
\$ 26,270,125	--	26,270,125	--	--	
12,231,538	--	12,231,538	--	--	
2,226,430	--	2,226,430	--	--	
13,349	--	13,349	--	--	
1,270,964	135,632	1,406,596	24,111	18,815	
134,717	--	134,717	--	--	
--	--	--	--	--	
--	(501)	(501)	7,272	--	
142,700	(142,700)	--	--	--	
42,289,823	(7,569)	42,282,254	31,383	18,815	
9,196,873	(9,647)	9,187,226	(169,646)	713,443	
41,380,090	7,671,903	49,051,993	4,256,531	--	
\$ 50,576,963	7,662,256	58,239,219	4,086,885	713,443	

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

**Watauga County, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

**Exhibit C**

		General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Fund
<b>ASSETS</b>						
Cash and cash equivalents	\$	20,695,412	5,199,790	2,194,825	856,919	28,946,946
Taxes receivable, net		512,614	--	--	55,965	568,579
Due from other governments		2,091,967	--	--	--	2,091,967
Due from other funds		115,774	--	--	--	115,774
Accounts receivable, net		1,301,533	--	--	298,252	1,599,785
Other assets		157,207	--	--	--	157,207
<b>Total assets</b>	<b>\$</b>	<b>24,874,507</b>	<b>5,199,790</b>	<b>2,194,825</b>	<b>1,211,136</b>	<b>33,480,258</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$	1,029,748	--	181,493	180,271	1,391,512
Unearned revenue		10,796	--	--	614	11,410
Deferred revenue		519,379	--	--	55,998	575,377
Due to other funds		--	--	--	115,774	115,774
<b>Total liabilities</b>		<b>1,559,923</b>	<b>--</b>	<b>181,493</b>	<b>352,657</b>	<b>2,094,073</b>
Fund balances:						
Reserved for:						
State statute		3,659,716	--	--	105,880	3,765,596
Encumbrances		3,107,529	--	--	--	3,107,529
Register of Deeds		200,865	--	--	--	200,865
Unreserved		16,346,474	5,199,790	--	--	21,546,264
Unreserved, reported in nonmajor:						
Special revenue funds		--	--	--	752,599	752,599
Capital projects funds		--	--	2,013,332	--	2,013,332
<b>Total fund balances</b>		<b>23,314,584</b>	<b>5,199,790</b>	<b>2,013,332</b>	<b>858,479</b>	<b>31,386,185</b>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>24,874,507</b>	<b>5,199,790</b>	<b>2,194,825</b>	<b>1,211,136</b>	

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.	62,330
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,840,254
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	39,449
Liabilities for earned but deferred revenues in fund statements.	568,391
Deferred charges based on refunding issues.	381,544
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3).	(24,701,190)
<b>Net assets of governmental activities</b>	<b>\$ 50,576,963</b>

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, 2007**

Exhibit D

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Ad valorem taxes	\$ 24,484,794	--	--	1,702,447	26,187,241
Local option sales taxes	12,231,538	--	--	--	12,231,538
Other taxes and licenses	1,239,181	--	--	987,249	2,226,430
Unrestricted intergovernmental	13,349	--	--	--	13,349
Restricted intergovernmental	4,014,823	--	--	844,225	4,859,048
Permits and fees	1,013,187	--	--	--	1,013,187
Sales and services	799,677	--	--	--	799,677
Investment earnings	1,001,279	265,980	1,008	22,605	1,290,872
Donations	--	--	--	710	710
Miscellaneous	134,007	--	--	--	134,007
Total revenues	<u>44,931,835</u>	<u>265,980</u>	<u>1,008</u>	<u>3,557,236</u>	<u>48,756,059</u>
<b>EXPENDITURES</b>					
Current:					
General government	8,425,021	--	--	1,298,849	9,723,870
Public safety	6,975,412	--	--	1,809,015	8,784,427
Economic and physical development	928,560	--	--	--	928,560
Human services	7,602,754	--	--	--	7,602,754
Cultural and recreational	1,262,765	--	--	--	1,262,765
Intergovernmental:					
Education	11,496,343	--	--	--	11,496,343
Capital outlay	--	--	8,271,166	360,287	8,631,453
Debt service:					
Principal	2,398,953	--	--	--	2,398,953
Interest	855,335	--	--	--	855,335
Total expenditures	<u>39,945,143</u>	<u>--</u>	<u>8,271,166</u>	<u>3,468,151</u>	<u>51,684,460</u>
Excess (deficiency) of revenues over expenditures	4,986,692	265,980	(8,270,158)	89,085	(2,928,401)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	1,741,660	4,213,411	3,347,490	138,444	9,441,005
Transfers to other funds	(4,559,855)	(4,711,903)	--	(26,547)	(9,298,305)
Proceeds from loan	--	--	6,936,000	--	6,936,000
Total other financing sources and uses	<u>(2,818,195)</u>	<u>(498,492)</u>	<u>10,283,490</u>	<u>111,897</u>	<u>7,078,700</u>
Net change in fund balance	2,168,497	(232,512)	2,013,332	200,982	4,150,299
Fund balances-beginning	21,146,087	5,432,302	--	657,497	27,235,886
Fund balances-ending	<u>\$ 23,314,584</u>	<u>5,199,790</u>	<u>2,013,332</u>	<u>858,479</u>	<u>31,386,185</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, 2007**

**Exhibit D**

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

Net changes in fund balances - total governmental funds	\$	4,150,299
---------------------------------------------------------	----	-----------

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

9,578,314

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	(66,032)	
Advance funding of pension obligation	6,395	
Accrued interest expense	(11,253)	
Taxes receivable	<u>62,532</u>	
Combined adjustment		(8,358)

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.

(4,523,382)

Total changes in net assets of governmental activities	\$	<u><u>9,196,873</u></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, 2007**

<b>General Fund</b>				
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 23,482,692	24,482,692	24,484,794	2,102
Local option sales tax	12,196,949	12,376,949	12,231,538	(145,411)
Other taxes and licenses	807,100	812,100	1,239,181	427,081
Unrestricted intergovernmental	13,000	13,000	13,349	349
Restricted intergovernmental	3,730,601	4,257,076	4,014,823	(242,253)
Permits and fees	864,578	864,578	1,013,187	148,609
Sales and services	549,162	659,323	799,677	39,656
Investment earnings	439,800	439,800	1,001,279	561,479
Donations	--	--	--	--
Miscellaneous	110,972	127,113	134,007	6,894
Total revenues	<u>42,194,854</u>	<u>44,032,631</u>	<u>44,931,835</u>	<u>899,204</u>
<b>Expenditures:</b>				
Current:				
General government	7,740,271	11,937,163	8,425,021	3,512,142
Public safety	6,697,172	7,318,483	6,975,412	343,071
Economic & Physical	917,259	1,032,991	928,560	104,431
Human services	7,902,687	8,110,662	7,602,754	507,908
Cultural and recreation	1,316,925	1,362,143	1,262,765	99,378
Education	11,187,492	11,738,660	11,496,343	242,317
Debt service:				
Principal retirement	2,398,937	2,398,937	2,398,953	(16)
Interest and other charges	733,025	856,401	855,335	1,066
Total expenditures	<u>38,893,768</u>	<u>44,755,440</u>	<u>39,945,143</u>	<u>4,810,297</u>
Revenues over (under) expenditures	<u>3,301,086</u>	<u>(722,809)</u>	<u>4,986,692</u>	<u>5,709,501</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	496,772	1,148,111	1,741,660	593,549
Transfers to other funds	(4,197,858)	(4,559,855)	(4,559,855)	--
Future project funding	--	--	--	--
Loan proceeds	--	--	--	--
Fund balance appropriated	400,000	4,134,553	--	(4,134,553)
Total other financing sources (uses)	<u>(3,301,086)</u>	<u>722,809</u>	<u>(2,818,195)</u>	<u>(3,541,004)</u>
Revenues and other sources over (under) expenditures and other uses	--	--	2,168,497	2,168,497
Fund balances, beginning of year	--	--	21,146,087	--
Fund balances, end of year	<u>\$ --</u>	<u>--</u>	<u>23,314,584</u>	<u>--</u>

**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, 2007**

Exhibit E

Capital Reserve Fund			
Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
Original	Final		
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
40,000	40,000	265,980	225,980
--	--	--	--
40,000	40,000	265,980	225,980
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
40,000	40,000	265,980	225,980
4,197,858	4,213,411	4,213,411	--
(344,072)	(4,711,903)	(4,711,903)	--
(4,237,858)	(1,227,367)	--	1,227,367
--	--	--	--
344,072	1,685,859	--	(1,685,859)
(40,000)	(40,000)	(498,492)	(458,492)
--	--	(232,512)	(232,512)
--	--	5,432,302	--
--	--	5,199,790	--

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

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

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	3,433,107
Receivables, net		324,888
Due from other governments		16,205
Total current assets		<u>3,774,200</u>
Capital assets:		
Land, improvements, and construction in progress		1,644,890
Other capital assets, net of depreciation		3,051,253
Total capital assets		<u>4,696,143</u>
Total assets		<u>8,470,343</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable		450,560
Customer deposits		76
Installment purchase payable		96,798
Total current liabilities		<u>547,434</u>
Noncurrent liabilities:		
Deferred Revenue		173,239
Compensated absences		62,910
Installment purchase payable		24,504
Total noncurrent liabilities		<u>260,653</u>
Total liabilities		<u>808,087</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		4,574,841
Unrestricted		3,087,415
Total net assets	\$	<u><u>7,662,256</u></u>

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

**Watauga County, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 3,789,419
Restricted intergovernmental revenues	76,409
	3,865,828
Total operating revenues	
 <b>OPERATING EXPENSES:</b>	
Landfill operations	3,668,124
Depreciation	195,107
	3,863,231
Total operating expenses	
Operating income (loss)	2,597
 <b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest and investment revenue	135,632
Interest paid on long term debt	(4,675)
Loss on disposal of assets	(501)
	130,456
Total non operating revenue (expenses)	
Income (loss) before transfers	133,053
Transfers (to) from other funds (net)	(142,700)
	(9,647)
Change in net assets	
Total net assets - beginning	7,671,903
Total net assets - ending	\$ 7,662,256

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, 2007**

	<b>Solid Waste Fund</b>
Cash flows from operating activities:	
Cash received from customers	\$ 3,794,408
Cash paid for goods and services	(2,544,619)
Cash paid to employees for services	(936,751)
Other operating revenue	76,409
Net cash provided by operating activities	<u>389,447</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>(142,700)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(160,973)
Principal paid on installment purchase contracts	(94,339)
Interest paid on installment purchase contracts	(4,675)
Net cash used by capital and related financing activities	<u>(259,987)</u>
Cash flows from investing activities:	
Interest on investments	<u>135,632</u>
Net increase (decrease) in cash and cash equivalents	122,392
Cash and cash equivalents, July 1	<u>3,310,715</u>
Cash and cash equivalents, June 30	<u>\$ 3,433,107</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ <u>2,597</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	195,107
Changes in assets and liabilities:	
Increase in accounts receivable	(14,316)
Increase in deferred revenue	19,305
Decrease in accounts payable and accrued liabilities	174,679
Increase in accrued vacation pay	12,075
Total adjustments	<u>386,850</u>
Net cash used by operating activities	<u>\$ 389,447</u>

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

**Watauga County, North Carolina  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2007**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ <u>146,331</u>	<u>289,601</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u>    --</u>	<u>289,601</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>146,331</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, 2007**

**Exhibit J**

		<b>Pension Trust Fund</b> <hr/> June 30, 2007 <hr/>
Additions:		
Employer contributions	\$	39,000
Interest earned		<u>5,256</u>
Total additions		<u>44,256</u>
Deductions:		
Benefits		28,560
Administrative expense		<u>440</u>
Total deductions		<u>29,000</u>
Change in net assets		15,256
Net assets, beginning		<u>131,075</u>
Net assets, ending	\$	<u><u>146,331</u></u>

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

## Note 1 - Summary of Significant Accounting Policies:

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

### A. Reporting Entity:

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

### AppalCART

AppalCART operates mainly in Watauga County in the northwest part of North Carolina, providing transportation services to the various areas and residents within Watauga County. Watauga County's Board of Commissioners appoints the seven-member governing board of AppalCART and AppalCART operates within the County's boundaries for the benefit of the County's residents. The County provides some financial support to AppalCART but it is not responsible for the debts of AppalCART except when such are expressly granted by statute or by the consent of the Board of Commissioners of Watauga County. The Board of Commissioners of Watauga County has the authority to terminate the existence of AppalCART at any time, provided a 60-Day written notice is given to AppalCART, and all property and assets of AppalCART shall automatically become the property of Watauga County and the County shall succeed to all rights, obligations and liabilities of AppalCART. AppalCART designates its own management, approves its own budget, and maintains its own accounting system; however, AppalCART is fiscally accountable to Watauga County, and the County has the authority to examine all records and accounts at any time. AppalCART, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements may be obtained from the entity's administrative offices at AppalCART, PO Box 2357, Boone, NC 28607.

### Watauga County Tourism Development Authority

The North Carolina General Legislation enacted a law which authorized Watauga County to levy a room occupancy and tourism development tax; and the Watauga County commissioners adopted a resolution levying this tax and created the Watauga County Tourism Development Authority. The Authority operates within Watauga County's boundaries for the benefit of the County's residents, and the County provides financial support to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. Watauga County's Board of Commissioners appoints the six voting members of the Authority. The Watauga County Tourism Development Authority has a June 30 year end and is presented as if it is a governmental fund. Complete financial statements may be obtained from the entity's administrative offices at Watauga County District U Tourism Development Authority, 814 West King St., Boone, NC 28607

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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

**B. Basis of Presentation – Basis of Accounting**

**Basis of Presentation, Measurement Focus – Basis of Accounting**

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

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

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

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

The County reports the following major governmental funds:

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

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

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

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

## **B. Basis of Presentation – Basis of Accounting (continued)**

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

The County reports the following major enterprise fund:

*Solid Waste Fund* – This fund accounts for the operation, maintenance, and development of the County's 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 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; the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities within the County; and the Jail Commissary Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain individuals; the Fines and Forfeitures Fund which accounts for various fines and forfeitures that the County is required to remit to the Watauga County Board of Education, and the Motor Vehicle Tax Fund which accounts for the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles.

## **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.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods,

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

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

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

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

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. 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 31<sup>st</sup> each year with taxes due by May 1<sup>st</sup> 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.

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

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

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, Occupancy Tax, Disaster Relief, Lance Creek Restoration, and Revaluation Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Housing Rehabilitation, the CDBG Rehabilitation Grant, and the CDBG Urgent Needs Special Revenue Funds and the Capital Projects Funds. 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, AppalCART, and the Watauga County Tourism Development Authority are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, AppalCART, and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County, AppalCART, and

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

#### **D. Assets, Liabilities and Fund Equity (continued)**

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

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

### **2. Cash and Cash Equivalents**

The County pools money from several funds, except the Pension Trust Fund, to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. AppalCART and the Authority consider demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

### **3. Ad Valorem Taxes Receivable**

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2006.

### **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.

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

### **D. Assets, Liabilities and Fund Equity (continued)**

#### **5. Inventory**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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 is \$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 on disposition is not calculated except in extraordinary circumstances. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	<u>Years</u>
Buildings	30 to 50
Improvements	8 to 10
Furniture and equipment	5 to 10
Vehicles	5 to 6
Computer equipment	3 to 6

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

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

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

	<u>Years</u>
Computer Equipment	1-3
Furniture & Equipment	1-5

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

**D. Assets, Liabilities and Fund Equity (continued)**

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

## **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**

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

### **Fund Balances**

In the governmental fund financial statements, 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.

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

### **D. Assets, Liabilities and Fund Equity (continued)**

The governmental fund types classify fund balances as follows:

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2007-2008 budget ordinance.

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

**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 \$19,190,778 consists of several elements as follows:

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

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

<u>Description</u>	<u>Amount</u>
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WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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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)	\$61,696,031
Less accumulated depreciation	(18,855,777)
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	62,330
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	39,449
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	568,391
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	381,554
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	(23,732,483)
Compensated absences	(841,201)
Accrued interest payable	<u>(127,506)</u>
Total adjustment	<u>\$19,190,778</u>

Note 1 - **Summary of Significant Accounting Policies (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

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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 \$5,046,574 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	\$11,092,485
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	(1,443,223)
Loss on disposal of assets that is recorded in the statement of activities but not in the fund statements	(70,948)
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	2,398,952
The advance funding of pension obligations	6,395
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)	(11,253)
Amortization of refunding costs not recorded on fund statements	13,666
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(66,032)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities- it affects only the government-wide statement of net assets	(6,936,000)

**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**

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:

Increase in deferred tax revenue for year ended 6/30/07	75,099
Decrease in accrued taxes receivable for year ended 6/30/07	<u>(12,561)</u>
Total adjustment	\$ <u>5,046,574</u>

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

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

##### **Noncompliance with North Carolina General Statutes**

There were no instances of noncompliance with North Carolina Statutes.

### Note 3 - **Detail Notes on All Funds**

#### A. **Assets**

##### 1. **Deposits**

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

### 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

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

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, 2007, the County's deposits had a carrying amount of \$30,450,233 and a bank balance of \$30,747,765. Of the bank balance, \$300,000 was covered by federal depository insurance, and \$42,102 in non-interest bearing deposits and \$30,405,663 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 and the Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2007 Watauga County had \$2,600 cash on hand.

At June 30, 2007, the AppalCART's deposits had a balance of \$364,835 and a bank balance of \$432,046. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$297,248 in interest bearing deposits were covered by collateral held under the pooling method.

At June 30, 2007, AppalCaRT had \$300 cash on hand.

At June 30, 2007, the Authority's deposits had a balance of \$632,547. Of the balance, \$100,000 was covered by federal depository insurance. And \$532,547 in interest bearing deposits were covered by collateral held under the pooling method.

## **2. Investments**

At June 30, 2007, the County's investments consisted of \$2,362,283 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, 2007, the AppalCART's investments consisted of \$239,871 in the North Carolina Capital Management Trust's Cash Portfolio. The AppalCART has no policy on credit risk.

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

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

In accordance with the general statutes, agriculture, horticulture, and forestland may be 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

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year Levied	Tax	Interest	Total
2004	\$ 478,158	135,080	613,238
2005	481,800	92,746	574,546
2006	535,213	54,859	590,072
2007	<u>616,480</u>	<u>--</u>	<u>616,480</u>
Total	\$ <u>2,111,651</u>	<u>282,685</u>	<u>2,394,336</u>

**4. Receivables**

Receivables at the government-wide level at June 30, 2007, were as follows:

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 1,417,314	992,602	2,091,967	4,501,883
Other Governmental	<u>298,252</u>	<u>74,788</u>	<u>--</u>	<u>373,040</u>
Total receivables	1,715,566	1,067,390	2,091,967	4,874,923
Allowance for doubtful accounts	<u>--</u>	<u>(459,369)</u>	<u>--</u>	<u>(459,369)</u>
Total-governmental activities	\$ <u>1,715,566</u>	<u>608,021</u>	<u>2,091,967</u>	<u>4,415,554</u>
Business-type activities				
Solid Waste	\$ 324,888	--	16,205	341,093
Allowance for doubtful accounts	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total-business-type activities	\$ <u>324,888</u>	<u>--</u>	<u>16,205</u>	<u>341,093</u>

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

**4. Receivables (continued)**

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

Local option sales tax	\$ 1,902,860
Scrap tire tax	11,864
White goods tax	4,341
Criminal Justice Partnership Program	15,393

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Daycare	60,910
County Administration	<u>112,804</u>
<b>Total</b>	<b>\$ <u>2,108,172</u></b>

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,144,031	248,036	--	9,392,067
Construction in progress	<u>9,157,719</u>	<u>10,799,400</u>	<u>8,528,376</u>	<u>11,408,743</u>
Total capital assets not being depreciated	<u>18,301,750</u>	<u>11,027,436</u>	<u>8,528,376</u>	<u>20,800,810</u>
Capital assets being depreciated:				
Buildings	29,185,826	7,633,551	1,199,538	35,619,839
Other improvements	95,201	--	--	95,201
Equipment	2,558,963	1,000,851	155,942	3,403,872
Vehicles and motor equipment	<u>1,918,533</u>	<u>187,059</u>	<u>329,282</u>	<u>1,776,310</u>
Total capital assets being depreciated	<u>33,758,523</u>	<u>8,821,461</u>	<u>1,684,762</u>	<u>40,895,222</u>
Less accumulated depreciation for:				
Buildings	16,140,227	919,892	951,502	16,108,617
Improvements	27,111	4,345	--	31,456
Equipment	1,487,754	293,401	105,095	1,676,060
Vehicles and motor equipment	<u>1,143,241</u>	<u>225,684</u>	<u>329,281</u>	<u>1,039,644</u>
Total accumulated depreciation	<u>18,798,333</u>	<u>1,443,322</u>	<u>1,385,878</u>	<u>18,855,777</u>
Total capital assets being depreciated, net	<u>14,960,190</u>			<u>22,039,445</u>
Governmental activity capital assets, net	\$ <u>33,261,940</u>			<u>42,840,255</u>

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

**5. Capital Assets (continued)**

**Primary Government**

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

General government	\$ 177,978
Public safety	485,455
Education	1,015

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Economic and physical development	55,471
Human services	608,255
Cultural and recreational	<u>115,148</u>
Total depreciation expense	\$ <u>1,443,322</u>

	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>40,916</u>	<u>15,691</u>	--	<u>56,607</u>
Total capital assets not being depreciated	<u>1,418,128</u>	<u>15,691</u>	--	<u>1,433,819</u>
Capital assets being depreciated:				
Improvements	470,081	48,175	--	518,256
Buildings	3,000,081	--	--	3,000,081
Equipment	1,098,161	97,107	37,756	1,157,512
Vehicles	<u>1,190,988</u>	--	<u>166,518</u>	<u>1,024,470</u>
Total capital assets being depreciated	<u>5,759,311</u>	<u>145,282</u>	<u>204,274</u>	<u>5,700,319</u>
Less accumulated depreciation for:				
Improvements	293,715	6,237	--	299,952
Buildings	260,604	60,011	--	320,615
Equipment	1,053,655	30,313	37,254	1,046,714
Vehicles	<u>838,686</u>	<u>98,556</u>	<u>166,518</u>	<u>770,724</u>
Total accumulated depreciation	<u>2,446,660</u>	<u>195,117</u>	<u>203,772</u>	<u>2,438,005</u>
Total capital assets being depreciated, net	<u>3,312,651</u>			<u>3,262,314</u>
Business-type activities capital assets, net	\$ <u>4,730,779</u>			<u>4,696,133</u>

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

**5. Capital Assets (continued)**

**Construction commitments**

The government has active construction projects as of June 30, 2007. The projects include a new law enforcement facility, a new administration building, an addition to the existing courthouse. At June 30, 2007, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
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**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Anne Marie Park	\$	60,642	74,488
Appalachian Enterprise Center		15,136	59,864
Brookshire Park		25,939	140,561
Courthouse addition		3,035,859	115,093
Watauga High School		<u>8,271,166</u>	<u>56,728,834</u>
Total	\$	<u>11,408,742</u>	<u>57,118,840</u>

**Discretely presented component units**

Capital asset activity for the AppalCART for the year ended June 30, 2007, 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>101,985</u>	<u>15,034</u>	--	<u>117,019</u>
Total capital assets not being depreciated	<u>1,216,227</u>	<u>15,034</u>	--	<u>1,231,261</u>
Capital assets being depreciated:				
Land improvements	159,662	--	--	159,662
Office furniture and equipment	103,130	3,599	14,914	91,815
Vehicles	3,820,751	64,590	599,150	3,286,191
Shop equipment	<u>114,862</u>	--	--	<u>114,862</u>
Total capital assets being depreciated	<u>4,198,405</u>	<u>68,189</u>	<u>614,064</u>	<u>3,652,530</u>
Less accumulated depreciation for:				
Land improvements	125,537	6,793	--	132,330
Office furniture and equipment	83,611	9,052	13,140	79,523
Vehicles	1,455,340	337,100	591,994	1,200,446
Shop equipment	<u>100,997</u>	<u>5,235</u>	--	<u>106,232</u>
Total accumulated depreciation	<u>1,765,485</u>	<u>358,180</u>	<u>605,134</u>	<u>1,518,531</u>
Total capital assets being depreciated, net	<u>2,432,920</u>			<u>2,133,999</u>
AppalCART capital assets, net	\$ <u>3,649,147</u>			<u>3,365,260</u>

Capital asset activity for the Watauga County Tourism Development Authority for the year ended June 30, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets				
being depreciated:				
Computer equipment	\$ <u>    --</u>	<u>6,027</u>	--	<u>6,027</u>
Total Capital assets	<u>    --</u>	<u>6,027</u>	--	<u>6,027</u>
being depreciated				
Less accumulated				
depreciation for:				
Computer equipment	<u>    --</u>	<u>603</u>	--	<u>603</u>

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Total accumulated depreciation	---	<u>603</u>	---	<u>603</u>
Total capital assets being depreciated, net	\$ ---			<u>5,424</u>

**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2007, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$ 1,029,748	--	127,506	--	1,157,254
Other governmental	<u>361,764</u>	--	--	<u>115,774</u>	<u>477,538</u>
Total-governmental activities	<u>1,391,512</u>	--	<u>127,506</u>	<u>115,744</u>	<u>1,634,792</u>
Business-type activities:					
Solid Waste	\$ <u>450,560</u>	--	--	--	<u>450,560</u>

**2. Pension Plan Obligations**

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

*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, 2007, 2006, and 2005 were \$1,040,592, \$968,939, and \$868,194, 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>41</u>
Total	<u>44</u>

**2. *Contributions***

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. There were no contributions made by employees.

The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the County.

The annual required contribution for the current year was determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 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

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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 24 years.

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 30,251	142.17 %	\$ (47,620)
2006	30,245	127.49	(55,935)
2007	32,166	119.88	(62,330)

**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, 2007 were \$81,101, which consisted of \$70,542 from the County and \$10,559 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, 2007 to these plans were \$645,407, which consisted of \$470,040 from the County and \$175,367 from employees.

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

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

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

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, 2007, the County's required and actual contributions were \$23,111.

### **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.

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

#### **Death Benefits**

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2007, the County made contributions to the State for death benefits of \$13,329. 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, 2007 and 2006 amounted to \$68,285 and \$68,939, respectively. Payments of \$71,281 and \$42,040 were made for each fiscal year, respectively.

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

**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

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

\$2,700,000. The capping project is complete and groundwater conditions remain stable. Groundwater testing continues, as required by NCDENR. Also, due to NCDENR directive, in fiscal year 2004/2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

**4. Deferred/Unearned Revenues**

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

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid taxes not yet earned (General)	\$ 10,796	11,666
Prepaid user fees not yet earned (Enterprise)	173,239	173,239
Taxes receivable, net (General)	512,648	--
Taxes receivable, net (Special Revenue)	55,965	--
Prepaid revenue	<u>6,730</u>	<u>6,730</u>
Total	\$ <u>759,378</u>	<u>191,635</u>

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

**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

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

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.

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are covered by performance bonds through a commercial surety bond. The Finance 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.

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

#### **5. Risk Management (continued)**

The Watauga County Tourism Development Authority is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured as part of Watauga County with commercial companies that provide coverage for general liability in the amount of \$2,000,000.

#### **6. Contingent Liabilities**

At June 30, 2007, 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**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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

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

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

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

**Note 3 -**

**Detail Notes on All Funds (continued)**

**7. Long-term Obligations (continued)**

The fifth installment purchase was excuted on December 1, 2006 for the purchase of land to build a new high school. This installment purchase requires annual payments of \$770,667 plus biannual payments of interest at 3.71 percent.

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, 2007, including \$2,520,219 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2008	\$ 1,047,573	506,856	96,798	2,215
2009	1,750,147	447,326	24,504	159
2010	1,676,796	378,935	--	--

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

2011	1,705,436	310,904	--	--
2012	1,245,864	242,377	--	--
2013-2017	5,520,000	607,147	--	--
2018-2022	<u>666,667</u>	<u>24,300</u>	--	--
Principal payments	\$ <u>13,612,483</u>		<u>121,302</u>	
Total interest payments		\$ <u>2,517,845</u>		<u>2,374</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.

The County's general obligation bonds payable at June 30, 2007 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	\$ 2,625,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	4,085,000
\$4,275,000 2004 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent	<u>3,410,000</u>
Total	\$ <u>10,120,000</u>

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

Year Ending	Governmental Activities	
	Principal	Interest
June 30		
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	1,225,000	192,617
2013-2017	<u>3,570,000</u>	<u>278,620</u>
Total	\$ <u>10,120,000</u>	<u>1,743,900</u>

At June 30, 2007, Watauga County had a legal debt margin of \$583,219,853.

**d. Advance Refunding**

In December 2001, the County issued \$6,425,000 of general obligation advance refunding bonds

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

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

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

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

**7. Long-term Obligations (continued)**

**e. Long-Term Obligation Activity**

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 11,505,000	--	1,385,000	10,120,000	1,365,000
Installment purchases	7,690,435	6,936,000	1,013,952	13,612,483	1,047,573
Compensated absences	775,169	664,639	598,607	841,201	--
Total governmental activities	\$ 19,970,604	7,600,639	2,997,559	24,573,684	2,412,573
Business-type activities:					
Installment purchases	\$ 215,641	--	94,339	121,302	96,798
Compensated absences	50,835	44,433	32,358	62,910	--
Total business-type activities	\$ 266,476	44,433	126,697	184,212	96,798
Discretely presented component units:					

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Compensated absences	\$ 46,463	44,639	44,720	46,382	46,382
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For Watauga County, compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned. For AppalCART, compensated absences are accounted for on the FIFO basis, assuming that employees are taking leave time that has been previously earned.

**C. Interfund Balances and Activity**

Transfers to/from other funds

Transfers to/from other funds at June 30, 2007, consists of the following:

From the General fund to the Capital Reserve fund to accumulate resources for future capital acquisitions	\$ 4,213,411
From the Special Revenue fund to the General fund to reimburse For an expense paid	26,547
From the Capital Reserve fund to the General fund for the new construction projects	1,572,413
From the Solid Waste fund to the Debt Service fund for debt service payments owed to the General fund	142,700
From the General fund to the Law Enforcement Capital Project fund for construction projects	138,444

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2007

From the General fund to the Watauga High School Capital Project Fund for construction projects	208,000
From the Capital Reserve fund to the Watauga High School Capital Project fund for construction projects	<u>3,139,490</u>
Total	\$ <u>9,441,005</u>

### **Note 4 - Joint Ventures**

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2007. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$435,157 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2007. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$530,080 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, 2007. 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 \$690,933 to Caldwell Community College and Technical Institute to supplement its activities.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

**Note 6 - Benefit Payments Issued by the State**

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

	<u>Federal</u>	<u>State</u>
Temporary assistance to need families	\$ 76,672	--
Medicaid	15,240,329	7,505,337
Food stamp program	2,011,981	--
Energy assistance	97,961	--
Adoption assistance	156,658	44,212
Adoption subsidy	--	38,812
Adult assistance	--	184,887
Title IV-E, Foster care	29,638	5,893
Links	5,281	658
Total	<u>\$ 17,618,520</u>	<u>7,779,799</u>

**Note 7 - Summary Disclosure of Significant Commitments and Contingencies**

**Federal and State Assisted Programs**

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

**Note 8 - Interest on Unpaid Motor Vehicle Taxes**

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

The following reports the total collections and disbursements of the interest collected by Watauga County for the fiscal year ending June 30, 2007:

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2007

Beginning balance	\$ 1,261
Total interest collected:	8,733
Total interest remitted	<u>9,125</u>
Amount due to Department of State Treasurer as of June 30, 2007	\$ <u>869</u>

Schedule 1

**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)
12/31/2001	\$ 75,840	282,522	206,682	26.84 %	832,870	24.82 %
12/31/2002	85,840	334,449	248,609	25.67	1,015,926	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
12/31/2006	131,075	305,327	174,252	42.93	1,456,052	11.97

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

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Reserved</u>	
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	
2007	30,943	32.32	

**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	12/31/06
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 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, 2007**

	2007		Variance
	Budget	Actual	
<b>Revenues:</b>			
Taxes - ad valorem:			
Current year	\$	24,056,958	
Prior years		326,787	
Advertising and interest		101,049	
Total Taxes - ad valorem	<u>24,482,692</u>	<u>24,484,794</u>	<u>2,102</u>
Local Option Sales Taxes:			
Article 39 and 44		8,073,810	
Article 40 one-half of one percent		2,093,411	
Article 42 one-half of one percent		2,064,317	
Total Taxes - Local Option Sales	<u>12,376,949</u>	<u>12,231,538</u>	<u>(145,411)</u>
Taxes - other:			
Real estate transfer tax		780,549	
Animal tax		177	
ABC - .05/bottle		18,545	
Gross receipts tax - county		34,030	
Other		405,880	
Total Taxes - other	<u>812,100</u>	<u>1,239,181</u>	<u>427,081</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		13,349	
Total Unrestricted intergov. rev.	<u>13,000</u>	<u>13,349</u>	<u>349</u>
Restricted intergov. revenues:			
Grants-Federal & State		3,858,354	
Public School Facility Funds		--	
POA-Town of Boone		6,000	
Court facilities fees		150,469	
Total Restricted intergov. revenues	<u>4,257,076</u>	<u>4,014,823</u>	<u>(242,253)</u>
Permits and fees:			
Gun permits		16,060	
Serving civil summons		37,778	
Jail and officer fees		38,297	
Drug fees awarded by court		--	
Planning and inspection fees		417,926	
Marriage license		9,855	
Register of deeds fees		488,549	
Fire inspection fees		4,722	
Total Permits and fees	<u>864,578</u>	<u>1,013,187</u>	<u>148,609</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,339	
Recreation department revenues		367,740	
Sales of tax maps		1,485	
Data processing fees		452	
Copy revenue		10,579	
NC DMV fees		71,678	
NC reimbursement for prisoners		158,430	
Tax collection fees-Towns		97,151	
Jail medical service		2,049	
Other		74,774	
Total Sales and service	<u>659,323</u>	<u>799,677</u>	<u>140,354</u>
Investment earnings:			
Interest earned on investments	<u>439,800</u>	<u>1,001,279</u>	<u>561,479</u>
Miscellaneous:	<u>127,113</u>	<u>134,007</u>	<u>6,894</u>
<b>TOTAL REVENUES</b>	<u>44,032,631</u>	<u>44,931,835</u>	<u>899,204</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, 2007**

	2007		Variance
	Budget	Actual	
<b>EXPENDITURES:</b>			
<b>General Government</b>			
Governing body:			
Operating expenses	60,922	58,348	2,574
Administration:			
Salaries and benefits		342,144	
Operating expenses		13,164	
Total Administration	366,545	355,308	11,237
Finance:			
Salaries and benefits		358,564	
Operating expenses		51,431	
Total Finance	421,699	409,995	11,704
Tax Supervisor:			
Salaries and benefits		991,337	
Operating expenses		107,817	
Capital Outlay		1,004	
Total Tax Supervisor	1,372,499	1,100,158	272,341
Tax Revaluation:			
Salaries and benefits		74,805	
Operating expenses		1,803	
Total Tax Revaluation	110,397	76,608	33,789
Tag office:			
Salaries and benefits		71,313	
Operating expenses		18,594	
Capital Outlay		3,042	
Total Tag office	123,410	92,949	30,461
Legal Services:			
Operating expenses	72,000	71,074	926
Court facilities:			
Operating expenses	27,500	6,552	20,948
Elections:			
Salaries and benefits		158,846	
Operating expenses		69,538	
Capital Outlay		32,034	
Total Elections	297,175	260,418	36,757
Register of Deeds:			
Salaries and benefits		341,077	
Operating expenses		105,203	
Total Register of Deeds	603,447	446,280	157,167
General administration:			
Operating expenses		690,291	
Capital outlay		5,962	
Total General administration	1,176,664	696,253	480,411
Information technologies:			
Salaries and benefits		240,182	
Operating expenses		205,073	
Capital outlay		119,553	
Total Information technologies	678,976	564,808	114,168
Maintenance:			
Salaries and benefits		1,042,877	
Operating expenses		45,903	
Capital Outlay		10,604	
Total Maintenance	1,162,450	1,099,384	63,066

**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, 2007

	2007		Variance
	Budget	Actual	
Public Buildings			
Courthouse:			
Operating expenses		171,592	
Capital Outlay		2,185,968	
Total Courthouse	2,752,367	2,357,560	394,807
East Courthouse Annex:			
Operating expenses	98,183	51,066	47,117
Administration Building:			
Operating expenses		21,108	
Capital Outlay		68,974	
Total Administration Building	213,044	90,082	122,962
Emergency Management:			
Operating expenses	1,150	625	525
Hannah:			
Operating expenses	13,168	12,980	188
Animal Shelter:			
Operating expenses	6,754	5,561	1,193
Old Cove Creek School:			
Operating expenses	22,265	15,179	7,086
New Health Department:			
Operating expenses	54,943	51,961	2,982
Public Building-APPALCART:			
Operating expenses	4,462	3,370	1,092
New Library:			
Operating expenses	76,445	37,483	38,962
Tag office:			
Operating expenses		33,137	
Capital outlay		8,995	
Total Tag office	63,215	42,132	21,083
Caldwell College & Tech. Inst:			
Operating expenses	10,700	9,463	1,237
Watauga Comm. Center:			
Operating expenses	41,619	12,861	28,758
New Law Enforcement Center:			
Operating expenses		123,508	
Capital outlay		3,907	
Total New Law Enforcement Center	147,720	127,415	20,305
Law Enforcement Center:			
Operating expenses	392,179	1,046	391,133
West Courthouse Annex:			
Operating expenses	28,279	23,828	4,451
Human Services Center:			
Operating expenses	92,301	77,196	15,105
Appalachian Enterprise Center:			
Operating expenses		11,102	
Capital outlay		15,234	
Total Appalachian Enterprise Center	102,319	26,336	75,983
Recreation Administration Center:			
Operating expenses	4,116	1,531	2,585
Aquatics Center:			
Operating expenses	243,070	107,433	135,637

**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, 2007

	2007		Variance
	Budget	Actual	
Opt./Maintenance Facility:			
Operating expenses	33,849	30,081	3,768
Recreation Fields/Parks:			
Operating expenses		26,605	
Capital outlay		60,642	
Total recreation fields/parks	175,391	87,247	88,144
Brookshire Park:			
Operating expenses	885,940	14,450	871,490
Total Public Buildings	5,463,479	3,186,886	2,276,593
<b>Total General Government</b>	<b>11,937,163</b>	<b>8,425,021</b>	<b>3,512,142</b>
<b>Public Safety</b>			
Sheriff's department:			
Salaries and benefits		2,026,787	
Operating expenses		262,073	
Capital outlay		158,289	
Total Sheriff's department	2,452,032	2,447,149	4,883
Communications:			
Salaries and benefits		352,109	
Operating expenses		29,890	
Capital outlay		28,448	
Total Communications	449,737	410,447	39,290
Governor's Crime Commission:			
Salaries and benefits	13,333	12,735	598
Jail:			
Salaries and benefits		1,019,900	
Operating expenses		505,044	
Total Jail	1,630,273	1,524,944	105,329
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		195,256	
Operating expenses		407,362	
Capital outlay		26,972	
Total Emerg. Mgt. & Fire Protect.	651,172	629,590	21,582
Valle Crucis Wastewater repair			
Operating expenses	290,550	290,000	550
Planning and Inspections:			
Salaries and benefits		537,911	
Operating expenses		57,085	
Total Planning and Inspections	746,620	594,996	151,624
Medical examiner:			
Operating expenses	21,000	21,000	--
Ambulance and rescue squad:			
Operating expenses	845,788	830,522	15,266

**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, 2007

	2007		Variance
	Budget	Actual	
Animal control:			
Salaries and benefits		138,330	
Operating expenses		31,921	
Capital outlay		2,680	
Total Animal control	173,695	172,931	764
Forestry:			
Operating expenses	44,283	41,098	3,185
<b>Total Public Safety</b>	<b>7,318,483</b>	<b>6,975,412</b>	<b>343,071</b>
<b>Economic &amp; Physical Development</b>			
Elderly & Disabled Transportation:			
Operating expenses	164,486	134,804	29,682
Special Appropriations:	486,190	455,655	30,535
Economic Development:			
Operating expenses	61,776	28,013	33,763
Cooperative extension:			
Salaries and benefits		195,635	
Operating expenses		17,510	
Total Cooperative extension	215,924	213,145	2,779
Soil conservation:			
Salaries and benefits		86,769	
Operating expenses		8,707	
Capital Outlay		1,467	
Total Soil conservation	104,615	96,943	7,672
<b>Total Economic &amp; Physical Development</b>	<b>1,032,991</b>	<b>928,560</b>	<b>104,431</b>
<b>Human Services</b>			
Public health:			
Operating expenses	530,080	530,080	--
Mental health:			
Operating expenses	309,995	307,397	2,598
Social services - admin.:			
Salaries and benefits		2,292,830	
Operating expenses		329,964	
Capital outlay		18,255	
Total Social services - admin.	2,746,189	2,641,049	105,140
Beneficiary payments:	2,153,302	1,853,358	299,944
State foster care and daycare			
Room & Board		6,000	
Other		(246)	
Purchase-daycare XX		887,687	
Total State foster care and daycare	916,496	893,441	23,055
Project on aging:			
Salaries and benefits		1,036,168	
Operating expenses		249,356	
Capital Outlay		1,626	
Total Project on aging	1,358,479	1,287,150	71,329
Veterans service officer:			
Salaries and benefits		85,576	
Operating expenses		4,703	
Total Veterans service officer	96,121	90,279	5,842
<b>Total Human Services</b>	<b>8,110,662</b>	<b>7,602,754</b>	<b>507,908</b>

**Watauga County, North Carolina**  
 General Fund  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE -- BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2007

	2007		Variance
	Budget	Actual	
<b>Education</b>			
Public Schools - current		9,740,668	
Public Schools - capital outlay		797,803	
Community College - current		690,933	
Community College - capital outlay		266,939	
<b>Total Education</b>	<u>11,738,660</u>	<u>11,496,343</u>	<u>242,317</u>
<b>Cultural and recreational</b>			
Library:			
Operating expenses	<u>447,692</u>	<u>435,157</u>	<u>12,535</u>
Recreation:			
Salaries and benefits		485,421	
Operating expenses		123,843	
Capital Outlay		4,696	
<b>Total Recreation</b>	<u>682,650</u>	<u>613,960</u>	<u>68,690</u>
Aquatics:			
Salaries and benefits		185,795	
Operating expenses		17,079	
Capital Outlay		1,945	
<b>Total Aquatics</b>	<u>221,221</u>	<u>204,819</u>	<u>16,402</u>
Recreation - Maintenance:			
Operating expenses	<u>10,580</u>	<u>8,829</u>	<u>1,751</u>
<b>Total Cultural and recreational</b>	<u>1,362,143</u>	<u>1,262,765</u>	<u>99,378</u>
<b>Debt Service</b>			
Principal retirement		2,398,953	
Interest & fees		855,335	
<b>Total Debt Service</b>	<u>3,255,338</u>	<u>3,254,288</u>	<u>1,050</u>
<b>TOTAL EXPENDITURES</b>	<u>44,755,440</u>	<u>39,945,143</u>	<u>4,810,297</u>
Excess (deficiency) of revenues over expenditures	<u>(722,809)</u>	<u>4,986,692</u>	<u>5,709,501</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers to other funds	(4,559,855)	(4,559,855)	--
Transfers from other funds	1,148,111	1,741,660	593,549
Fund balance appropriated	<u>4,134,553</u>	<u>--</u>	<u>(4,134,553)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>722,809</u>	<u>(2,818,195)</u>	<u>(3,541,004)</u>
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	<u>--</u>	<u>2,168,497</u>	<u>2,168,497</u>
Fund balances at beginning of year		<u>21,146,087</u>	
Fund balances at end of year		<u>\$ 23,314,584</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, 2007**

	2007		Variance
	Budget	Actual	
<b>Revenues:</b>			
Taxes - ad valorem:			
Current year	\$	24,056,958	
Prior years		326,787	
Advertising and interest		101,049	
Total Taxes - ad valorem	<u>24,482,692</u>	<u>24,484,794</u>	<u>2,102</u>
Local Option Sales Taxes:			
Article 39 and 44		8,073,810	
Article 40 one-half of one percent		2,093,411	
Article 42 one-half of one percent		2,064,317	
Total Taxes - Local Option Sales	<u>12,376,949</u>	<u>12,231,538</u>	<u>(145,411)</u>
Taxes - other:			
Real estate transfer tax		780,549	
Animal tax		177	
ABC - .05/bottle		18,545	
Gross receipts tax - county		34,030	
Other		405,880	
Total Taxes - other	<u>812,100</u>	<u>1,239,181</u>	<u>427,081</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		13,349	
Total Unrestricted intergov. rev.	<u>13,000</u>	<u>13,349</u>	<u>349</u>
Restricted intergov. revenues:			
Grants-Federal & State		3,858,354	
Public School Facility Funds		--	
POA-Town of Boone		6,000	
Court facilities fees		150,469	
Total Restricted intergov. revenues	<u>4,257,076</u>	<u>4,014,823</u>	<u>(242,253)</u>
Permits and fees:			
Gun permits		16,060	
Serving civil summons		37,778	
Jail and officer fees		38,297	
Drug fees awarded by court		--	
Planning and inspection fees		417,926	
Marriage license		9,855	
Register of deeds fees		488,549	
Fire inspection fees		4,722	
Total Permits and fees	<u>864,578</u>	<u>1,013,187</u>	<u>148,609</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,339	
Recreation department revenues		367,740	
Sales of tax maps		1,485	
Data processing fees		452	
Copy revenue		10,579	
NC DMV fees		71,678	
NC reimbursement for prisoners		158,430	
Tax collection fees-Towns		97,151	
Jail medical service		2,049	
Other		74,774	
Total Sales and service	<u>659,323</u>	<u>799,677</u>	<u>140,354</u>
Investment earnings:			
Interest earned on investments	<u>439,800</u>	<u>1,001,279</u>	<u>561,479</u>
Miscellaneous:	<u>127,113</u>	<u>134,007</u>	<u>6,894</u>
<b>TOTAL REVENUES</b>	<u>44,032,631</u>	<u>44,931,835</u>	<u>899,204</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, 2007

	2007		Variance
	Budget	Actual	
<b>EXPENDITURES:</b>			
<b>General Government</b>			
Governing body:			
Operating expenses	60,922	58,348	2,574
Administration:			
Salaries and benefits		342,144	
Operating expenses		13,164	
Total Administration	366,545	355,308	11,237
Finance:			
Salaries and benefits		358,564	
Operating expenses		51,431	
Total Finance	421,699	409,995	11,704
Tax Supervisor:			
Salaries and benefits		991,337	
Operating expenses		107,817	
Capital Outlay		1,004	
Total Tax Supervisor	1,372,499	1,100,158	272,341
Tax Revaluation:			
Salaries and benefits		74,805	
Operating expenses		1,803	
Total Tax Revaluation	110,397	76,608	33,789
Tag office:			
Salaries and benefits		71,313	
Operating expenses		18,594	
Capital Outlay		3,042	
Total Tag office	123,410	92,949	30,461
Legal Services:			
Operating expenses	72,000	71,074	926
Court facilities:			
Operating expenses	27,500	6,552	20,948
Elections:			
Salaries and benefits		158,846	
Operating expenses		69,538	
Capital Outlay		32,034	
Total Elections	297,175	260,418	36,757
Register of Deeds:			
Salaries and benefits		341,077	
Operating expenses		105,203	
Total Register of Deeds	603,447	446,280	157,167
General administration:			
Operating expenses		690,291	
Capital outlay		5,962	
Total General administration	1,176,664	696,253	480,411
Information technologies:			
Salaries and benefits		240,182	
Operating expenses		205,073	
Capital outlay		119,553	
Total Information technologies	678,976	564,808	114,168
Maintenance:			
Salaries and benefits		1,042,877	
Operating expenses		45,903	
Capital Outlay		10,604	
Total Maintenance	1,162,450	1,099,384	63,066

**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, 2007

	2007		Variance
	Budget	Actual	
Public Buildings			
Courthouse:			
Operating expenses		171,592	
Capital Outlay		2,185,968	
Total Courthouse	2,752,367	2,357,560	394,807
East Courthouse Annex:			
Operating expenses	98,183	51,066	47,117
Administration Building:			
Operating expenses		21,108	
Capital Outlay		68,974	
Total Administration Building	213,044	90,082	122,962
Emergency Management:			
Operating expenses	1,150	625	525
Hannah:			
Operating expenses	13,168	12,980	188
Animal Shelter:			
Operating expenses	6,754	5,561	1,193
Old Cove Creek School:			
Operating expenses	22,265	15,179	7,086
New Health Department:			
Operating expenses	54,943	51,961	2,982
Public Building-APPALCART:			
Operating expenses	4,462	3,370	1,092
New Library:			
Operating expenses	76,445	37,483	38,962
Tag office:			
Operating expenses		33,137	
Capital outlay		8,995	
Total Tag office	63,215	42,132	21,083
Caldwell College & Tech. Inst:			
Operating expenses	10,700	9,463	1,237
Watauga Comm. Center:			
Operating expenses	41,619	12,861	28,758
New Law Enforcement Center:			
Operating expenses		123,508	
Capital outlay		3,907	
Total New Law Enforcement Center	147,720	127,415	20,305
Law Enforcement Center:			
Operating expenses	392,179	1,046	391,133
West Courthouse Annex:			
Operating expenses	28,279	23,828	4,451
Human Services Center:			
Operating expenses	92,301	77,196	15,105
Appalachian Enterprise Center:			
Operating expenses		11,102	
Capital outlay		15,234	
Total Appalachian Enterprise Center	102,319	26,336	75,983
Recreation Administration Center:			
Operating expenses	4,116	1,531	2,585
Aquatics Center:			
Operating expenses	243,070	107,433	135,637

**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, 2007

	2007		Variance
	Budget	Actual	
Opt./Maintenance Facility:			
Operating expenses	33,849	30,081	3,768
Recreation Fields/Parks:			
Operating expenses		26,605	
Capital outlay		60,642	
Total recreation fields/parks	175,391	87,247	88,144
Brookshire Park:			
Operating expenses	885,940	14,450	871,490
Total Public Buildings	5,463,479	3,186,886	2,276,593
<b>Total General Government</b>	<b>11,937,163</b>	<b>8,425,021</b>	<b>3,512,142</b>
<b>Public Safety</b>			
Sheriff's department:			
Salaries and benefits		2,026,787	
Operating expenses		262,073	
Capital outlay		158,289	
Total Sheriff's department	2,452,032	2,447,149	4,883
Communications:			
Salaries and benefits		352,109	
Operating expenses		29,890	
Capital outlay		28,448	
Total Communications	449,737	410,447	39,290
Governor's Crime Commission:			
Salaries and benefits	13,333	12,735	598
Jail:			
Salaries and benefits		1,019,900	
Operating expenses		505,044	
Total Jail	1,630,273	1,524,944	105,329
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		195,256	
Operating expenses		407,362	
Capital outlay		26,972	
Total Emerg. Mgt. & Fire Protect.	651,172	629,590	21,582
Valle Crucis Wastewater repair			
Operating expenses	290,550	290,000	550
Planning and Inspections:			
Salaries and benefits		537,911	
Operating expenses		57,085	
Total Planning and Inspections	746,620	594,996	151,624
Medical examiner:			
Operating expenses	21,000	21,000	--
Ambulance and rescue squad:			
Operating expenses	845,788	830,522	15,266

**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, 2007

	2007		Variance
	Budget	Actual	
Animal control:			
Salaries and benefits		138,330	
Operating expenses		31,921	
Capital outlay		2,680	
Total Animal control	173,695	172,931	764
Forestry:			
Operating expenses	44,283	41,098	3,185
<b>Total Public Safety</b>	<b>7,318,483</b>	<b>6,975,412</b>	<b>343,071</b>
<b>Economic &amp; Physical Development</b>			
Elderly & Disabled Transportation:			
Operating expenses	164,486	134,804	29,682
Special Appropriations:	486,190	455,655	30,535
Economic Development:			
Operating expenses	61,776	28,013	33,763
Cooperative extension:			
Salaries and benefits		195,635	
Operating expenses		17,510	
Total Cooperative extension	215,924	213,145	2,779
Soil conservation:			
Salaries and benefits		86,769	
Operating expenses		8,707	
Capital Outlay		1,467	
Total Soil conservation	104,615	96,943	7,672
<b>Total Economic &amp; Physical Development</b>	<b>1,032,991</b>	<b>928,560</b>	<b>104,431</b>
<b>Human Services</b>			
Public health:			
Operating expenses	530,080	530,080	--
Mental health:			
Operating expenses	309,995	307,397	2,598
Social services - admin.:			
Salaries and benefits		2,292,830	
Operating expenses		329,964	
Capital outlay		18,255	
Total Social services - admin.	2,746,189	2,641,049	105,140
Beneficiary payments:	2,153,302	1,853,358	299,944
State foster care and daycare			
Room & Board		6,000	
Other		(246)	
Purchase-daycare XX		887,687	
Total State foster care and daycare	916,496	893,441	23,055
Project on aging:			
Salaries and benefits		1,036,168	
Operating expenses		249,356	
Capital Outlay		1,626	
Total Project on aging	1,358,479	1,287,150	71,329
Veterans service officer:			
Salaries and benefits		85,576	
Operating expenses		4,703	
Total Veterans service officer	96,121	90,279	5,842
<b>Total Human Services</b>	<b>8,110,662</b>	<b>7,602,754</b>	<b>507,908</b>

**Watauga County, North Carolina**  
 General Fund  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE -- BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2007

	2007		Variance
	Budget	Actual	
<b>Education</b>			
Public Schools - current		9,740,668	
Public Schools - capital outlay		797,803	
Community College - current		690,933	
Community College - capital outlay		266,939	
<b>Total Education</b>	<u>11,738,660</u>	<u>11,496,343</u>	<u>242,317</u>
<b>Cultural and recreational</b>			
Library:			
Operating expenses	<u>447,692</u>	<u>435,157</u>	<u>12,535</u>
Recreation:			
Salaries and benefits		485,421	
Operating expenses		123,843	
Capital Outlay		4,696	
<b>Total Recreation</b>	<u>682,650</u>	<u>613,960</u>	<u>68,690</u>
Aquatics:			
Salaries and benefits		185,795	
Operating expenses		17,079	
Capital Outlay		1,945	
<b>Total Aquatics</b>	<u>221,221</u>	<u>204,819</u>	<u>16,402</u>
Recreation - Maintenance:			
Operating expenses	<u>10,580</u>	<u>8,829</u>	<u>1,751</u>
<b>Total Cultural and recreational</b>	<u>1,362,143</u>	<u>1,262,765</u>	<u>99,378</u>
<b>Debt Service</b>			
Principal retirement		2,398,953	
Interest & fees		855,335	
<b>Total Debt Service</b>	<u>3,255,338</u>	<u>3,254,288</u>	<u>1,050</u>
<b>TOTAL EXPENDITURES</b>	<u>44,755,440</u>	<u>39,945,143</u>	<u>4,810,297</u>
Excess (deficiency) of revenues over expenditures	<u>(722,809)</u>	<u>4,986,692</u>	<u>5,709,501</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers to other funds	(4,559,855)	(4,559,855)	--
Transfers from other funds	1,148,111	1,741,660	593,549
Fund balance appropriated	<u>4,134,553</u>	<u>--</u>	<u>(4,134,553)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>722,809</u>	<u>(2,818,195)</u>	<u>(3,541,004)</u>
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	<u>--</u>	<u>2,168,497</u>	<u>2,168,497</u>
Fund balances at beginning of year		<u>21,146,087</u>	
Fund balances at end of year		<u>\$ 23,314,584</u>	

**Watauga County, North Carolina  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

	Special Revenue Funds										Capital Projects Fund			
	Substance Abuse Tax Fund	E-911 Telephone Surcharge Fund	Fire Districts Fund	Revaluation Fund	Occupancy Tax 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
<b>ASSETS:</b>														
Cash and cash equivalents	\$ 121,218	581,290	21,523	2,709	--	--	2,071	--	128,108	--	856,919	--	--	856,919
Accounts receivable, net	--	105,182	--	--	70,544	107,488	--	77	--	14,961	298,252	--	--	298,252
Taxes receivable, net	--	--	55,965	--	--	--	--	--	--	--	55,965	--	--	55,965
<b>Total assets</b>	<b>\$ 121,218</b>	<b>686,472</b>	<b>77,488</b>	<b>2,709</b>	<b>70,544</b>	<b>107,488</b>	<b>2,071</b>	<b>77</b>	<b>128,108</b>	<b>14,961</b>	<b>1,211,136</b>	<b>--</b>	<b>--</b>	<b>1,211,136</b>
<b>LIABILITIES AND FUND BALANCE</b>														
<b>Liabilities:</b>														
Accounts payable and accrued liabilities	587	55,389	20,876	--	69,846	6,752	2,071	--	24,750	--	180,271	--	--	180,271
Deferred revenue	--	--	56,612	--	--	--	--	--	--	--	56,612	--	--	56,612
Due to other funds	--	--	--	--	--	100,736	--	77	--	14,961	115,774	--	--	115,774
<b>Total Liabilities</b>	<b>587</b>	<b>55,389</b>	<b>77,488</b>	<b>--</b>	<b>69,846</b>	<b>107,488</b>	<b>2,071</b>	<b>77</b>	<b>24,750</b>	<b>14,961</b>	<b>352,657</b>	<b>--</b>	<b>--</b>	<b>352,657</b>
<b>Fund Balances:</b>														
Reserved by state statute	--	105,182	--	--	698	--	--	--	--	--	105,880	--	--	105,880
Unreserved	120,631	525,901	--	2,709	--	--	--	--	103,358	--	752,599	--	--	752,599
<b>Total fund balances</b>	<b>120,631</b>	<b>631,083</b>	<b>--</b>	<b>2,709</b>	<b>698</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>103,358</b>	<b>--</b>	<b>858,479</b>	<b>--</b>	<b>--</b>	<b>858,479</b>
<b>Total liabilities and fund balances</b>	<b>\$ 121,218</b>	<b>686,472</b>	<b>77,488</b>	<b>2,709</b>	<b>70,544</b>	<b>107,488</b>	<b>2,071</b>	<b>77</b>	<b>128,108</b>	<b>14,961</b>	<b>1,211,136</b>	<b>--</b>	<b>--</b>	<b>1,211,136</b>

**Watauga County, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	Special Revenue Funds										Capital Projects Funds			
	Substance Abuse Tax	E-911 Telephone Surcharge	Fire Districts Fund	Revaluation Funds	Occupancy Tax Fund	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
<b>REVENUES</b>														
Ad valorem taxes	\$ --	--	1,702,447	--	--	--	--	--	--	--	1,702,447	--	--	1,702,447
Other taxes and licenses	--	259,105	--	--	728,144	--	--	--	--	--	987,249	--	--	987,249
Restricted intergovernmental	49,991	146,463	--	--	--	17,702	--	162,461	260,952	206,656	844,225	--	--	844,225
Investment earnings	2,593	19,907	--	105	--	--	--	--	--	--	22,605	--	--	22,605
Donations	710	--	--	--	--	--	--	--	--	--	710	--	--	710
<b>Total revenues</b>	<b>53,294</b>	<b>425,475</b>	<b>1,702,447</b>	<b>105</b>	<b>728,144</b>	<b>17,702</b>	<b>--</b>	<b>162,461</b>	<b>260,952</b>	<b>206,656</b>	<b>3,557,236</b>	<b>--</b>	<b>--</b>	<b>3,557,236</b>
<b>EXPENDITURES</b>														
Current:														
General government	--	--	--	--	710,899	--	--	223,700	157,594	206,656	1,298,849	--	--	1,298,849
Public safety	15,198	73,668	1,702,447	--	--	17,702	--	--	--	--	1,809,015	--	--	1,809,015
Capital outlay	3,937	205,551	--	--	--	--	--	--	--	--	209,488	150,799	150,799	360,287
<b>Total expenditures</b>	<b>19,135</b>	<b>279,219</b>	<b>1,702,447</b>	<b>--</b>	<b>710,899</b>	<b>17,702</b>	<b>--</b>	<b>223,700</b>	<b>157,594</b>	<b>206,656</b>	<b>3,317,352</b>	<b>150,799</b>	<b>150,799</b>	<b>3,468,151</b>
Excess (deficiency) of revenues over expenditures	34,159	146,256	--	--	17,245	--	--	(61,239)	103,358	--	239,884	(150,799)	(150,799)	89,085
<b>OTHER FINANCING SOURCES (USES)</b>														
Transfers to (from) other funds	(10,000)	--	--	--	(16,547)	--	--	--	--	--	(26,547)	138,444	138,444	111,897
<b>Total other financing sources and uses</b>	<b>(10,000)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(26,547)</b>	<b>138,444</b>	<b>138,444</b>	<b>111,897</b>
<b>Net change in fund balances</b>	<b>24,159</b>	<b>146,256</b>	<b>--</b>	<b>105</b>	<b>698</b>	<b>--</b>	<b>--</b>	<b>(61,239)</b>	<b>103,358</b>	<b>--</b>	<b>213,337</b>	<b>(12,355)</b>	<b>(12,355)</b>	<b>200,982</b>
Fund balances - beginning	96,472	484,827	--	2,604	--	--	--	61,239	--	--	645,142	12,355	12,355	657,497
<b>Fund balances - ending</b>	<b>\$ 120,631</b>	<b>631,083</b>	<b>--</b>	<b>2,709</b>	<b>698</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>103,358</b>	<b>--</b>	<b>858,479</b>	<b>--</b>	<b>--</b>	<b>858,479</b>

**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, 2007

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Restricted intergovernmental	\$ 26,645	49,991	23,346
Investment Earnings	--	2,593	2,593
Donations	14,500	710	(13,790)
<b>Total revenues</b>	<b>41,145</b>	<b>53,294</b>	<b>12,149</b>
<b>Expenditures:</b>			
Public Safety	8,245	15,198	(6,953)
Capital Outlay	22,900	3,937	18,963
<b>Total expenditures</b>	<b>31,145</b>	<b>19,135</b>	<b>12,010</b>
Excess (deficiency) of revenues over expenditures	10,000	34,159	24,159
<b>Other financing sources (uses)</b>			
Transfers to other funds	10,000	10,000	--
Appropriated fund balance	--	--	--
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>--</b>
<b>Excess (deficiency) of revenue and other financing sources (uses) over expenditures</b>	<b>\$ --</b>	<b>24,159</b>	<b>24,159</b>
<b>Fund balance at beginning of year</b>		<b>96,472</b>	
<b>Fund balance at end of year</b>		<b>\$ 120,631</b>	

**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, 2007

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Other taxes and licenses: 911 subscriber fees	\$ 270,000	259,105	(10,895)
Restricted intergovernmental: Wireless 911 funds	95,000	146,463	51,463
Investment earnings	5,000	19,907	14,907
	<b>Total revenues</b>	<b>425,475</b>	<b>55,475</b>
<b>Expenditures:</b>			
Public safety:			
911 system subscriber fees:			
Salaries and employee benefits	74,410	73,668	742
Operating expenses	194,828	205,551	(10,723)
Capital outlay	45,599	--	45,599
	Total 911 system subscriber fees	279,219	35,618
Wireless 911:			
Project Revenues	71,138	--	71,138
Capital Outlay	--	--	--
	Total Wireless 911	--	71,138
	<b>Total expenditures</b>	<b>279,219</b>	<b>106,756</b>
	Excess (deficiency) of revenues over expenditures	146,256	162,231
	(15,975)		
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	--	--	--
Appropriated fund balance	15,975	--	(15,975)
	<b>Total Other Financing Sources</b>	--	(15,975)
	Excess (deficiency) of revenues and appropriated fund balance over expenditures	146,256	146,256
	\$ --		
<b>Fund balance at beginning of year</b>		484,827	
<b>Fund balance at end of year</b>		\$ 631,083	

**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, 2007

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Ad valorem taxes	\$ 1,726,806	1,702,447	(24,359)
<b>Total revenues</b>	<b>1,726,806</b>	<b>1,702,447</b>	<b>(24,359)</b>
<b>Expenditures:</b>			
Public safety:			
Beaver Dam Fire District	100,844	99,431	1,413
Blowing Rock Fire District	242,760	240,566	2,194
Boone Fire District	281,625	277,249	4,376
Cove Creek Fire District	196,475	191,527	4,948
Deep Gap Fire District	98,908	97,100	1,808
Foscoe Fire District	387,221	384,957	2,264
Meat Camp Fire District	113,983	112,292	1,691
Meat Camp/Creston Fire District	3,477	3,224	253
Shawneehaw Fire District	79,110	77,325	1,785
Stewart Simmons Fire District	82,440	81,827	613
Todd Fire District	37,489	37,394	95
Zionville Fire District	102,474	99,555	2,919
Total expenditures	1,726,806	1,702,447	24,359
Excess (deficiency) of revenues over expenditures	\$ --	--	--
<b>Fund balance at beginning of year</b>		--	
<b>Fund balance at end of year</b>		\$ --	

**WATAUGA COUNTY, NORTH CAROLINA**  
 Revaluation Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2007

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Investment earnings	\$ --	105	105
<b>Expenditures:</b>			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	105	105
<b>Other Financing Sources (Uses):</b>			
Transfer to other funds	--	--	--
Appropriated fund balance	--	--	--
Total other financing sources	--	--	--
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	105	105
<b>Fund balance at beginning of year</b>		2,604	
<b>Fund balance at end of year</b>		\$ 2,604	

**WATAUGA COUNTY, NORTH CAROLINA**  
Occupancy Tax Fund  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2007

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Other taxes and licenses	\$ 638,966	728,144	89,178
<b>Total revenues</b>	<b>638,966</b>	<b>728,144</b>	<b>89,178</b>
<b>Expenditures:</b>			
Tourism Development	622,576	710,899	(88,323)
<b>Total expenditures</b>	<b>622,576</b>	<b>710,899</b>	<b>(88,323)</b>
Excess (deficiency) of revenues over expenditures	16,390	17,245	855
<b>Other financing sources (uses)</b>			
Transfer to General Fund	(16,390)	(16,547)	(157)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	--	698	698
<b>Fund balance at beginning of year</b>		--	
<b>Fund balance at end of year</b>		\$ 698	

**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, 2007

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Restricted intergovernmental	\$ <u>166,500</u>	<u>17,702</u>	<u>(148,798)</u>
<b>Total revenues</b>	<u>166,500</u>	<u>17,702</u>	<u>(148,798)</u>
<b>Expenditures:</b>			
Public Safety	<u>166,500</u>	<u>17,702</u>	<u>148,798</u>
<b>Total expenditures</b>	<u>166,500</u>	<u>17,702</u>	<u>148,798</u>
Excess (deficiency) of revenues over expenditures	\$ <u>          --</u>	<u>          --</u>	<u>          --</u>
<b>Fund balance at beginning of year</b>		<u>          --</u>	
<b>Fund balance at end of year</b>		<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, 2007

	2007				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 400,000	400,048	--	400,048	48
<b>Total revenues</b>	400,000	400,048	--	400,048	48
<b>Expenditures:</b>					
Residence rehabilitation	60,000	36,951	--	36,951	23,049
Clearance activities	10,500	4,900	--	4,900	5,600
Relocation expenses	286,000	314,731	--	314,731	(28,731)
Planning	3,500	3,500	--	3,500	--
Grant administration	40,000	39,966	--	39,966	34
<b>Total expenditures</b>	400,000	400,048	--	400,048	(48)
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
<b>Fund balance at beginning of year</b>			--		
<b>Fund balance at end of year</b>			\$ --		

**WATAUGA COUNTY, NORTH CAROLINA**  
 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, 2007

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Expenditures:</b>					
Capital Projects	6,446,521	6,295,722	150,799	6,446,521	--
Excess (deficiency) of revenues over expenditures	<u>(6,446,521)</u>	<u>(6,295,722)</u>	<u>(150,799)</u>	<u>(6,446,521)</u>	<u>--</u>
<b>Other financing sources (uses):</b>					
Operating transfers - in (out):					
From capital reserve fund	506,717	506,717	--	506,717	--
From general fund	939,804	801,360	138,444	939,804	--
Loan proceeds	<u>5,000,000</u>	<u>5,000,000</u>	<u>--</u>	<u>5,000,000</u>	<u>--</u>
<b>Total other financing sources (uses)</b>	<u>6,446,521</u>	<u>6,308,077</u>	<u>138,444</u>	<u>6,446,521</u>	<u>--</u>
Increase (decrease) in fund balance	\$ <u>          --</u>	<u>      12,355</u>	<u>      (12,355)</u>	<u>                  --</u>	<u>                  --</u>
<b>Fund balance at beginning of year</b>			<u>          12,355</u>		
<b>Fund balance at end of year</b>			<u>                  --</u>		

**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, 2007

	2007				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 253,000	84,333	162,461	246,794	(6,206)
<b>Total revenues</b>	<b>253,000</b>	<b>84,333</b>	<b>162,461</b>	<b>246,794</b>	<b>(6,206)</b>
<b>Expenditures:</b>					
Stream Restoration	253,000	23,094	223,700	246,794	6,206
<b>Total expenditures</b>	<b>253,000</b>	<b>23,094</b>	<b>223,700</b>	<b>246,794</b>	<b>6,206</b>
Excess (deficiency) of revenues over expenditures	\$ --	61,239	(61,239)	--	--
<b>Fund balance at beginning of year</b>			61,239		
<b>Fund balance at end of year</b>			\$ --		

**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, 2007

	2007				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 210,750	27,000	260,952	287,952	77,202
<b>Total revenues</b>	210,750	27,000	260,952	287,952	77,202
<b>Expenditures:</b>					
Repair and rehabilitaion	57,750	--	24,461	24,461	33,289
Replacement	99,000	--	97,133	97,133	1,867
Aid to local government	54,000	27,000	36,000	63,000	(9,000)
<b>Total expenditures</b>	210,750	27,000	157,594	184,594	26,156
Excess (deficiency) of revenues over expenditures	\$ --	--	103,358	103,358	103,358
<b>Fund balance at beginning of year</b>			--		
<b>Fund balance at end of year</b>			\$ 103,358		

**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, 2007

	2007				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 460,000	15,896	206,656	222,552	(237,448)
<b>Total revenues</b>	460,000	15,896	206,656	222,552	(237,448)
<b>Expenditures:</b>					
Residence rehabilitation	330,000	8,097	197,656	205,753	124,247
Sewer improvements	80,000	--	--	--	80,000
Grant administration	50,000	7,799	9,000	16,799	33,201
<b>Total expenditures</b>	460,000	15,896	206,656	222,552	237,448
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
<b>Fund balance at beginning of year</b>			--		
<b>Fund balance at end of year</b>			\$ --		

**WATAUGA COUNTY, NORTH CAROLINA**  
 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, 2007

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Expenditures:</b>					
Capital Projects	6,446,521	6,295,722	150,799	6,446,521	--
Excess (deficiency) of revenues over expenditures	<u>(6,446,521)</u>	<u>(6,295,722)</u>	<u>(150,799)</u>	<u>(6,446,521)</u>	<u>--</u>
<b>Other financing sources (uses):</b>					
Operating transfers - in (out):					
From capital reserve fund	506,717	506,717	--	506,717	--
From general fund	939,804	801,360	138,444	939,804	--
Loan proceeds	<u>5,000,000</u>	<u>5,000,000</u>	<u>--</u>	<u>5,000,000</u>	<u>--</u>
<b>Total other financing sources (uses)</b>	<u>6,446,521</u>	<u>6,308,077</u>	<u>138,444</u>	<u>6,446,521</u>	<u>--</u>
Increase (decrease) in fund balance	\$ <u>          --</u>	<u>      12,355</u>	<u>      (12,355)</u>	<u>                  --</u>	<u>                  --</u>
<b>Fund balance at beginning of year</b>			<u>          12,355</u>		
<b>Fund balance at end of year</b>			<u>                  --</u>		

**WATAUGA COUNTY, NORTH CAROLINA**  
Watauga High School Capital Project  
Statement of Revenues and Expenditures and Changes in  
Fund Balance - Budget and Actual  
From Inception and For the Fiscal Year Ended June 30, 2007

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Investment earnings	\$ --	--	1,008	1,008	1,008
<b>Expenditures:</b>					
Capital Projects	10,860,492	--	8,271,166	8,271,166	2,589,326
Excess (deficiency) of revenues over expenditures	(10,860,492)	--	(8,270,158)	(8,270,158)	2,590,334
<b>Other financing sources (uses):</b>					
Operating transfers - in (out):					
From capital reserve fund	3,716,492	--	3,139,490	3,139,490	(577,002)
From general fund	208,000	--	208,000	208,000	--
Loan proceeds	6,936,000	--	6,936,000	6,936,000	--
<b>Total other financing sources (uses)</b>	10,860,492	--	10,283,490	10,283,490	(577,002)
Increase (decrease) in fund balance	\$ --	--	2,013,332	2,013,332	2,013,332
<b>Fund balance at beginning of year</b>			--		
<b>Fund balance at end of year</b>			\$ 2,013,332		

**Watauga County, North Carolina**  
**Solid Waste Fund**  
**Statement of Revenues and Expenditures**  
**Budget and Actual (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2007**

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenues:			
Landfill charges	\$	3,789,419	
Restricted intergovernmental revenues		76,409	
Total	<u>3,901,470</u>	<u>3,865,828</u>	<u>397,705</u>
Non-operating revenues:			
Investment earnings	<u>50,000</u>	<u>135,632</u>	<u>57,395</u>
Total revenues	<u>3,396,620</u>	<u>4,001,460</u>	<u>455,100</u>
EXPENDITURES:			
Landfill operations:			
Salaries and employee benefits		936,751	
Other operating expenditures		2,719,298	
Total	<u>3,950,574</u>	<u>3,656,049</u>	<u>93,716</u>
Budgetary appropriations			
Interest paid		4,675	
Debt principal		94,339	
Capital outlay		160,973	
Total budgetary appropriations	<u>485,595</u>	<u>259,987</u>	<u>125,641</u>
Total expenditures	<u>4,137,914</u>	<u>3,916,036</u>	<u>219,357</u>
Revenues under expenditures	<u>(741,294)</u>	<u>85,424</u>	<u>674,457</u>
Other financing sources (uses):			
Transfers to general fund for debt payment	(142,700)	(142,700)	--
Appropriated fund balance	561,505	--	(478,726)
Total other financing sources (uses):	<u>741,294</u>	<u>142,700</u>	<u>(478,726)</u>
Revenues over expenditures and other sources (uses)	\$ <u>          --</u>	(57,276)	<u>195,731</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		160,973	
Depreciation		(195,107)	
Payment of debt principal		94,339	
Increase in accrued vacation pay		(12,075)	
Loss on disposal of assets		(501)	
Total reconciling items		<u>47,629</u>	
Change in net assets		\$ <u>          (9,647)</u>	

**Watauga County, North Carolina**  
 Agency Funds  
 Combining Statement of Changes in Assets and Liabilities  
 For the Fiscal Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<b>Social Services:</b>				
Assets:				
Cash and Investments	\$ 12,231	166,026	157,289	20,968
Liabilities:				
Accounts Payable	\$ 12,231	166,026	157,289	20,968
<b>Health Benefits:</b>				
Assets:				
Cash and Investments	241,227	18,799	319	259,707
Liabilities:				
Accounts Payable	241,227	18,799	319	259,707
<b>Vehicle Tax-Towns:</b>				
Assets:				
Liabilities:				
Accounts Payable	4,137	96,532	97,806	2,863
<b>Jail Commissary:</b>				
Assets:				
Cash and Investments	--	27,688	22,494	5,194
Liabilities:				
Accounts Payable	--	27,688	22,494	5,194
<b>Fines and Forfeitures:</b>				
Assets:				
Cash and Investments	--	429,490	429,490	--
Liabilities:				
Accounts Payable	--	429,490	429,490	--
<b>Motor Vehicle Tax Fund:</b>				
Assets:				
Cash and Investments	1,261	8,733	9,125	869
Liabilities:				
Accounts Payable	1,261	8,733	9,125	869
<b>Total - All Agency Funds</b>				
Assets:				
Cash and Investments	\$ 258,856	747,268	716,523	289,601
Liabilities:				
Accounts Payable	\$ 258,856	747,268	716,523	289,601

**Watauga County, North Carolina**  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2007

	<u>Uncollected Balance June 30, 2006</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2007</u>
<u>Fiscal year:</u>				
2006 - 2007	\$ --	24,490,225	\$24,056,958	433,267
2005 - 2006	389,282	--	254,688	134,594
2004 - 2005	121,253	--	40,125	81,128
2003 - 2004	80,571	--	15,626	64,945
2002 - 2003	66,095	--	8,702	57,393
2001 - 2002	52,824	--	5,139	47,685
2000 - 2001	42,520	--	2,449	40,071
1999 - 2000	34,940	--	1,455	33,485
1998 - 1999	34,234	--	876	33,358
1997 - 1998	27,622	--	719	26,903
1996 - 1997	22,024	--	22,024	--
	<u>\$ 871,365</u>	<u>24,490,225</u>	<u>24,408,761</u>	<u>952,829</u>
Plus: 2007 - 2008 receivable				324
Less: allowance for uncollectible accounts General Fund				<u>(440,539)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 512,614</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$	24,484,794
Reconciling items:			
Advertising and interest collected	(101,049)		
Taxes written off	25,016		
Total reconciling items	<u>(76,033)</u>		
Total collections and credits		\$	<u>24,408,761</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-Wide Levy  
 For the Fiscal Year Ended June 30, 2007

	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	\$ 6,982,704,848	\$ 0.313	22,978,810	\$ 22,978,810	--
Motor vehicles taxed at current year's rate	254,817,190	0.313	799,021	--	799,021
Motor vehicles taxed at prior year's rate	123,542,982	0.395	488,923	--	488,923
Penalties	--		5,693	5,693	--
Total	<u>7,361,065,020</u>		<u>24,272,447</u>	<u>22,984,503</u>	<u>1,287,944</u>
Discoveries:					
Current year taxes	73,680,904	0.313	247,282	247,282	--
Prior year taxes	--		26,626	26,626	--
Penalties	--		203	203	--
Total	<u>73,680,904</u>		<u>274,111</u>	<u>274,111</u>	<u>--</u>
Abatements:	<u>(17,997,764)</u>		<u>(56,333)</u>	<u>(32,699)</u>	<u>(26,434)</u>
Total property valuation	<u>\$ 7,416,748,160</u>				
Net levy			24,490,225	23,225,915	1,264,310
Uncollected taxes at June 30, 2007			<u>433,267</u>	<u>317,455</u>	<u>115,812</u>
Current year's taxes collected			<u>\$ 24,056,958</u>	<u>22,908,460</u>	<u>1,148,498</u>
Current levy collection percentage			<u>98.23%</u>	<u>98.63%</u>	<u>90.84%</u>

**WATAUGA COUNTY, NORTH CAROLINA**  
**Analysis of Current Tax Levy**  
**County-wide Levy**  
**For the Fiscal Year Ended June 30, 2007**

**Statement 19-A**

**Secondary Market Disclosures:**

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 6,785,893,970
Personal Property	560,131,655
Public Service Companies	<u>70,722,535</u>
Total Assessed Valuation	7,416,748,160
Tax Rate per \$100	<u>0.313</u>
Levy (includes discoveries, releases and abatements)	\$ <u><u>24,490,225</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>1,710,779</u></u>
---------------------------	----------------------------

**WATAUGA COUNTY, NORTH CAROLINA**  
**Ten Largest Taxpayers**  
**For the Fiscal Year Ended June 30, 2007**

**Statement 19-B**

Taxpayer	Type of Business	2006 Assessed Valuation	Percentage of Total Assessed Valuation
Ginn LA Laurel Creek LTD	Real Estate Development	\$ 49,500,000	0.67 %
Blue Ridge Electric	Electric Utility	46,379,967	0.63
Spiritual Center of America	Resort/Real Estate	44,548,200	0.60
Mountaineer Village LLC	Rental Properties	25,769,700	0.35
Maharishi Spiritual Center of America	Resort/Real Estate	25,254,200	0.34
Lowe's Home Centers	Home Supply Center	21,559,300	0.29
Appalachian South	Rental Properties	20,297,100	0.27
BellSouth	Telephone Utility	18,260,397	0.25
Village at Meadowview of Boone LTD	Rental Properties	15,630,700	0.21
Heavenly Mountain Resort Inc	Resort / Real Estate	<u>15,470,900</u>	<u>0.21</u>
		<u>\$ 282,670,464</u>	<u>3.82 %</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 Fire Districts  
 For the Fiscal Year Ended June 30, 2007

	Beaver Dam Fire District	Blowing Rock Fire District	Boone Fire District	Cove Creek Fire District	Deep Gap Fire District	Foscoe Fire District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawneehaw Fire District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.02</u>	<u>0.05</u>	<u>0.03</u>	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 100,561	242,286	277,826	193,415	97,077	385,701	112,719	3,557	77,025	82,384	38,014	100,214
Uncollected taxes at June 30, 2007	<u>2,961</u>	<u>3,996</u>	<u>4,562</u>	<u>5,296</u>	<u>2,665</u>	<u>6,599</u>	<u>3,367</u>	<u>457</u>	<u>1,965</u>	<u>2,060</u>	<u>1,045</u>	<u>3,554</u>
Current year's taxes collected	\$ <u>97,600</u>	<u>238,290</u>	<u>273,264</u>	<u>188,119</u>	<u>94,412</u>	<u>379,102</u>	<u>109,352</u>	<u>3,100</u>	<u>75,060</u>	<u>80,324</u>	<u>36,969</u>	<u>96,660</u>
Current levy collection percentage	<u>97.06%</u>	<u>98.35%</u>	<u>98.36%</u>	<u>97.26%</u>	<u>97.26%</u>	<u>98.29%</u>	<u>97.01%</u>	<u>87.16%</u>	<u>97.45%</u>	<u>97.50%</u>	<u>97.25%</u>	<u>96.45%</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, 2007, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated October 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when designed or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

#### Finding 07-01

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the

limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 07-01 to be a material weakness.

#### 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.

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

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.***

October 11, 2007

# **BRYCE HOLDER, CPA, P. A.**

BRYCE HOLDER, CPA

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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, 2007. 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, 2007.

### 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

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

This report is intended solely for the information of the management, others within the 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.***

October 11, 2007

# **BRYCE HOLDER, CPA, P. A.**

BRYCE HOLDER, CPA

PO Box 1908 or 820-F State Farm Road  
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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, 2007. 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, 2007.

### 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the County's internal control.

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

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

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

October 11, 2007

WATAUGA COUNTY, NORTH CAROLINA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2007

I. Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

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

Federal programs that did not meet the criteria for a major program using the criteria discussed in OMB Circular No. A-133 Section .520 but were tested as a major program because the State awards met the threshold for a major State program are included in the list of major federal programs (Subsidized Childcare Cluster).

Dollar threshold used to distinguish Between Type A and Type B Programs: \$   625,320  

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

Watauga County, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2007

State Awards

Internal control over major State Programs:

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

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

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

Identification of major State programs:

Program Name

Subsidized Childcare cluster

**II. Financial Statement Findings:**

Finding : 07-1 Material Weakness

Criteria: Watauga County has a competent finance staff able to perform day to day functions of the financial department, but may not have staff with technical ability to prevent, detect, and correct a potential misstatement in the financial statements and notes drafted by the auditor.

Condition: There exists a lack of technical expertise to draft or prepare the financial statements and related notes in accordance with generally accepted accounting principles.

Effect: The financial statements drafted by the auditor have the potential of misstatement.

Cause: The current staff does not have the necessary training and expertise that is required to prepare the financial statements.

Recommendation: Board should consider outside options to assist in the drafting of the financial statements with consideration of the cost benefit of such measure.

Views of responsible officials and planned corrective actions: Watauga County agrees with this finding. Board understands their risks and they are willing to accept those risks caused by the control deficiencies.

**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, 2007

Finding 2004

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

Finding 2005

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

Finding 2006

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

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2007

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Federal Grants:</b>					
<b>U.S. Dept. of Agriculture</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Food Stamp Cluster:					
Food Stamp Program-Noncash	10.551		\$ 2,011,981	--	--
State Administrative Matching Grants for the Food Stamp Program	10.561		<u>229,488</u>	--	<u>229,488</u>
Total Food Stamp Cluster			<u>2,241,469</u>	--	<u>229,488</u>
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		28,157	--	--
Passed-through the N.C. Division of Emergency Management:					
Watershed Protection and Flood Prevention	10.906		--	<u>102,114</u>	--
<b>Total U.S. Dept. of Agriculture</b>			<u>2,269,626</u>	<u>102,114</u>	<u>229,488</u>
<b>U.S. Dept. of Housing and Urban Development</b>					
Passes-through the N.C. Dept of Crime Control and Public Safety					
Community Development Block Grant	14.228	095-0-04	171,221	--	--
Community Development Block Grant	14.228	2A27-1 WAT	290,000	--	--
Community Development Block Grant	14.228		162,461	--	--
Community Development Block Grant	14.228	05-C-1541	<u>152,029</u>	--	--
Total U.S. Dept. of Housing and Urban Development			<u>775,711</u>	--	--
<b>U.S. Dept of Homeland Security</b>					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Hazardous Material Emergency Preparedness Planning	97.021		3,691	--	--
Emergency Management Performance Grant	97.042		19,467	--	--
State Homeland Security Program	97.073		<u>59,368</u>	--	--
Total U.S. Dept of Homeland Security			<u>82,526</u>	--	--
<b>U.S. Dept. of Justice</b>					
State Criminal Alien Assistance Program	16.606		5,250	--	--
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>9,551</u>	--	<u>3,184</u>
Total U.S. Dept of Justice			<u>14,801</u>	--	<u>3,184</u>
<b>U.S. Dept. of Health &amp; Human Services</b>					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		2,357	150	279
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		63,743	13,138	8,542
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		59,612	34,597	10,468
Senior Center			--	27,025	726
Family Caregiver Support Program	93.052		5,849	373	691
Home repair			--	8,099	900
Social Services Block Grant (SSBG)					
In-home Services	93.667		<u>45,953</u>	<u>1,421</u>	<u>5,264</u>
Total Aging Cluster			<u>177,514</u>	<u>84,803</u>	<u>26,870</u>
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		235,105	--	229,488
Direct Benefit Payments	93.558		76,672	--	--
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		84,028	434	--
Direct Benefit Payments	93.568		<u>97,961</u>	--	--

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2007

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>U.S. Dept. of Health &amp; Human Services (cont.)</b>					
Child Welfare Services	93.645		15,902	3,358	194
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	36,812	8,359
Title IV-E Foster Care	93.658		121,904	10,952	99,066
Foster Care - Direct Benefit Payments	93.658		29,638	5,893	11,335
Adoption Assistance - Administration	93.659		451	--	354
Adoption Assistance - Direct Benefit Payments	93.659		156,658	44,212	44,212
Social Services Block Grant	93.667		167,241	27,367	55,509
DCD Smart Start			--	42,300	--
Subsidized Child Care					
<u>Child Care Development Cluster</u>					
Division of Social Services					
Child Care Development Fund - Administration	93.596		60,000	--	--
Child Care and Development					
Fund - - Discretionary	93.575		265,576	--	--
Child Care and Development					
Fund - - Mandatory	93.596		124,075	--	--
Child Care and Development					
Fund - - Match	93.596		110,445	68,619	--
Total Child Care Development Fund Cluster			<u>560,096</u>	<u>68,619</u>	<u>--</u>
Social Services Block Grant	93.667		8,995	--	--
Temporary Assistance for Needy Families	93.558		101,175	--	--
Smart Start			--	131,829	--
TANF - Maintenance of Effort			--	75,631	--
Total Subsidized Child Care (Note 3)			<u>670,266</u>	<u>276,079</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		15,240,329	7,505,337	1,330,322
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		446,292	27,206	407,122
Health Choice	93.767		27,064	1,527	7,486
Links	93.674		2,208	552	--
Links- Direct Benefit Payments	93.674		5,281	658	--
Passed-through N.C. Department of Insurance:					
Medicare Transitional Drug Assistance Program for States	93.783		3,100	--	--
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Facility Services:					
National Bioterrorism Hospital Preparedness Program	93.889		11,645	--	--
Passed-through the N.C. State Board of Elections					
Help America Vote Act of 2002	93.617		<u>132,080</u>	<u>--</u>	<u>--</u>
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>17,701,339</u>	<u>8,067,490</u>	<u>2,222,065</u>
<b>Total Federal Awards</b>			<u>20,844,003</u>	<u>8,169,604</u>	<u>2,454,737</u>
<b>State Awards:</b>					
<b>N.C. Dept. of Health and Human Services</b>					
Division of Social Services					
State/County Special Assistance for Adults- Direct Benefit Payments			--	184,887	184,887
State Foster Care Benefits Program			--	9,783	9,783
Program Integrity			--	90	--
State Aid to Counties			--	20,725	--
State Adult Protective Service			--	<u>25,529</u>	<u>--</u>
<b>Total N.C. Dept. of Health and Human Services</b>			<u>--</u>	<u>241,014</u>	<u>194,670</u>

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2007

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Office of the Governor</b>					
Department of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention Council Programs			--	120,981	33,223
<b>Total Office of the Governor</b>			--	120,981	33,223
<b>N.C. Dept. of Public Instruction</b>					
Public School National Forest Service			--	324	--
<b>Total N.C. Dept. of Public Instruction</b>			--	324	--
<b>N.C. Dept. of Transportation</b>					
Workfirst/Employment Transportation Operating Assistance			--	3,626	--
Elderly and Disabled Transportation Assistance Program (E&DTAP)			--	56,540	--
Rural General Public Program			--	71,900	--
<b>Total N.C. Dept. of Transportation</b>			--	132,066	--
<b>N.C. Dept. of Environment, Health, and Natural Resources</b>					
Soil Conservation Assistance			--	4,000	51,291
Soil Conservation Cost Sharing			--	20,826	20,826
Division of Waste Management Scrap Tire Disposal Grant			--	12,197	--
<b>Total N.C. Dept. of Environment, Health, and Natural Resources</b>			--	37,023	72,117
<b>N.C. Dept. of Corrections</b>					
Criminal Justice Partnership Program		95-0706-I-A	--	79,446	--
<b>N.C. Division of Veteran's Affairs</b>					
Veteran's Service Program			--	2,000	88,279
<b>Total State awards</b>			--	612,854	388,289
<b>Total federal and State awards</b>			\$ 20,844,003	8,782,458	2,843,026

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

1. Basis of Presentation

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

2. Subrecipients

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

Program Title	CFDA Number	Federal Expenditures	State Expenditures
Food Stamp Program-noncash	10.551	\$ 2,011,981	--
Temporary Assistance for Needy Families	93.558	76,672	--
Medical Assistance Program	93.778	15,240,329	7,505,337
Low Income Home Energy Assistance Block Grant	93.568	97,961	--
Child Welfare - Adoption Subsidy	93.645	--	36,812
Foster Care	93.658	29,638	5,893
Adoption Assistance	93.659	156,658	44,212
Links	93.674	5,281	658
Adult Assistance	--	--	184,887

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