

WATAUGA COUNTY, NORTH CAROLINA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Watauga County, North Carolina
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June 30, 2008

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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, 2008, 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, 2008, 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 November 7, 2008, 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

November 7, 2008

BASIC FINANCIAL STATEMENTS

FINANCIAL SECTION

Watauga County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

Management's Discussion and Analysis

As management of Watauga County, we offer readers of Watauga County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements and notes, which follow this narrative.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the fiscal year by \$65,915,229.
- The County's total net assets increased by \$7,791,356 primarily due to an increase in revenues and expenditures less than budgeted amounts.
- The County's unreserved fund balance for the general fund was \$13,177,566 at the end of the year, representing 26.1% of total General Fund expenditures.
- Watauga County obtained a \$70 million installment purchase contract to finance the construction of a new Watauga High School. Projected occupancy date of the 273,000+ square foot facility is July 2010.
- Watauga County's bond rating was upgraded by Standard and Poor from A to AA.

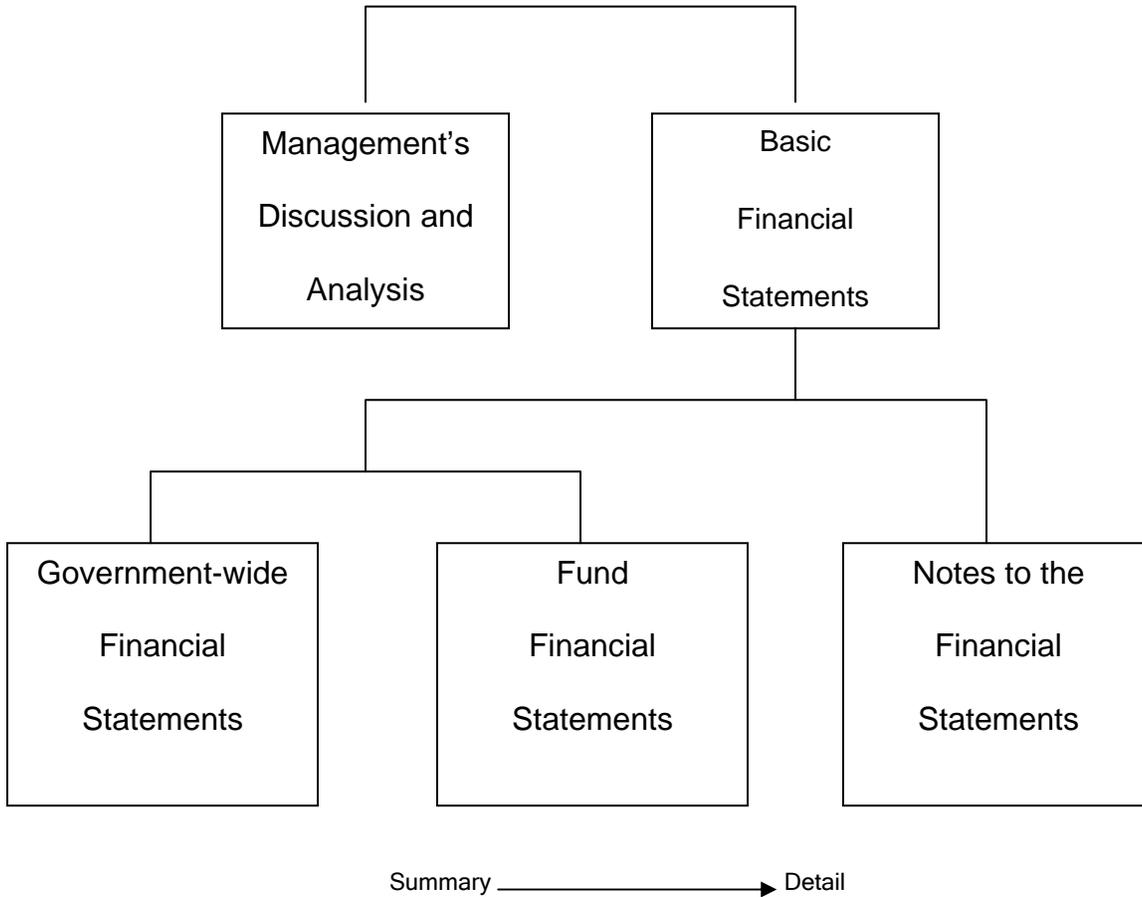
Overview of the Financial Statements

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

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

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

Government-wide Financial Statements

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

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

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes landfill services offered by Watauga County. The final category 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

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 solid waste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Assets and Statement of Activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has 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

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 92,963,638	33,963,581	3,132,341	3,774,200	96,095,979	37,737,781
Capital assets	<u>56,377,165</u>	<u>42,840,254</u>	<u>5,362,156</u>	<u>4,696,143</u>	<u>61,739,321</u>	<u>47,536,397</u>
Total asset	<u>149,340,803</u>	<u>76,803,835</u>	<u>8,494,497</u>	<u>8,470,343</u>	<u>157,835,300</u>	<u>85,274,178</u>
Long-term liabilities, outstanding	81,044,251	22,161,111	301,919	87,414	81,346,170	22,248,525
Other liabilities	<u>10,028,420</u>	<u>4,065,761</u>	<u>545,481</u>	<u>720,673</u>	<u>10,573,901</u>	<u>4,786,434</u>
Total liabilities	<u>91,072,671</u>	<u>26,226,872</u>	<u>847,400</u>	<u>808,087</u>	<u>91,920,071</u>	<u>27,034,959</u>
Net assets:						
Invested in capital assets, net of related debt	37,391,945	29,227,771	4,942,169	4,574,841	42,334,114	33,802,612
Restricted	1,027,269	952,579	--	--	1,027,269	952,579
Unrestricted	<u>19,848,918</u>	<u>20,396,613</u>	<u>2,704,928</u>	<u>3,087,415</u>	<u>22,553,846</u>	<u>23,484,028</u>
Total net assets	\$ <u>58,268,132</u>	<u>50,576,963</u>	<u>7,647,097</u>	<u>7,662,256</u>	<u>65,915,229</u>	<u>58,239,219</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 \$65,915,229 at June 30, 2008. The County's net assets increased by \$7,676,010 for the fiscal year ended June 30, 2008. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$42,334,114, Restricted net assets of \$1,027,269 and Unrestricted net assets of \$22,553,846.

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, 2008, 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 2007 statewide average of 97.43%.

Watauga County Changes in Net Assets
Figure 3

	Government Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$1,722,866	1,832,771	4,145,551	3,789,419	5,868,417	5,622,190
Operating grants and contributions	5,470,889	4,839,141	80,064	76,409	5,550,953	4,915,550
Capital grants	--	19,907	--	--	--	19,907
General revenues:						
Property taxes	26,215,391	26,270,125	--	--	26,215,391	26,270,125
Other taxes	16,438,011	14,457,968	--	--	16,438,011	14,457,968
Grants and contributions not restricted to specific programs	13,182	13,349	--	--	13,182	13,349
Donations	--	--	--	--	--	--
Other	1,343,960	1,405,681	198,838	135,131	1,542,798	1,540,812
Total revenues	51,204,299	48,838,942	4,424,453	4,000,959	55,628,752	52,839,901
Expenses:						
General government	7,607,070	7,532,708	--	--	7,607,070	7,532,708
Public safety	10,430,270	9,305,827	--	--	10,430,270	9,305,827
Economic and physical development	692,769	982,810	--	--	692,769	982,810
Human services	8,271,220	8,214,048	--	--	8,271,220	8,214,048
Cultural and recreation	1,499,287	1,380,012	--	--	1,499,287	1,380,012
Education	13,041,822	11,497,358	--	--	13,041,822	11,497,358
Interest on long-term debt	1,937,294	872,006	--	--	1,937,294	872,006
Solid Waste	--	--	4,357,664	3,867,906	4,357,664	3,867,906
Total expenses	43,479,732	39,784,769	4,357,664	3,867,906	47,837,396	43,652,675
Increase in net assets before transfers	7,724,567	9,054,173	66,789	133,053	7,791,356	9,187,226
Transfers	81,948	142,700	(81,948)	(142,700)	--	--
Increase in (decrease) net assets	7,806,515	9,196,873	(15,159)	(9,647)	7,791,356	9,187,226
Net assets, July 1	50,576,963	41,380,090	7,662,256	7,671,903	58,239,219	49,051,993
Prior period adjustments	(115,346)	--	--	--	(115,346)	--
Net assets, June 30	58,268,132	50,576,963	7,647,097	7,662,256	65,915,229	58,239,219

Governmental activities. Governmental activities increased the County's net assets by \$7,806,515 thereby accounting for 100.0% 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%
- Began participation in Gov Deals to sell County surplused assets via electronic auction

Business-type activities: Business-type activities decreased Watauga County's net assets by \$15,159. Key element of this decrease is as follows:

- No operating transfers from the governmental funds; Instead, made transfers to governmental funds for debt service payments
- Continued construction of new scale house facility to complete the upgrade of solid waste facilities
- Increase in revenues due to increased use of County solid waste facilities
- Increase in revenue from sale of surplused fixed assets as a result of participation in Gov Deal electronic auctions

Financial Analysis of the County's Funds

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

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

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$13,177,566 while total fund balance went down to \$20,772,713. 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 26.13 percent of total General Fund expenditures, while total fund balance represents 41.22 percent of that same amount.

At June 30, 2008, the governmental funds of Watauga County reported a combined fund balance of \$86,739,286, a 176 percent increase over last year. The primary reason for this increase is the receipt of loan proceeds to complete the new high school capital project.

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 \$11,012,481.

The actual operating revenues for the General Fund were \$204,155 less than the budgeted amount. Actual operating expense was less than budgeted by \$5,406,972.

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 \$2,704,928. The total decrease in net assets was \$15,159.

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, 2008, totals \$56,377,165 (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
 - Began construction of additional parking adjacent to the courthouse on the former law enforcement center site
 - Continued improvement of 75+ acres of land at Brookshire Park for mixed uses of recreation, affordable housing, and a commerce park
 - Began construction of new county wide high school on 90+ acres site purchased last year
 - Continued two regulation softball fields on property adjacent to the current Watauga County Park and Recreation facilities. Site is part of long term lease with the Town of Boone to be used to provide additional recreation facilities
 - Continued 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	
	2008	2008	2008
Land	\$ 9,392,067	1,377,212	10,769,279
Buildings	18,936,155	2,619,465	21,555,620
Other improvements	59,400	210,683	270,083
Equipment	1,786,283	302,131	2,088,414
Vehicles	845,437	440,411	1,285,848
Construction in progress	25,357,822	412,254	25,770,076
Total	\$ 56,377,164	5,362,156	61,739,320

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, 2008, Watauga County had bonded debt outstanding of \$8,755,000 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	
	2008	2007
General obligation bonds	\$ 8,755,000	10,120,000
Installment purchase	\$75,626,407	13,612,483

Watauga County's total debt increased by \$60,648,924 or (255%) during the past fiscal due to financing the construction of a new county-wide high school.

As mentioned in the financial highlights section of this document, Watauga County increased its bond rating to AA. 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 \$657,359,122.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 39 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The County is experiencing a low unemployment rate of 4.4%, well below the state average of 6.2%
- The County continues to experience growth in the tourism industry with an annual economic impact of approximately \$191 million
- Appalachian State University's economic impact is estimated at \$508 million a year and provides stability to the local economy
- New construction is expected to remain relatively flat consistent with state and national expectations

Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental activities -The County's property tax rate is maintained at rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate which generates approximately \$2.83 million in property tax revenue is earmarked for education. Sales tax revenue is projected to remain flat due to a slowing economy.

Budgeted expenditures in the General Fund includes a 3.6% increase in the current expense appropriation to the school system, \$ 388,124 earmarked to fund COLA for locally funded school system positions, \$225,000 for the improvement of playground equipment at three elementary schools, as well as \$3,964,700 to be transferred to the Capital Reserve Fund to fund high school, construction and/or debt service. In addition, \$200,000 is set aside 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.

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, 2008

Exhibit A

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
ASSETS					
Cash and cash equivalents	\$ 87,352,091	2,777,752	90,129,843	517,767	1,155,928
Receivables (net)	2,289,401	337,937	2,627,338	6,041	129,335
Due from other governments	2,498,216	16,652	2,514,868	371,891	--
Inventories	--	--	--	114,687	--
Other assets	377,282	--	377,282	--	--
Deferred charges - issuance cost	76,815	--	76,815	--	--
Deferred charges - refunding	297,915	--	297,915	--	--
Intangible asset - advanced funding of pension obligation	71,918	--	71,918	--	--
Capital assets:					
Land, improvements, and construction in progress	34,749,890	1,789,466	36,539,356	--	--
Other capital assets, net of depreciation	21,627,275	3,572,690	25,199,965	4,027,106	11,861
Total capital assets	56,377,165	5,362,156	61,739,321	4,027,106	11,861
Total assets	149,340,803	8,494,497	157,835,300	5,037,492	1,297,124
LIABILITIES					
Accounts payable and accrued expenses	4,927,736	171,148	5,098,884	100,204	15,467
Unearned revenue	27,368	178,136	205,504	18,819	--
Accrued interest payable	816,502	--	816,502	--	--
Customer deposits	--	76	76	--	--
Long-term liabilities:					
Due within one year	4,256,814	196,121	4,452,935	53,809	--
Due in more than one year	81,044,251	301,919	81,346,170	--	--
Total liabilities	91,072,671	847,400	91,920,071	172,832	15,467
NET ASSETS					
Invested in capital assets, net of related debt	37,391,945	4,942,169	42,334,114	4,027,106	11,861
Restricted for:					
Public safety	783,237	--	783,237	--	--
Register of Deeds	244,032	--	244,032	--	--
Unrestricted (deficit)	19,848,918	2,704,928	22,553,846	837,554	1,269,796
Total net assets	\$ 58,268,132	7,647,097	65,915,229	4,864,660	1,281,657

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, 2008

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 7,607,070	785,833	340,494	--
Public safety	10,430,270	578,025	660,543	--
Economic and physical development	692,769	--	147,029	--
Human service	8,271,220	15,339	4,322,499	--
Cultural and recreation	1,499,287	343,669	--	--
Education	13,041,822	--	324	--
Interest on long-term debt	1,937,294	--	--	--
Total governmental activities	<u>43,479,732</u>	<u>1,722,866</u>	<u>5,470,889</u>	<u>--</u>
Business-type activities:				
Solid waste	4,357,664	4,145,551	80,064	--
Total	<u>\$ 47,837,396</u>	<u>5,868,417</u>	<u>5,550,953</u>	<u>19,907</u>
Component units:				
AppalCART	\$ 2,663,501	1,206,321	1,269,036	939,598
Watauga County District U Development Authority	<u>\$ 265,781</u>	<u>--</u>	<u>803,578</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
Future period funding
Donations, unrestricted
Gain on sale of assets
Transfers
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Prior period adjustment
Net assets - ending

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Net (Expense) Revenues and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority	
(6,480,743)	--	(6,480,743)			
(9,191,702)	--	(9,191,702)			
(545,740)	--	(545,740)			
(3,933,382)	--	(3,933,382)			
(1,155,618)	--	(1,155,618)			
(13,041,498)	--	(13,041,498)			
(1,937,294)	--	(1,937,294)			
(36,285,977)	--	(36,285,977)			
--					
--	(132,049)	(132,049)			
(36,285,977)	(132,049)	(36,418,026)			
			751,454	537,797	
\$ 26,215,391	--	26,215,391	--	--	--
14,466,477	--	14,466,477	--	--	--
1,971,534	--	1,971,534	--	--	--
13,182	--	13,182	--	--	--
1,195,175	96,492	1,291,667	20,155	34,539	34,539
135,255	--	135,255	--	--	--
10,447	--	10,447	--	--	--
--	--	--	--	--	--
3,083	102,346	105,429	6,166	--	--
81,948	(81,948)	--	--	--	--
44,092,492	116,890	44,209,382	26,321	34,539	34,539
7,806,515	(15,159)	7,791,356	777,775	572,336	572,336
50,576,963	7,662,251	58,239,219	4,086,885	713,443	713,443
(115,346)	--	(115,346)	--	(4,122)	(4,122)
\$ 58,268,132	7,647,097	65,915,229	4,864,660	1,281,657	1,281,657

Watauga County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2008

Exhibit C

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Fund
ASSETS					
Cash and cash equivalents	\$ 17,650,464	8,272,823	60,625,618	803,186	87,352,091
Taxes receivable, net	686,946	--	--	78,264	765,210
Due from other governments	2,498,216	--	--	--	2,498,216
Due from other funds	204,383	--	--	--	204,383
Accounts receivable, net	1,090,623	--	--	379,739	1,470,362
Other assets	377,282	--	--	--	377,282
Total assets	<u>\$ 22,507,914</u>	<u>8,272,823</u>	<u>60,625,618</u>	<u>1,261,189</u>	<u>92,667,544</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,019,217	--	3,717,895	190,624	4,927,736
Unearned revenue	19,171	--	--	2,144	21,315
Deferred revenue	696,813	--	--	78,011	774,824
Due to other funds	--	--	--	204,383	204,383
Total liabilities	<u>1,735,201</u>	<u>--</u>	<u>3,717,895</u>	<u>475,162</u>	<u>5,928,258</u>
Fund balances:					
Reserved for:					
State statute	4,313,056	--	--	102,281	4,415,337
Encumbrances	2,962,157	--	--	--	2,962,157
Register of Deeds	244,032	--	--	--	244,032
E-911	75,902	--	--	--	75,902
Unreserved	13,177,566	8,272,823	--	--	21,450,389
Unreserved, reported in nonmajor:					
Special revenue funds	--	--	--	683,746	683,746
Capital projects funds	--	--	56,907,723	--	56,907,723
Total fund balances	<u>20,772,713</u>	<u>8,272,823</u>	<u>56,907,723</u>	<u>786,027</u>	<u>86,739,286</u>
Total liabilities and fund balances	<u>\$ 22,507,914</u>	<u>8,272,823</u>	<u>60,625,618</u>	<u>1,261,189</u>	

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.	71,918
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	56,377,165
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	53,829
Liabilities for earned but deferred revenues in fund statements.	768,771
Deferred charges based on refunding issues.	374,730
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3).	<u>(86,117,567)</u>
Net assets of governmental activities	<u>\$ 58,268,132</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, 2008

Exhibit D

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 26,000,631	--	--	2,042,285	28,042,916
Local option sales taxes	12,424,192	--	--	--	12,424,192
Other taxes and licenses	1,043,716	--	--	927,818	1,971,534
Unrestricted intergovernmental	13,182	--	--	--	13,182
Restricted intergovernmental	4,550,375	--	--	920,514	5,470,889
Permits and fees	887,490	--	--	--	887,490
Sales and services	823,732	--	--	--	823,732
Investment earnings	753,145	172,926	266,537	14,211	1,206,819
Donations	--	45,000	--	203	45,203
Miscellaneous	111,879	--	--	--	111,879
Total revenues	46,608,342	217,926	266,537	3,905,031	50,997,836
EXPENDITURES					
Current:					
General government	8,935,480	--	--	1,286,709	10,222,189
Public safety	7,535,369	--	--	2,596,377	10,131,746
Economic and physical development	1,065,781	--	--	--	1,065,781
Human services	7,657,453	--	--	--	7,657,453
Cultural and recreational	1,363,444	--	--	--	1,363,444
Intergovernmental:					
Education	13,041,225	--	--	--	13,041,225
Capital outlay	--	--	11,532,365	13,624	11,545,989
Debt service:					
Principal	9,351,076	--	--	--	9,351,076
Interest	1,242,881	--	--	--	1,242,881
Total expenditures	50,192,709	--	11,532,365	3,896,710	65,621,784
Excess (deficiency) of revenues over expenditures	(3,584,367)	217,926	(11,265,828)	8,321	(14,623,948)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	11,843,637	13,116,776	12,222,948	117,920	37,301,281
Transfers to other funds	(10,804,839)	(10,272,116)	(16,062,729)	(79,649)	(37,219,333)
Future projects funding	--	10,447	--	--	10,447
Proceeds from loan	--	--	70,000,000	--	70,000,000
Total other financing sources and uses	1,038,798	2,855,107	66,160,219	38,271	70,092,395
Net change in fund balance	(2,545,569)	3,073,033	54,894,391	46,592	55,468,447
Fund balances-beginning	23,314,584	5,199,790	2,013,332	858,479	31,386,185
Prior period adjustment	3,698	--	--	(119,044)	(115,346)
Fund balances-ending	\$ 20,772,713	8,272,823	56,907,723	786,027	86,739,286

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, 2008

Exhibit D

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

Net changes in fund balances - total governmental funds	\$ 55,468,447
---	---------------

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

13,536,911

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	(78,457)	
Advance funding of pension obligation	9,588	
Accrued interest expense	(688,996)	
Taxes receivable	214,760	
Combined adjustment	(543,105)	(543,105)

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.

(60,655,738)

Total changes in net assets of governmental activities	\$ <u><u>7,806,515</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, 2008

General Fund				
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 25,549,318	25,549,318	26,000,631	451,313
Local option sales tax	13,068,163	13,068,163	12,424,192	(643,971)
Other taxes and licenses	808,000	812,070	1,043,716	231,646
Unrestricted intergovernmental	13,000	13,000	13,182	182
Restricted intergovernmental	3,468,602	4,898,900	4,550,375	(348,525)
Permits and fees	957,800	973,107	887,490	(85,617)
Sales and services	952,786	819,175	823,732	4,557
Investment earnings	569,211	569,211	753,145	183,934
Donations	--	--	--	--
Miscellaneous	100,288	109,553	111,879	2,326
Total revenues	<u>45,487,168</u>	<u>46,812,497</u>	<u>46,608,342</u>	<u>(204,155)</u>
Expenditures:				
Current:				
General government	8,253,570	12,112,003	8,935,480	3,176,523
Public safety	7,429,050	7,884,799	7,535,369	349,430
Economic & Physical	988,557	1,170,835	1,065,781	105,054
Human services	7,837,319	8,096,433	7,657,453	438,980
Cultural and recreation	1,390,992	1,423,295	1,363,444	59,851
Education	12,216,008	14,313,327	13,041,225	1,272,102
Debt service:				
Principal retirement	5,662,406	9,669,059	9,351,076	347,983
Interest and other charges	899,930	899,930	1,242,881	(342,951)
Total expenditures	<u>44,677,832</u>	<u>55,599,681</u>	<u>50,192,709</u>	<u>5,406,972</u>
Revenues over (under) expenditures	<u>809,336</u>	<u>(8,787,184)</u>	<u>(3,584,367)</u>	<u>5,208,817</u>
Other financing sources (uses):				
Transfers from other funds	3,083,974	12,081,237	11,843,637	(237,600)
Transfers to other funds	(4,400,700)	(10,444,354)	(10,804,839)	(360,485)
Future project funding	--	--	--	--
Loan proceeds	--	--	--	--
Fund balance appropriated	507,390	7,150,301	--	(7,150,301)
Total other financing sources (uses)	<u>(809,336)</u>	<u>8,787,184</u>	<u>1,038,798</u>	<u>(7,748,386)</u>
Revenues and other sources over (under) expenditures and other uses	--	--	(2,545,569)	2,545,569
Fund balances, beginning of year	--	--	23,314,584	--
Prior period adjustment	--	--	3,698	--
Fund balances, end of year	<u>\$ --</u>	<u>--</u>	<u>20,772,713</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, 2008

Exhibit E

Capital Reserve Fund			
Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
Original	Final		
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
45,000	45,000	45,000	--
40,000	40,000	172,926	132,926
--	--	--	--
85,000	85,000	217,926	132,926
<hr/>			
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
85,000	85,000	217,926	132,926
<hr/>			
4,400,700	13,116,776	13,116,776	--
(257,326)	(10,271,716)	(10,272,116)	(400)
(4,485,700)	(6,625,876)	10,447	6,636,323
--	--	--	--
257,326	3,695,816	--	(3,695,816)
(85,000)	(85,000)	2,855,107	2,940,107
<hr/>			
--	--	3,073,033	3,073,033
--	--	5,199,790	--
--	--	--	--
--	--	8,272,823	--

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

Watauga County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,777,752
Receivables, net	337,937
Due from other governments	16,652
Total current assets	3,132,341
Capital assets:	
Land, improvements, and construction in progress	1,789,466
Other capital assets, net of depreciation	3,572,690
Total capital assets	5,362,156
Total assets	8,494,497
LIABILITIES	
Current liabilities:	
Accounts payable	171,148
Customer deposits	76
Installment purchase payable	196,121
Total current liabilities	367,345
Noncurrent liabilities:	
Deferred Revenue	178,136
Compensated absences	78,055
Installment purchase payable	223,864
Total noncurrent liabilities	480,055
Total liabilities	847,400
NET ASSETS	
Invested in capital assets, net of related debt	4,942,169
Unrestricted	2,704,928
Total net assets	\$ 7,647,097

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, 2008

	Enterprise Fund
	Solid Waste Fund
OPERATING REVENUES:	
Charges for services	\$ 4,145,551
Restricted intergovernmental revenues	80,064
Total operating revenues	4,225,615
 OPERATING EXPENSES:	
Landfill operations	4,131,824
Depreciation	209,998
Total operating expenses	4,341,822
Operating income (loss)	(116,207)
 NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	96,492
Interest paid on long term debt	(15,842)
Gain on sale of assets	102,346
Total non operating revenue (expenses)	182,996
Income (loss) before transfers	66,789
Transfers (to) from other funds (net)	(81,948)
Change in net assets	(15,159)
Total net assets - beginning	7,662,256
Total net assets - ending	\$ 7,647,097

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, 2008

	<u>Solid Waste Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 4,136,952
Cash paid for goods and services	(3,328,076)
Cash paid to employees for services	(1,068,016)
Other operating revenue	80,064
Net cash provided by (used) operating activities	<u>(179,076)</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>(81,948)</u>
Cash flows from capital and related financing activities:	
Proceeds received from installment purchase contracts	520,000
Proceeds received from sale of fixed assets	102,346
Acquisition and construction of capital assets	(876,011)
Principal paid on installment purchase contracts	(221,316)
Interest paid on installment purchase contracts	(15,842)
Net cash used by capital and related financing activities	<u>(490,823)</u>
Cash flows from investing activities:	
Interest on investments	<u>96,492</u>
Net increase (decrease) in cash and cash equivalents	(655,355)
Cash and cash equivalents, July 1	<u>3,433,107</u>
Cash and cash equivalents, June 30	<u>\$ 2,777,752</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>(116,207)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	209,998
Changes in assets and liabilities:	
Increase in accounts receivable	(13,496)
Increase in deferred revenue	4,897
Decrease in accounts payable and accrued liabilities	(279,412)
Increase in accrued vacation pay	15,144
Total adjustments	<u>(62,869)</u>
Net cash used by operating activities	<u>\$ (179,076)</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, 2008**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ <u>157,403</u>	<u>365,861</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u> --</u>	<u>365,861</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>157,403</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, 2008

Exhibit J

		Pension Trust Fund <hr/> June 30, 2008 <hr/>
Additions:		
Employer contributions	\$	40,069
Interest earned		<u>4,072</u>
Total additions		<u>44,141</u>
Deductions:		
Benefits		29,842
Administrative expense		<u>227</u>
Total deductions		<u>30,069</u>
Change in net assets		14,072
Net assets, beginning		<u>143,331</u>
Net assets, ending	\$	<u><u>157,403</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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 District U 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 District U 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 District U Tourism Development Authority has a June 30 year end and is presented as if it is a governmental fund. Complete financial statements may be obtained from the entity's administrative offices at Watauga County District U Tourism Development Authority, 814 West King St., Boone, NC 28607

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

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

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues, and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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, 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 Disaster Relief, CDBG Scattered Site Housing Grant, CDBG- Incubator 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

D. Assets, Liabilities and Fund Equity (continued)

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, 2007.

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

D. Assets, Liabilities and Fund Equity (continued)

5. Inventory

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

6. Capital Assets

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

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

D. Assets, Liabilities and Fund Equity (continued)

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

D. Assets, Liabilities and Fund Equity (continued)

The governmental fund types classify fund balances as follows:

Reserved

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

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

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

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

Reserved for E-911 – a portion of the E-911 telephone surcharge at December 31, 2007 that was transferred to the General Fund which represents the unspent portion of landline E-911 revenues reserved for E-911 expenditures.

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 2008-2009 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 consists of several elements as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

<u>Description</u>	<u>Amount</u>
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)	\$ 76,450,151
Less accumulated depreciation	(20,072,986)
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	71,918
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	53,829
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	768,771
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	374,730
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	(84,381,407)
Compensated absences	(919,658)
Accrued interest payable	<u>(816,502)</u>
Total adjustment	<u>(28,471,154)</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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 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 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	\$ 15,167,979
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	(1,612,326)
Loss on disposal of assets that is recorded in the statement of activities but not in the fund statements	(18,742)
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	9,351,076
The advance funding of pension obligations	9,588
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)	(688,996)
Amortization of refunding costs not recorded on fund statements	(6,814)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(78,457)
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	(70,000,000)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

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

Increase in deferred tax revenue for year ended 6/30/08	200,380
Increase in accrued interest receivable on taxes for year ended 6/30/08	<u>14,380</u>
Total adjustment	\$ <u>(47,661,932)</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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 - Detail Notes on All Funds (continued)

1. Deposits (continued)

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

At June 30, 2008, the County's deposits had a carrying amount of \$87,509,058 and a bank balance of \$86,470,965. Of the bank balance, \$400,000 was covered by federal depository insurance, and \$42,307 in non-interest bearing deposits and \$86,028,658 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, 2008 Watauga County had \$2,700 cash on hand.

At June 30, 2008, the AppalCART's deposits had a balance of \$318,183 and a bank balance of \$355,625. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$255,625 in interest bearing deposits were covered by collateral held under the pooling method.

At June 30, 2008, AppalCaRT had \$300 cash on hand.

At June 30, 2008, the Authority's deposits had a balance of \$1,155,423. Of the balance, \$100,000 was covered by federal depository insurance and \$1,055,423 in interest bearing deposits were covered by collateral held under the pooling method.

2. Investments

At June 30, 2008, the County's investments consisted of \$4,180,258 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, 2008, the AppalCART's investments consisted of \$199,284 in the North Carolina Capital Management Trust's Cash Portfolio. The AppalCART has no policy on credit risk.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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 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
2005	\$ 481,800	136,109	617,909
2006	535,213	103,029	638,242
2007	616,480	63,189	679,669
2008	<u>616,322</u>	<u>--</u>	<u>616,322</u>
Total	\$ <u>2,252,815</u>	<u>302,327</u>	<u>2,552,142</u>

4. Receivables

Receivables at the government-wide level at June 30, 2008, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 1,090,623	1,180,566	2,498,216	4,769,405
Other Governmental	<u>379,739</u>	<u>95,311</u>	<u>--</u>	<u>475,050</u>
Total receivables	1,470,362	1,275,877	2,498,216	5,244,455
Allowance for doubtful accounts	<u>--</u>	<u>(456,838)</u>	<u>--</u>	<u>(456,838)</u>
Total-governmental activities	\$ <u>1,470,362</u>	<u>819,039</u>	<u>2,498,216</u>	<u>4,787,617</u>
Business-type activities				
Solid Waste	\$ 337,937	--	16,652	354,589
Allowance for doubtful accounts	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total-business-type activities	\$ <u>337,937</u>	<u>--</u>	<u>16,652</u>	<u>354,589</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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	\$ 1,978,938
Scrap tire tax	12,898
White goods tax	3,754
Criminal Justice Partnership Program	16,164
Daycare	59,212
County Administration	390,868
Child Support Enforcement	15,716
Adoption Assistance	4,331
Medical Relief	26,229
Domestic Violence Grant	<u>6,758</u>

Total \$ 2,514,868

5. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,392,067	--	--	9,392,067
Construction in progress	<u>11,408,743</u>	<u>14,396,017</u>	<u>446,938</u>	<u>25,357,822</u>
Total capital assets not being depreciated	<u>20,800,810</u>	<u>14,396,017</u>	<u>446,938</u>	<u>34,749,889</u>
Capital assets being depreciated:				
Buildings	35,619,839	464,154	--	36,083,993
Other improvements	95,201	--	--	95,201
Equipment	3,403,872	400,078	187,109	3,616,841
Vehicles and motor equipment	<u>1,776,310</u>	<u>354,668</u>	<u>226,751</u>	<u>1,904,227</u>
Total capital assets being depreciated	<u>40,895,222</u>	<u>1,218,900</u>	<u>413,860</u>	<u>41,700,262</u>
Less accumulated depreciation for:				
Buildings	16,108,617	1,039,221	--	17,147,838
Improvements	31,456	4,345	--	35,801
Equipment	1,676,060	322,863	168,365	1,830,558
Vehicles and motor equipment	<u>1,039,644</u>	<u>245,897</u>	<u>226,751</u>	<u>1,058,790</u>
Total accumulated depreciation	<u>18,855,777</u>	<u>1,612,326</u>	<u>395,116</u>	<u>20,072,987</u>
Total capital assets being depreciated, net	<u>22,039,445</u>			<u>21,627,275</u>
Governmental activity capital assets, net	\$ <u>42,840,255</u>			<u>56,377,164</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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	\$ 178,929
Public safety	642,166
Education	597
Economic and physical development	56,147
Human services	607,544
Cultural and recreational	<u>126,943</u>
Total depreciation expense	\$ <u>1,612,326</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>56,607</u>	<u>355,647</u>	--	<u>412,254</u>
Total capital assets not being depreciated	<u>1,433,819</u>	<u>355,647</u>	--	<u>1,789,466</u>
Capital assets being depreciated:				
Improvements	518,256	--	--	518,256
Buildings	3,000,081	--	--	3,000,081
Equipment	1,157,512	228,307	20,801	1,365,018
Vehicles	<u>1,024,470</u>	<u>292,057</u>	<u>164,233</u>	<u>1,152,294</u>
Total capital assets being depreciated	<u>5,700,319</u>	<u>520,364</u>	<u>185,034</u>	<u>6,035,649</u>
Less accumulated depreciation for:				
Improvements	299,952	7,621	--	307,573
Buildings	320,615	60,001	--	380,616
Equipment	1,046,704	36,984	20,801	1,062,887
Vehicles	<u>770,724</u>	<u>105,392</u>	<u>164,233</u>	<u>711,883</u>
Total accumulated depreciation	<u>2,437,995</u>	<u>209,998</u>	<u>185,034</u>	<u>2,462,959</u>
Total capital assets being depreciated, net	<u>3,262,324</u>			<u>3,572,690</u>
Business-type activities capital assets, net	\$ <u>4,696,143</u>			<u>5,362,156</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Construction commitments

The government has active construction projects as of June 30, 2008. The projects include a new high school, a parking lot, soccer fields, a new scale house, new parks, and an addition to the existing courthouse. At June 30, 2008, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Anne Marie Park	\$ 338,167	54,049
Water St. Parking Lot	577,447	35,186
Brookshire Park	1,277,026	186,221
Courthouse addition	3,361,649	100,294
Watauga High School	19,803,531	53,937,111
Scalehouse	<u>412,254</u>	<u>371,343</u>
 Total	 \$ <u>25,770,074</u>	 <u>54,684,204</u>

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2008, 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>117,019</u>	<u>242,905</u>	--	<u>359,924</u>
Total capital assets not being depreciated	<u>1,231,261</u>	<u>242,905</u>	--	<u>1,474,166</u>
Capital assets being depreciated:				
Land improvements	159,662	--	--	159,662
Office furniture and equipment	91,815	72,559	--	164,374
Vehicles	3,286,191	713,959	220,710	3,779,440
Shop equipment	<u>114,862</u>	--	--	<u>114,862</u>
Total capital assets being depreciated	<u>3,652,530</u>	<u>786,518</u>	<u>220,710</u>	<u>4,218,338</u>
Less accumulated depreciation for:				
Land improvements	132,330	4,262	--	136,592
Office furniture and equipment	79,523	8,067	--	87,590
Vehicles	1,200,446	350,247	219,938	1,330,755
Shop equipment	<u>106,232</u>	<u>4,229</u>	--	<u>110,461</u>
Total accumulated depreciation	<u>1,518,531</u>	<u>366,805</u>	<u>219,938</u>	<u>1,665,398</u>
Total capital assets being depreciated, net	<u>2,133,999</u>			<u>2,552,940</u>
AppalCART capital assets, net	\$ <u>3,365,260</u>			<u>4,027,106</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Capital asset activity for the Watauga County Tourism Development Authority for the year ended June 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets				
being depreciated:				
Computer equipment	\$ <u>6,027</u>	<u>9,392</u>	<u> --</u>	<u>15,419</u>
Total Capital assets	<u>6,027</u>	<u>9,392</u>	<u> --</u>	<u>15,419</u>
being depreciated				
Less accumulated				
depreciation for:				
Computer equipment	<u>603</u>	<u>2,955</u>	<u> --</u>	<u>3,558</u>
Total accumulated	<u>603</u>	<u>2,955</u>	<u> --</u>	<u>3,558</u>
depreciation				
Total capital assets	\$ <u>5,424</u>			<u>11,861</u>
being depreciated,				
net				

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2008, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$ 1,019,217	--	--	--	1,019,217
Capital projects	3,717,895	--	--	--	3,717,895
Other governmental	<u>190,624</u>	<u> --</u>	<u> --</u>	<u>204,383</u>	<u>395,007</u>
Total-governmental activities	<u>4,927,736</u>	<u> --</u>	<u> --</u>	<u>204,383</u>	<u>5,132,119</u>
Business-type activities:					
Solid Waste	\$ <u>171,148</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u>171,148</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.96% 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, 2007, and 2006 were \$1,133,203, \$1,040,592, and \$968,939, 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, 2007, the Separation Allowance's membership consisted of :

Retirees receiving benefits	3
Active plan members	40
Total	<u>43</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

2. Summary of Significant Accounting Policies:

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

3. Contributions

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$40,069, or 2.6% of covered payroll. There were no contributions made by employees.

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

The annual required contribution for the current year was determined as part of the December 31, 2007 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 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, 2007 was 23 years.

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 30,245	127.49 %	\$ (55,935)
2007	32,166	119.88	(62,330)
2008	30,254	131.69	(71,918)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2008

4. Funded Status and Funding Progress.

As of December 31, 2007, the most recent actuarial valuation date, the plan was 57.72 percent funded. The actuarial accrued liability for benefits was \$253,515, and the actuarial value of assets was \$146,330, resulting in an unfunded actuarial accrued liability (UAAL) of \$107,185.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,493,567, and the ratio of the UAAL to the covered payroll was 7.18 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report maybe obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. 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, 2008 were \$90,214, which consisted of \$77,468 from the County and \$12,746 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, 2008 to these plans were \$693,516 which consisted of \$507,531 from the County and \$185,985 from employees.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Register of Deeds' Supplemental Pension Fund, a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to one and one-half percent (1.5%) 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, 2008, the County's required and actual contributions were \$6,516.

f. Other Post Employment Benefits – Watauga County

Health Benefits

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

Death Benefits

The County has elected to provide death benefits to all eligible employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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 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, 2008 and 2007 amounted to \$72,417 and \$68,285, respectively. Payments of \$73,244 and \$71,281 were made for each fiscal year, respectively.

3. Groundwater Contamination/Landfill Closure

In March 1993, the County's engineers found groundwater contamination at the County's landfill site which exceeded State and Federal maximum contaminant levels for some constituents. On April 8, 1994, the County stopped accepting municipal solid waste at the County's landfill, and closure procedures were initiated. The County's engineers developed an assessment plan, which was approved by the NCDEHNR Solid Waste Management Division, to determine the extent,

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 - Detail Notes on All Funds (continued)

3. Groundwater Contamination/Landfill Closure cont'd

nature, and source of the contamination. The County installed groundwater monitoring wells in and around the landfill property to test for the presence of possible contaminants. On January 12, 1996, the County's engineers issued a Remedial Investigation and Alternative Report which proposed a remedial cap with some supplemental steps (including some continued assessment monitoring activities). In February 1996, the Board of Commissioners approved the engineer's proposal with some adjustments based on public comment. The County, after advertisement and bidding, awarded a contract for construction of the cap in May 1996. The approximate cost to date of the assessment and remedial cap is \$2,700,000. The capping project is complete and groundwater conditions remain stable. Groundwater testing continues, as required by NCDENR. Also, due to NCDENR directive, in fiscal year 2004/2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

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)	\$ 19,171	24,586
Prepaid taxes not yet earned (Special Revenue)	2,144	2,782
Prepaid user fees not yet earned (Enterprise)	178,136	178,136
Taxes receivable, net (General)	696,813	--
Taxes receivable, net (Special Revenue)	<u>78,011</u>	<u>--</u>
Total	\$ <u>974,275</u>	<u>205,504</u>

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in three self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these, pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$125.5 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits, and health insurance for county employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 - Detail Notes on All Funds (continued)

5. Risk Management

upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. For health insurance, the county is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through commercial carriers for individual losses in excess of \$100,000.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. The County also is eligible to and has purchased commercial flood insurance for another \$692,000 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

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, Register of Deeds, and County Manager are each individually bonded for \$50,000 each. The Sheriff is bonded for \$25,000.

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

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

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 with commercial companies that provide coverage for general liability in the amount of \$2,000,000.

6. Contingent Liabilities

At June 30, 2008, 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements.

b. Installment Purchase

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

The County has seven 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. On October 24, 2007, the loan terms were amended to reduce the interest rate from 5.2 percent to 3.84 percent annually for the remainder of the loan term. The loan terms now require quarterly principal and interest payments of \$70,337.

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.

The fifth installment purchase was executed 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. This note was paid in full at June 30, 2008.

The sixth and seventh installment purchase agreements were executed on April 10, 2008 to finance the construction of the new high school. One loan, for \$45 million, requires biannual interest payments at 4.17 percent and annual principal payments of \$2,250,000. The second loan, for \$25 million, requires biannual interest payments at 3.41 percent and a lump sum payment of \$25 million in June 2011.

The County also has two installment purchases 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

7. Long-term Obligations (continued)

The second installment purchase was executed on September 6, 2008 to finance the purchase of equipment. The agreement requires 12 quarterly payments of \$46,084, which includes interest at 3.79 percent.

For Watauga County, the future minimum payments as of June 30, 2008, including \$2,520,219 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2009	\$ 3,233,127	2,921,814	196,121	12,825
2010	3,156,314	2,791,564	178,222	5,971
2011	28,181,315	2,661,938	45,640	409
2012	2,722,318	1,679,065	--	--
2013	2,583,333	1,572,750	--	--
2014-2018	12,916,667	6,294,375	--	--
2019-2023	<u>22,833,333</u>	<u>5,167,125</u>	<u>--</u>	<u>--</u>
Principal payments	\$ <u>75,626,407</u>		<u>419,983</u>	
Total interest payments		\$ <u>23,088,631</u>		<u>19,205</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, 2008 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	\$ 2,250,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	3,490,000
\$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>3,015,000</u>
Total	\$ <u>8,755,000</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

7. Long-term Obligations (continued)

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
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	1,215,000	142,700
2014-2018	<u>2,355,000</u>	<u>135,920</u>
Total	\$ <u>8,755,000</u>	<u>1,351,995</u>

At June 30, 2008, Watauga County had a legal debt margin of \$657,359,122.

d. Advance Refunding

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 10,120,000	--	1,365,000	8,755,000	1,335,000
Installment purchases	13,612,483	70,000,000	7,986,076	75,626,407	2,921,814
Compensated absences	841,201	688,515	610,058	919,658	--
Total governmental activities	<u>\$ 24,573,684</u>	<u>70,688,516</u>	<u>9,961,134</u>	<u>85,301,065</u>	<u>4,256,814</u>
Business-type activities:					
Installment purchases	\$ 121,302	520,000	221,320	419,982	196,121
Compensated absences	62,910	50,650	35,506	78,054	--
Total business-type activities	<u>\$ 184,212</u>	<u>570,650</u>	<u>256,826</u>	<u>498,036</u>	<u>196,121</u>
Discretely presented component units:					
Compensated absences	\$ 46,382	41,225	33,798	53,809	53,809

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2008, consists of the following:

From the General Fund to the Capital Reserve Fund to accumulate resources for future capital acquisitions	\$ 4,340,700
From the Special Revenue Fund to the General Fund to reimburse For an expense paid	3,183
From the Special Revenue Fund to the General Fund to transfer fund balance allocable to landline E-911 revenues	75,903
From Special Revenue Fund to General Fund to close Special Revenue Fund	563
From the General Fund to the Special Revenue Fund for grant matching	117,920
From the Capital Reserve Fund to the General Fund for the new construction projects	4,395,387
From the Solid Waste Fund to the Debt Service Fund for debt service payments owed to the General Fund	81,948
From the General Fund to the Watauga High School Capital Project Fund for construction projects	6,346,219
From the Watauga High School Capital Project Fund to the Capital Reserve Fund for reimbursement of prior year construction expense	8,776,076
From the Watauga High School Capital Project Fund to the General Fund for reimbursement of prior year construction expense and debt payment	<u>7,286,653</u>
Total	\$ <u>31,424,552</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, 2008. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$462,200 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 4 - Joint Ventures continued

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board.

None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2008. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$556,584 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, 2008. 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 \$800,480 to Caldwell Community College and Technical Institute to supplement its activities. Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Benefit Payments Issued by the State (continued)

	<u>Federal</u>	<u>State</u>
Temporary assistance to need families	\$ 85,682	--
Medicaid	15,291,193	7,981,716
Food stamp program	2,049,751	--
Energy assistance	66,068	--
Adoption assistance	155,616	43,648
Adoption subsidy	--	46,591
Adult assistance	--	230,263
Title IV-E, Foster care	47,631	6,769
Links	4,116	200
Total	\$ <u>17,700,057</u>	<u>8,309,187</u>

Note 7 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

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

Note 8 - Interest on Unpaid Motor Vehicle Taxes

In 2005, the North Carolina General Assembly enacted House Bill #1779, which increased the first month interest due on delinquent motor vehicle taxes from 2 percent to 5 percent, beginning January 1, 2006. The additional interest was to be collected by the counties which levied the taxes and remitted to the Department of State Treasurer the 10th of every month, for use by the Division of Motor Vehicles to create a combined 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, 2008:

Beginning balance	\$ 869
Total interest collected:	11,305
Total interest remitted	<u>11,354</u>
Amount due to Department of State Treasurer as of June 30, 2008	\$ <u>820</u>

Note 9 - Prior Period Adjustments

During the fiscal year ended June 30, 2008, the County determined that the other taxes and licenses reported in the E-911 Telephone Surcharge Fund had been overstated in the prior years. Therefore, an adjustment to the beginning fund balance of the E-911 Telephone Surcharge Fund has been recorded to correct these oversights reported in prior years.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 9 - Prior Period Adjustment (continued)

Also during the year, the County determined that some grant revenues in the Special Revenue Funds had been overstated in the prior year, that some expenses had been paid from the General Fund should have been paid from the Special Revenue Funds, and that an administrative fee to be paid to the General Fund had been understated in the prior year. Therefore, adjustments to the General Fund and the Special Revenue Funds have been made to reflect these corrections.

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)
12/31/2002	\$ 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
12/31/2007	146,330	253,515	107,185	57.72	1,493,567	7.18

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	%
2001	\$ 15,203	100	
2002	24,419	100	
2003	27,067	100	
2004	30,843	100	
2005	30,962	100	
2006	32,874	100	
2007	30,943	100	
2008	24,577	100	

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	12/31/07
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	23 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, 2008

	2008		Variance
	Budget	Actual	
Revenues:			
Taxes - ad valorem:			
Current year	\$	25,540,936	
Prior years		355,489	
Advertising and interest		104,206	
Total Taxes - ad valorem	<u>25,549,318</u>	<u>26,000,631</u>	<u>451,313</u>
Local Option Sales Taxes:			
Article 39 and 44		8,234,519	
Article 40 one-half of one percent		2,109,971	
Article 42 one-half of one percent		2,079,702	
Total Taxes - Local Option Sales	<u>13,068,163</u>	<u>12,424,192</u>	<u>(643,971)</u>
Taxes - other:			
Real estate transfer tax		608,690	
ABC - .05/bottle		18,274	
Gross receipts tax - county		30,402	
Other		386,350	
Total Taxes - other	<u>812,070</u>	<u>1,043,716</u>	<u>231,646</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		13,182	
Total Unrestricted intergov. rev.	<u>13,000</u>	<u>13,182</u>	<u>182</u>
Restricted intergov. revenues:			
Grants-Federal & State		4,386,016	
Public School Facility Funds		--	
POA-Town of Boone		6,000	
Court facilities fees		158,359	
Total Restricted intergov. revenues	<u>4,898,900</u>	<u>4,550,375</u>	<u>(348,525)</u>
Permits and fees:			
Gun permits		22,560	
Serving civil summons		45,424	
Jail and officer fees		33,209	
Planning and inspection fees		321,125	
Marriage license		8,640	
Register of deeds fees		412,365	
Fire inspection fees		3,948	
Occupancy tax administrative fee		18,220	
E-911 telephone surcharge		21,999	
Total Permits and fees	<u>973,107</u>	<u>887,490</u>	<u>(85,617)</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,339	
Recreation department revenues		343,669	
Sales of tax maps		1,359	
Data processing fees		412	
Copy revenue		10,784	
NC DMV fees		104,022	
NC reimbursement for prisoners		115,394	
Tax collection fees-Towns		100,637	
Jail medical service		2,722	
Passport processing fees		25,496	
Other		103,898	
Total Sales and service	<u>819,175</u>	<u>823,732</u>	<u>4,557</u>
Investment earnings:			
Interest earned on investments	<u>569,211</u>	<u>753,145</u>	<u>183,934</u>
Miscellaneous:	<u>109,553</u>	<u>111,879</u>	<u>2,326</u>
TOTAL REVENUES	<u>46,812,497</u>	<u>46,608,342</u>	<u>(204,155)</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, 2008

	2008		Variance
	Budget	Actual	
EXPENDITURES:			
General Government			
Governing body:			
Operating expenses	63,013	62,149	864
Administration:			
Salaries and benefits		373,518	
Operating expenses		12,745	
Total Administration	402,707	386,263	16,444
Finance:			
Salaries and benefits		372,781	
Operating expenses		56,035	
Total Finance	447,784	428,816	18,968
Tax Supervisor:			
Salaries and benefits		1,013,814	
Operating expenses		112,014	
Capital Outlay		18,621	
Total Tax Supervisor	1,408,113	1,144,449	263,664
Tax Revaluation:			
Salaries and benefits		49,795	
Operating expenses		1,163	
Total Tax Revaluation	177,908	50,958	126,950
Tag office:			
Salaries and benefits		144,839	
Operating expenses		5,121	
Total Tag office	153,108	149,960	3,148
Legal Services:			
Operating expenses	81,000	41,090	39,910
Court facilities:			
Operating expenses		61,822	
Capital outlay		45,227	
Total Court facilities	107,254	107,049	205
Elections:			
Salaries and benefits		175,130	
Operating expenses		107,524	
Total Elections	366,985	282,654	84,331
Register of Deeds:			
Salaries and benefits		378,368	
Operating expenses		82,819	
Capital outlay		68,020	
Total Register of Deeds	643,892	529,207	114,685
General administration:			
Operating expenses	1,706,719	631,210	1,075,509
Information technologies:			
Salaries and benefits		237,551	
Operating expenses		203,745	
Capital outlay		101,394	
Total Information technologies	690,382	542,690	147,692

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, 2008

	2008		Variance
	Budget	Actual	
Maintenance:			
Salaries and benefits		1,131,569	
Operating expenses		61,276	
Capital Outlay		17,693	
Total Maintenance	1,241,746	1,210,538	31,208
Public Buildings			
Courthouse:			
Operating expenses		182,777	
Capital Outlay		328,290	
Total Courthouse	617,442	511,067	106,375
East Courthouse Annex:			
Operating expenses	134,942	28,185	106,757
Administration Building:			
Operating expenses	29,623	20,558	9,065
Emergency Management:			
Operating expenses	1,150	460	690
Hannah:			
Operating expenses	12,750	12,302	448
Animal Shelter:			
Operating expenses	9,408	6,527	2,881
Old Cove Creek School:			
Operating expenses	41,646	32,104	9,542
New Health Department:			
Operating expenses	60,455	51,243	9,212
Public Building-APPALCART:			
Operating expenses	3,681	3,678	3
New Library:			
Operating expenses	90,521	34,461	56,060
Tag office:			
Operating expenses	44,385	39,815	4,570
Caldwell College & Tech. Inst:			
Operating expenses	40,054	3,086	36,968
Watauga Comm. Center:			
Operating expenses	89,295	19,825	69,470
New Law Enforcement Center:			
Operating expenses		139,403	
Capital outlay		29,297	
Total New Law Enforcement Center	187,859	168,700	19,159
Law Enforcement Center:			
Operating expenses		569	
Capital outlay		530,620	
Total Law Enforcement Center	536,890	531,189	5701
West Courthouse Annex:			
Operating expenses	31,536	25,078	6,458
Human Services Center:			
Operating expenses	75,817	61,838	13,979

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, 2008

	2008		Variance
	Budget	Actual	
Appalachian Enterprise Center:			
Operating expenses		9,072	
Capital outlay		30,570	
Total Appalachian Enterprise Center	98,657	39,642	59,015
Recreation Administration Center:			
Operating expenses	4,116	1,469	2,647
Aquatics Center:			
Operating expenses		107,399	
Capital outlay		116,346	
Total Aquatics Center	273,596	223,745	49,851
Opt./Maintenance Facility:			
Operating expenses	36,232	31,539	4,693
Recreation Fields/Parks:			
Operating expenses		31,703	
Capital outlay		347,536	
Total recreation fields/parks	579,071	379,239	199,832
Brookshire Park:			
Operating expenses		13,739	
Capital outlay		1,128,958	
Total Brookshire Park	1,622,266	1,142,697	479,569
Total Public Buildings	4,621,392	3,368,447	1,252,945
Total General Government	12,112,003	8,935,480	3,176,523
Public Safety			
Sheriff's department:			
Salaries and benefits		2,187,701	
Operating expenses		307,615	
Capital outlay		268,285	
Total Sheriff's department	2,883,436	2,763,601	119,835
Communications:			
Salaries and benefits		418,597	
Operating expenses		40,129	
Capital outlay		25,564	
Total Communications	484,487	484,290	197
Governor's Crime Commission:			
Salaries and benefits	13,264	13,263	1
Domestic Violence-NCDCCPS:			
Salaries and benefits		39,396	
Operating expenses		1,959	
Total Domestic Violence-NCDCCPS	43,701	41,355	2,346
Jail:			
Salaries and benefits		1,176,695	
Operating expenses		585,148	
Total Jail	1,851,463	1,761,843	89,620
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		188,978	
Operating expenses		355,811	
Capital outlay		26,708	
Total Emerg. Mgt. & Fire Protect.	635,839	571,497	64,342
Valle Crucis Wastewater repair			
Operating expenses	550	--	550
Planning and Inspections:			
Salaries and benefits		622,389	
Operating expenses		74,075	
Capital outlay		56,114	

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, 2008

	2008		
	Budget	Actual	Variance
Total Planning and Inspections	814,906	752,578	62,328
Medical examiner:			
Operating expenses	22,200	22,200	--
Ambulance and rescue squad:			
Operating expenses	873,497	871,034	2,463
Animal control:			
Salaries and benefits		142,996	
Operating expenses		48,149	
Capital outlay		17,331	
Total Animal control	215,270	208,476	6,794
Forestry:			
Operating expenses	46,186	45,232	954
Total Public Safety	7,884,799	7,535,369	349,430
Economic & Physical Development			
Elderly & Disabled Transportation:			
Operating expenses	174,793	136,368	38,425
Special Appropriations:	515,117	510,696	4,421
Economic Development:			
Operating expenses	126,015	84,618	41,397
Cooperative extension:			
Salaries and benefits		214,712	
Operating expenses		16,248	
Total Cooperative extension	246,589	230,960	15,629
Soil conservation:			
Salaries and benefits		92,132	
Operating expenses		11,007	
Total Soil conservation	108,321	103,139	5,182
Total Economic & Physical Development	1,170,835	1,065,781	105,054
Human Services			
Public health:			
Operating expenses	556,584	556,584	--
Mental health:			
Operating expenses	302,043	298,802	3,241
Social services - admin.:			
Salaries and benefits		2,426,648	
Operating expenses		320,953	
Capital outlay		38,505	
Total Social services - admin.	2,877,485	2,786,106	91,379
Beneficiary payments:	1,902,202	1,782,155	120,047

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, 2008

	2008		Variance
	Budget	Actual	
State foster care and daycare			
Room & Board		6,000	
Other		2,072	
Purchase-daycare XX		809,068	
Total State foster care and daycare	939,182	817,140	122,042
Project on aging:			
Salaries and benefits		1,055,614	
Operating expenses		259,038	
Capital Outlay		1,553	
Total Project on aging	1,417,571	1,316,205	101,366
Veterans service officer:			
Salaries and benefits		97,588	
Operating expenses		2,873	
Total Veterans service officer	101,366	100,461	905
Total Human Services	8,096,433	7,657,453	438,980
Education			
Public Schools - current		10,572,492	
Public Schools - capital outlay		1,440,319	
Community College - current		800,480	
Community College - capital outlay		227,934	
Total Education	14,313,327	13,041,225	1,272,102
Cultural and recreational			
Library:			
Operating expenses	467,936	462,200	5,736
Recreation:			
Salaries and benefits		521,679	
Operating expenses		120,451	
Capital Outlay		2,501	
Total Recreation	667,390	644,631	22,759
Aquatics:			
Salaries and benefits		196,830	
Operating expenses		20,254	
Capital Outlay		3,832	
Total Aquatics	252,069	220,916	31,153
Recreation - Maintenance:			
Operating expenses		10,171	
Capital outlay		25,526	
Total Recreation- Maintenance	35,900	35,697	203
Total Cultural and recreational	1,423,295	1,363,444	59,851
Debt Service			
Principal retirement		9,351,076	
Interest & fees		1,242,881	
Total Debt Service	10,598,989	10,593,957	5,032
TOTAL EXPENDITURES	55,599,681	50,192,709	5,406,972
Excess (deficiency) of revenues over expenditures	(8,787,184)	(3,584,367)	5,202,817

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, 2008

	2008		Variance
	Budget	Actual	
OTHER FINANCING SOURCES (USES):			
Transfers to Capital Projects Fund	(6,013,022)	(6,346,219)	(333,197)
Transfers to Capital Reserve Fund	(4,340,700)	(4,340,700)	--
Transfers to CDBG Incubator	(90,632)	(117,920)	(27,288)
Transfers from Capital Projects Fund	7,286,653	7,286,653	--
Transfers from E-911 Telephone Surcharge Fund	--	75,903	75,903
Transfers from Disaster Relief Fund	--	563	563
Transfers from Substance Abuse Tax Fund	3,183	3,183	--
Transfers from Capital Reserve Fund	4,709,453	4,395,387	(314,066)
Transfers from Solid Waste Fund	81,948	81,948	--
Fund Balance Appropriated	7,150,301	--	(7,150,301)
TOTAL OTHER FINANCING SOURCES (USES)	8,787,184	1,038,798	(7,748,386)
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	--	(2,545,569)	(2,545,569)
Fund balances at beginning of year		23,314,584	
Prior period adjustments to record administrative fee from Occupancy tax fund and to transfer expense to rehabilitation fund		3,698	
Fund balances at end of year		\$ 20,772,713	

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

Special Revenue Funds											
	Substance Abuse Tax Fund	E-911 Telephone Surcharge Fund	Fire Districts Fund	Revaluation Fund	Occupancy Tax Fund	Disaster Relief Fund	CDBG Scattered Site Housing Fund	CDBG Incubator Fund	CDBG Rehabilitation Grant	CDBG Urgent Needs	Total Nonmajor Governmental Funds
ASSETS:											
Cash and cash equivalents	\$ 167,465	527,686	32,174	2,790	50,467	5,429	17,175	--	--	--	803,186
Accounts receivable, net	--	102,281	--	--	70,075	142,512	55,781	--	9,000	--	379,739
Taxes receivable, net	--	--	78,264	--	--	--	--	--	--	--	78,264
Total assets	\$ 167,465	629,967	110,438	2,790	120,542	147,941	72,956	--	9,000	--	1,261,189
LIABILITIES AND FUND BALANCE											
Liabilities:											
Accounts payable and accrued liabilities	3,048	11,147	30,283	--	120,542	5,429	17,175	--	3,000	--	190,624
Deferred revenue	--	--	80,155	--	--	--	--	--	--	--	80,155
Due to other funds	--	--	--	--	--	142,512	55,877	--	6,000	--	204,383
Total Liabilities	3,048	11,147	110,438	--	120,542	147,941	72,521	--	9,000	--	475,162
Fund Balances:											
Reserved by state statute	--	102,281	--	--	--	--	--	--	--	--	102,281
Unreserved	164,417	516,539	--	2,790	--	--	--	--	--	--	683,746
Total fund balances	164,417	618,820	--	2,790	--	--	--	--	--	--	786,027
Total liabilities and fund balances	\$ 167,465	629,967	110,438	2,790	120,542	147,941	72,521	--	9,000	--	1,261,189

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

Special Revenue Funds

	Substance Abuse Tax	E-911 Telephone Surcharge	Fire Districts Fund	Revaluation Funds	Occupancy Tax Fund	Disaster Relief Fund	Scattered Site Housing Fund	CDBG Incubator Fund	CDBG Rehabilitation Grant	CDBG Urgent Needs	Total Nonmajor Governmental Funds
REVENUES											
Ad valorem taxes	\$ --	--	2,042,285	--	--	--	--	--	--	--	2,042,285
Other taxes and licenses	--	106,022	--	--	821,796	--	--	--	--	--	927,818
Restricted intergovernmental	87,813	250,160	--	--	--	142,512	93,036	290,632	9,000	47,361	920,514
Investment earnings	2,486	11,644	--	81	--	--	--	--	--	--	14,211
Donations	203	--	--	--	--	--	--	--	--	--	203
Total revenues	90,502	367,826	2,042,285	81	821,796	142,512	93,036	290,632	9,000	47,361	3,905,031
EXPENDITURES											
Current:											
General government	--	--	--	--	821,796	--	--	408,552	6,000	47,361	1,286,709
Public safety	43,533	275,574	2,042,285	--	--	141,949	93,036	--	--	--	2,596,377
Capital outlay	--	13,624	--	--	--	--	--	--	--	--	13,624
Total expenditures	43,533	289,198	2,042,285	--	821,796	141,949	93,036	408,552	6,000	47,361	3,896,710
Excess (deficiency) of revenues over expenditures	46,969	78,628	--	81	--	563	--	(117,920)	3,000	--	8,321
OTHER FINANCING SOURCES (USES)											
Transfers to (from) other funds	(3,183)	(75,903)	--	--	--	(563)	--	117,920	--	--	38,271
Total other financing sources and uses	(3,183)	(75,903)	--	--	--	(563)	--	117,920	--	--	38,271
Net change in fund balances	43,786	2,725	--	81	--	--	--	--	3,000	--	46,592
Fund balances - beginning	120,631	631,083	--	2,709	698	--	--	--	103,358	--	858,479
Prior period adjustment	--	(14,988)	--	--	(698)	--	--	--	(106,358)	--	(119,044)
Fund balances - ending	\$ 164,417	618,820	--	2,790	--	--	--	--	--	--	786,027

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, 2008

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Restricted intergovernmental	\$ 94,214	87,813	(6,401)
Investment Earnings	--	2,486	2,486
Donations	--	203	203
Total revenues	<u>94,214</u>	<u>90,502</u>	<u>(3,712)</u>
Expenditures:			
Public Safety	94,214	43,533	50,681
Total expenditures	<u>94,214</u>	<u>43,533</u>	<u>50,681</u>
Excess (deficiency) of revenues over expenditures	<u>--</u>	<u>46,969</u>	<u>46,969</u>
Other financing sources (uses)			
Transfers to other funds	(3,183)	3,183	--
Appropriated fund balance	3,183	--	(3,183)
Total other financing sources (uses)	<u>--</u>	<u>(3,183)</u>	<u>(3,183)</u>
Excess (deficiency) of revenue and other financing sources (uses) over expenditures	<u>\$ --</u>	<u>43,786</u>	<u>43,786</u>
Fund balance at beginning of year		<u>120,631</u>	
Fund balance at end of year		<u>\$ 164,417</u>	

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, 2008

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Other taxes and licenses: 911 subscriber fees	\$ 270,000	106,022	(163,978)
Restricted intergovernmental: Wireless 911 funds	95,000	250,160	155,160
Investment earnings	5,000	11,644	6,644
Total revenues	<u>370,000</u>	<u>367,826</u>	<u>(2,174)</u>
Expenditures:			
Public safety:			
911 system subscriber fees:			
Salaries and employee benefits	72,407	63,649	8,758
Operating expenses	251,626	190,492	61,134
Capital outlay	17,600	13,624	3,976
Total 911 system subscriber fees	<u>341,633</u>	<u>267,765</u>	<u>73,868</u>
Wireless 911:			
Project Revenues	52,807	21,433	31,374
Capital Outlay	--	--	--
Total Wireless 911	<u>52,807</u>	<u>21,433</u>	<u>31,374</u>
Total expenditures	<u>394,440</u>	<u>289,198</u>	<u>105,242</u>
Excess (deficiency) of revenues over expenditures	<u>(24,440)</u>	<u>78,628</u>	<u>103,068</u>
Other Financing Sources (Uses):			
Transfers to other funds	--	(75,903)	(75,903)
Appropriated fund balance	24,440	--	(24,440)
Total Other Financing Sources	<u>24,440</u>	<u>(75,903)</u>	<u>(100,343)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ --</u>	<u>2,725</u>	<u>2,725</u>
Fund balance at beginning of year		631,083	
Prior period adjustment to correct prior year revenues		<u>(14,988)</u>	
Fund balance at end of year		<u>\$ 618,820</u>	

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, 2008

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 2,052,411	2,042,285	(10,126)
Total revenues	2,052,411	2,042,285	(10,126)
Expenditures:			
Public safety:			
Beaver Dam Fire District	106,208	106,805	(597)
Blowing Rock Fire District	250,159	249,669	490
Boone Fire District	282,410	275,040	7,370
Cove Creek Fire District	204,620	204,832	(212)
Deep Gap Fire District	167,365	167,319	46
Foscoe Fire District	419,947	417,245	2,702
Meat Camp Fire District	118,572	118,920	(348)
Meat Camp/Creston Fire District	3,499	3,650	(151)
Shawneehaw Fire District	85,709	86,023	(314)
Stewart Simmons Fire District	202,936	202,233	703
Todd Fire District	39,537	39,261	276
Zionville Fire District	105,567	105,693	(126)
Beech Mountain Fire Service District	1,343	1,167	176
Cove Creek Fire Service District	248	301	(53)
Foscoe Fire Service District	59,841	59,848	(7)
Shawneehaw Fire Service District	4,450	4,279	171
Total expenditures	2,052,411	2,042,285	10,126
Excess (deficiency) of revenues over expenditures	\$ <u> --</u>	<u> --</u>	<u> --</u>
Fund balance at beginning of year		<u> --</u>	
Fund balance at end of year		<u>\$ <u> --</u></u>	

WATAUGA COUNTY, NORTH CAROLINA
 Revaluation Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2008

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Investment earnings	\$ --	81	81
Expenditures:			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	81	81
Other Financing Sources (Uses):			
Transfer to other funds	--	--	--
Appropriated fund balance	--	--	--
Total other financing sources	--	--	--
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	81	81
Fund balance at beginning of year		2,709	
Fund balance at end of year		\$ 2,790	

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, 2008

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes and licenses	\$ 745,000	821,796	76,796
Investment income	14,000	--	(14,000)
	Total revenues	821,796	62,796
	759,000	821,796	62,796
Expenditures:			
Tourism Development	759,000	803,576	(44,576)
Administrative fee	--	18,220	(18,220)
	Total expenditures	821,796	(62,796)
	759,000	821,796	(62,796)
Excess (deficiency) of revenues over expenditures	--	--	--
Fund balance at beginning of year		698	
Prior year adjustment to correct administrative fee sent to General Fund		(698)	
Fund balance at end of year		\$ --	

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, 2008

2008

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental	\$ 166,500	17,702	142,512	160,214	(6,286)
Total revenues	<u>166,500</u>	<u>17,702</u>	<u>142,512</u>	<u>160,214</u>	<u>(6,286)</u>
Expenditures:					
Public Safety	166,500	17,702	141,949	159,651	6,849
Total expenditures	<u>166,500</u>	<u>17,702</u>	<u>141,949</u>	<u>159,651</u>	<u>6,849</u>
Excess (deficiency) of revenues over expenditures	\$ --	--	563	563	563
Other Financing Sources (uses):					
Transfer to General Fund	--	--	(563)	(563)	(563)
Excess (deficiency) of revenues over expenditure and other financing sources (uses)	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund balance at beginning of year			<u>--</u>		
Fund balance at end of year			<u>\$ --</u>		

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Scattered Site Housing
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2008

	2008				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 400,000	232,337	93,036	325,373	(74,627)
Total revenues	400,000	232,387	93,036	325,373	(74,627)
Expenditures:					
Residence rehabilitation	356,500	218,837	70,036	288,873	67,627
Grant administration	43,500	13,500	23,000	36,500	7,000
Total expenditures	400,000	232,337	93,036	325,373	74,627
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year		\$ --	--		

WATAUGA COUNTY, NORTH CAROLINA
CDBG-Incubator
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	2008				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 290,632	--	290,632	290,632	--
Total revenues	290,632	--	290,632	290,632	--
Expenditures:					
Capital improvements	381,264	--	408,552	408,552	(27,288)
Total expenditures	381,264	--	408,552	408,552	(27,288)
Excess (deficiency) of revenues over expenditures	\$ (90,632)	--	(117,920)	(117,920)	(27,288)
Other Financing Sources (uses):					
Transfer from General Fund	90,632	--	117,920	117,920	27,288
Total other financing sources (uses)	90,632	--	117,920	117,920	27,288
Excess (deficiency) of revenues over expenditures	--	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year			\$ --		

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, 2008

	2008				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 210,750	287,952	9,000	296,952	86,202
Total revenues	210,750	287,952	9,000	296,952	86,202
Expenditures:					
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	63,000	6,000	69,000	(15,000)
Total expenditures	210,750	184,594	6,000	190,594	20,156
Excess (deficiency) of revenues over expenditures	\$ --	--	3,000	<u>106,358</u>	<u>106,358</u>
Fund balance at beginning of year			103,358		
Prior period adjustment to correct revenues credited to wrong fund and expense paid from wrong fund				<u>(106,558)</u>	
Fund balance at end of year			\$ --		

WATAUGA COUNTY, NORTH CAROLINA
 CDBG Urgent Needs
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2008

	2008				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 697,449	222,552	47,361	269,913	(427,536)
Total revenues	697,449	222,552	47,361	269,913	(427,536)
Expenditures:					
Residence rehabilitation	454,248	205,753	21,989	227,742	226,506
Sewer improvements	160,000	--	--	--	160,000
Grant administration	83,201	16,799	25,372	42,171	41,030
Total expenditures	697,449	222,552	47,361	269,913	427,536
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year			\$ --		

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, 2008

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Investment earnings	\$ --	1,008	266,537	267,545	267,545
Expenditures:					
Capital Projects	73,473,097	8,271,166	11,532,365	19,803,531	53,669,566
Excess (deficiency) of revenues over expenditures	<u>73,473,097</u>	<u>(8,270,158)</u>	<u>(11,265,828)</u>	<u>(19,535,986)</u>	<u>53,937,111</u>
Other financing sources (uses):					
Operating transfers - in (out):					
From Capital Reserve Fund	6,461,192	3,139,490	5,876,729	9,016,219	2,555,027
From General Fund	6,138,634	208,000	6,346,219	6,554,219	415,585
To Capital Reserve Fund	(8,776,076)	--	(8,776,076)	(8,776,076)	--
To General Fund	(7,286,653)	--	(7,286,653)	(7,286,653)	--
Loan proceeds	76,936,000	6,936,000	70,000,000	76,936,000	--
Total other financing sources (uses)	<u>73,473,097</u>	<u>10,283,490</u>	<u>66,160,219</u>	<u>76,443,709</u>	<u>2,970,612</u>
Increase (decrease) in fund balance	\$ <u><u>--</u></u>	<u><u>2,013,332</u></u>	54,894,391	<u><u>56,907,723</u></u>	<u><u>56,907,723</u></u>
Fund balance at beginning of year			<u>2,013,332</u>		
Fund balance at end of year			\$ <u><u>56,907,723</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, 2008

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Investment earnings	\$ --	1,008	266,537	267,545	267,545
Expenditures:					
Capital Projects	76,687,514	8,271,166	11,532,365	19,803,531	56,883,983
Excess (deficiency) of revenues over expenditures	76,687,514	(8,270,158)	(11,265,828)	(19,535,986)	57,151,528
Other financing sources (uses):					
Operating transfers - in (out):					
From capital reserve fund	817,145	3,139,490	(2,899,347)	240,143	(577,002)
From general fund	5,870,369	280,000	5,995,566	6,203,566	333,197
Loan proceeds	70,000,000	6,936,000	63,064,000	70,000,000	--
Total other financing sources (uses)	<u>76,687,514</u>	<u>10,283,490</u>	<u>66,160,219</u>	<u>76,443,709</u>	<u>(243,805)</u>
Increase (decrease) in fund balance	\$ --	<u>2,013,332</u>	54,894,391	<u>56,907,723</u>	<u>56,907,723</u>
Fund balance at beginning of year			--		
Fund balance at end of year			<u>\$ 56,907,723</u>		

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures
Budget and Actual (NON-GAAP)
For the Fiscal Year Ended June 30, 2008

	2008	
	Budget	Actual
Revenues:		
Operating revenues:		
Landfill charges	\$	4,247,897
Restricted intergovernmental revenues		80,064
Total	4,185,060	4,327,961
Non-operating revenues:		
Investment earnings	55,293	96,492
Total revenues	4,240,353	4,424,453
 EXPENDITURES:		
Landfill operations:		
Salaries and employee benefits		1,068,016
Other operating expenditures		3,048,664
Total	4,468,434	4,116,680
Budgetary appropriations		
Interest paid		15,842
Debt principal		221,316
Capital outlay		876,011
Total budgetary appropriations	1,595,501	1,113,169
Total expenditures	6,063,935	5,229,849
Revenues under expenditures	(1,823,582)	(805,396)
Other financing sources (uses):		
Transfers to general fund for debt payment	(81,948)	(81,948)
Loan proceeds	520,000	520,000
Appropriated fund balance	1,385,530	--
Total other financing sources (uses):	1,823,582	438,052
Revenues over expenditures and other sources (uses)	\$ --	(367,344)
Reconciliation from budgetary basis (modified accrual) to full accrual:		
Reconciling items:		
Capital outlays		876,011
Depreciation		(209,998)
Loan proceeds		(520,000)
Payment of debt principal		221,316
Increase in accrued vacation pay		(15,144)
Total reconciling items		352,185
Change in net assets		\$ (15,159)

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Social Services:				
Assets:				
Cash and Investments	\$ 20,968	186,887	185,523	22,332
Liabilities:				
Accounts Payable	\$ 20,968	186,887	185,523	22,332
Health Benefits:				
Assets:				
Cash and Investments	259,707	68,280	--	327,987
Liabilities:				
Accounts Payable	259,707	68,280	--	327,987
Vehicle Tax-Towns:				
Assets:				
	2,863	107,983	107,170	3,676
Liabilities:				
Accounts Payable	2,863	107,983	107,170	3,676
Jail Commissary:				
Assets:				
Cash and Investments	5,194	87,283	81,431	11,046
Liabilities:				
Accounts Payable	5,194	87,283	81,431	11,046
Fines and Forfeitures:				
Assets:				
Cash and Investments	--	370,134	370,134	--
Liabilities:				
Accounts Payable	--	370,134	370,134	--
Motor Vehicle Tax Fund:				
Assets:				
Cash and Investments	869	11,305	11,354	820
Liabilities:				
Accounts Payable	869	11,305	11,354	820
Total - All Agency Funds				
Assets:				
Cash and Investments	\$ 289,601	831,872	755,612	365,861
Liabilities:				
Accounts Payable	\$ 289,601	831,872	755,612	365,861

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2008

Fiscal year:	Uncollected Balance June 30, 2007	Additions	Collections and Credits	Uncollected Balance June 30, 2008
2007 - 2008	\$ --	26,097,637	\$25,540,936	556,701
2006 - 2007	433,267	--	\$271,645	161,622
2005 - 2006	134,594	--	45,965	88,629
2004 - 2005	81,128	--	20,281	60,847
2003 - 2004	64,945	--	9,485	55,460
2002 - 2003	57,393	--	5,711	51,682
2001 - 2002	47,685	--	3,811	43,774
2000 - 2001	40,071	--	2,334	37,737
1999 - 2000	33,485	--	1,103	32,382
1998 - 1999	33,358	--	887	32,471
1997 - 1998	26,903	--	26,903	--
	<u>\$ 952,829</u>	<u>26,097,637</u>	<u>25,929,161</u>	<u>1,121,305</u>
Plus: 2008 - 2009 receivable				5,432
Less: allowance for uncollectible accounts General Fund				<u>(439,791)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 686,946</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$	25,996,799
Reconciling items:			
Advertising and interest collected	(104,206)		
Taxes written off	26,771		
Prior year release refunds	<u>5,965</u>		
Total reconciling items			<u>(71,470)</u>
Total collections and credits		\$	<u>25,925,329</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-Wide Levy
 For the Fiscal Year Ended June 30, 2008

	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	\$ 7,874,030,422	\$ 0.313	24,645,387	\$ 24,645,387	--
Motor vehicles	394,828,121	0.313	1,236,783	--	1,236,783
Penalties	--		9,379	9,379	--
Total	<u>8,268,858,543</u>		<u>25,891,549</u>	<u>24,654,766</u>	<u>1,236,783</u>
Discoveries:					
Current year taxes	78,506,780	0.313	245,695	245,695	--
Prior year taxes	--		24,892	24,892	--
Penalties	--		257	257	--
Total	<u>78,506,780</u>		<u>270,844</u>	<u>270,844</u>	<u>--</u>
Abatements:	<u>(20,688,792)</u>		<u>(64,756)</u>	<u>(43,693)</u>	<u>(21,063)</u>
Total property valuation	<u>\$ 8,326,676,531</u>				
Net levy			26,097,637	24,881,917	1,215,720
Uncollected taxes at June 30, 2008			<u>556,701</u>	<u>440,547</u>	<u>116,154</u>
Current year's taxes collected			<u>\$ 25,540,936</u>	<u>24,441,370</u>	<u>1,099,566</u>
Current levy collection percentage			<u>97.87%</u>	<u>98.23%</u>	<u>90.45%</u>

WATAUGA COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2008

Statement 18-A

Secondary Market Disclosures:

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 7,672,731,214
Personal Property	581,122,162
Public Service Companies	<u>72,823,155</u>
Total Assessed Valuation	8,326,676,531
Tax Rate per \$100	<u>0.313</u>
Levy (includes discoveries, releases and abatements)	\$ <u><u>26,097,637</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>2,053,616</u></u>
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**WATAUGA COUNTY, NORTH CAROLINA
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2008**

Statement 18-B

Taxpayer	Type of Business	2007 Assessed Valuation	Percentage of Total Assessed Valuation
Ginn LA Laurel Creek LTD	Real Estate Development	\$ 249,009,100	2.99 %
Blue Ridge Electric	Electric Utility	50,022,978	0.60
Spiritual Center of America	Resort/Real Estate	27,925,800	0.34
Mountaineer Village LLC	Rental Properties	25,769,700	0.31
Village at Meadowview of Boone LTD	Rental Properties	21,250,100	0.26
Lowe's Home Centers	Home Supply Center	21,559,300	0.26
Appalachian South	Rental Properties	20,297,100	0.24
BellSouth	Telephone Utility	17,529,432	0.21
Maharishi Spiritual Center of America	Resort/Real Estate	15,974,000	0.19
Heavenly Mountain Resort Inc	Resort / Real Estate	<u>15,398,620</u>	<u>0.18</u>
		<u>\$ 464,736,130</u>	<u>5.58 %</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Fiscal Year Ended June 30, 2008

	Beaver Dam Fire District	Beech Mtn. Rural Fire Service District	Blowing Rock Rural Fire District	Boone Rural Fire District	Cove Creek Fire District	Cove Creek Rural Fire Service District	Deep Gap Fire District	Foscoe Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.02</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 106,088	1,184	251,836	281,498	203,891	301	169,033	416,471
Uncollected taxes at June 30, 2008	<u>2,785</u>	<u>17</u>	<u>5,054</u>	<u>11,680</u>	<u>4,969</u>	<u>--</u>	<u>4,572</u>	<u>6,649</u>
Current year's taxes collected	\$ <u>103,303</u>	<u>1,167</u>	<u>246,782</u>	<u>269,818</u>	<u>198,922</u>	<u>301</u>	<u>164,461</u>	<u>409,822</u>
Current levy collection percentage	<u>97.37%</u>	<u>98.56%</u>	<u>97.99%</u>	<u>95.85%</u>	<u>97.56%</u>	<u>100.00%</u>	<u>97.28%</u>	<u>98.40%</u>
	Foscoe Rural Fire Service District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawnheehaw Fire District	Shawnheehaw Rural Fire Service District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.03</u>	<u>0.05</u>
Net levy	\$ 60,705	118,836	3,643	85,505	4,460	205,046	39,743	105,424
Uncollected taxes at June 30, 2008	<u>856</u>	<u>3,446</u>	<u>318</u>	<u>1,510</u>	<u>181</u>	<u>5,038</u>	<u>1,134</u>	<u>3,351</u>
Current year's taxes collected	\$ <u>59,849</u>	<u>115,390</u>	<u>3,325</u>	<u>83,995</u>	<u>4,279</u>	<u>200,008</u>	<u>38,609</u>	<u>102,073</u>
Current levy collection percentage	<u>98.59%</u>	<u>97.10%</u>	<u>91.27%</u>	<u>98.23%</u>	<u>95.94%</u>	<u>97.54%</u>	<u>97.15%</u>	<u>96.82%</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, 2008, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated November 7, 2008. 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. We did not identify any 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.

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.

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.

November 7, 2008

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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, 2008. 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, 2008.

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.

November 7, 2008

WATAUGA COUNTY, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2008

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: \$ 612,154

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, 2008

State Awards

Internal control over major State Programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses Yes 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 No

Identification of major State programs:

Program Name

Subsidized Childcare cluster

Title XIX Medicaid

II. Financial Statement Findings:

There were no findings.

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, 2008

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.

Finding 2007

Status: The County has hired another person with sufficient expertise to help monitor the auditor's drafting of the financial statements and is in the process of developing a schedule to phase in the procedures of drafting the financial statements in house with the assistance of the auditors.

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2008

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Federal Grants:					
U.S. Dept. of Agriculture					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Food Stamp Cluster:					
Food Stamp Program-Noncash	10.551		\$ 2,049,751	--	--
State Administrative Matching Grants for the Food Stamp Program	10.561		<u>239,167</u>	--	<u>239,167</u>
Total Food Stamp Cluster			<u>2,288,918</u>	--	<u>239,167</u>
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		26,978	--	--
Passed-through the N.C. Division of Emergency Management:					
Watershed Protection and Flood Prevention	10.906		--	<u>142,512</u>	--
Total U.S. Dept. of Agriculture			<u>2,315,896</u>	<u>142,512</u>	<u>239,167</u>
U.S. Dept. of Housing and Urban Development					
Passes-through the N.C. Dept of Crime Control and Public Safety					
Community Development Block Grant	14.228	05-E-1498	100,000	--	--
Community Development Block Grant	14.228	04-C-1346	47,361	--	--
Community Development Block Grant	14.228	06-C-1541	9,000	--	--
Community Development Block Grant	14.228		93,036	--	--
Community Development Block Grant	14.228	06-A-1561	<u>190,632</u>	--	<u>117,920</u>
Total U.S. Dept. of Housing and Urban Development			<u>440,029</u>	--	<u>117,920</u>
U.S. Dept of Homeland Security					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Hazardous Material Emergency Preparedness Planning					
	97.021		4,158	--	--
Emergency Management Performance Grant					
	97.042		17,709	--	17,709
Emergency Management Supplemental					
	97.042		<u>4,853</u>	--	<u>4,853</u>
Total U.S. Dept of Homeland Security			<u>26,720</u>	--	<u>22,562</u>
U.S. Dept. of Justice					
State Criminal Alien Assistance Program					
	16.606		5,783	--	--
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Edward Byrne Memorial Justice Assistance Grant Program					
	16.738		8,115	--	2,705
Domestic Violence Intervention Program					
	16.588		42,338	--	14,113
Domestic Violence Equipment Grant					
	16.588		8,531	--	2,844
Bulletproof vests Partnership Program					
	16.607		1,309	--	--
Total U.S. Dept of Justice			<u>66,076</u>	--	<u>19,662</u>
U.S. Dept. of Health & Human Services					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		2,349	138	276
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		14,229	56,130	7,818
Special Programs for the Aging - Title III C					
Nutritional Services					
	93.045		68,051	38,789	11,872
Senior Center					
Family Caregiver Support Program	93.052		--	22,653	87
Social Services Block Grant (SSBG)			6,074	405	720
In-home Services	93.667		<u>8,230</u>	<u>43,793</u>	<u>5,780</u>
Total Aging Cluster			<u>98,933</u>	<u>161,908</u>	<u>26,553</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		230,271	--	176,555
Direct Benefit Payments	93.558		85,682	--	--
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		97,844	--	--
Direct Benefit Payments	93.568		66,068	--	--

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2008

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
U.S. Dept. of Health & Human Services (cont.)					
Child Welfare Services	93.645		12,351	3,174	942
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	46,591	9,843
Title IV-E Foster Care	93.658		120,960	10,918	92,931
Foster Care - Direct Benefit Payments	93.658		47,631	6,769	19,854
Adoption Assistance - Administration	93.659		105	--	105
Adoption Assistance - Direct Benefit Payments	93.659		155,616	43,648	43,648
Social Services Block Grant	93.667		164,920	30,080	55,543
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		267,155	--	--
Child Care and Development					
Fund - - Mandatory	93.596		106,830	--	--
Child Care and Development					
Fund - - Match	93.596		105,828	59,154	--
Total Child Care Development Fund Cluster			<u>539,813</u>	<u>59,154</u>	<u>--</u>
Social Services Block Grant	93.667		3,398	--	--
Temporary Assistance for Needy Families	93.558		91,114	--	--
Smart Start			--	76,751	--
TANF - Maintenance of Effort			--	97,408	--
Total Subsidized Child Care (Note 3)			<u>634,325</u>	<u>233,313</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		15,291,193	7,981,716	1,052,260
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		459,467	24,717	423,352
Health Choice	93.767		27,102	1,321	7,730
Links	93.674		3,822	955	--
Links- Direct Benefit Payments	93.674		4,116	200	--
Passed-through N.C. Department of Insurance:					
Senior Health Insurance Information	93.779		5,000	--	--
Passed-through the N.C. State Board of Elections					
Help America Vote Act of 2002	93.617		46,200	--	--
One Stop Site	93.617		4,818	--	--
Total U.S. Department of Health & Human Services			<u>17,556,424</u>	<u>8,587,610</u>	<u>1,909,316</u>
Total Federal Awards			<u>20,405,145</u>	<u>8,730,122</u>	<u>2,308,627</u>
State Awards:					
N.C. Dept. of Health and Human Services					
Division of Social Services					
State/County Special Assistance for Adults-					
Direct Benefit Payments			--	230,263	230,263
State Foster Care Benefits Program			--	15,453	15,453
Program Integrity			--	59	--
State Aid to Counties			--	20,725	--
State Adult Protective Service			--	25,460	--
Total N.C. Dept. of Health and Human Services			<u>--</u>	<u>291,960</u>	<u>245,716</u>

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2008

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Office of the Governor					
Department of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention Council Programs			--	121,212	34,869
Total Office of the Governor			--	121,212	34,869
N.C. Dept. of Public Instruction					
Public School National Forest Service			--	324	--
Total N.C. Dept. of Public Instruction			--	324	--
N.C. Dept. of Transportation					
Workfirst/Employment Transportation Operating Assistance			--	6,838	--
Elderly and Disabled Transportation Assistance Program (E&DTAP)			--	70,405	--
Rural General Public Program			--	66,448	--
Total N.C. Dept. of Transportation			--	143,691	--
N.C. Dept. of Environment, Health, and Natural Resources					
Soil Conservation Assistance			--	4,000	55,997
Soil Conservation Cost Sharing			--	21,571	21,571
Division of Waste Management Scrap Tire Disposal Grant			--	11,885	--
Total N.C. Dept. of Environment, Health, and Natural Resources			--	37,456	77,568
N.C. Dept. of Corrections					
Criminal Justice Partnership Program		95-0706-I-A	--	62,564	--
N.C. Division of Veteran's Affairs					
Veteran's Service Program			--	2,000	98,461
Total State awards			--	659,207	456,614
Total federal and State awards			\$ 20,405,145	9,389,329	2,765,241

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	\$ 2,049,751	--
Temporary Assistance for Needy Families	93.558	85,682	--
Medical Assistance Program	93.778	15,291,193	7,981,716
Low Income Home Energy Assistance Block Grant	93.568	66,068	--
Child Welfare - Adoption Subsidy	93.645	--	46,591
Foster Care	93.658	47,631	6,769
Adoption Assistance	93.659	155,616	43,648
Links	93.674	4,116	200
Adult Assistance	--	--	230,263

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