



WATAUGA COUNTY, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

BRYCE HOLDER, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
BOONE, NORTH CAROLINA 28607



WATAUGA COUNTY, NORTH CAROLINA

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Stacy C. Eggers, IV

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JoAnn Townsend

Register of Deeds

Larry Warren

Tax Administrator

Watauga County, North Carolina
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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Watauga County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Watauga County District U Tourism Development Authority and AppalCart. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Watauga County District U Tourism Development Authority and 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 from material misstatement. The financial statements of Watauga County District U Tourism Development Authority were not audited in accordance with Governmental Auditing Standards.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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 June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and the other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 39 and 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2013 on our consideration of Watauga County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watauga County's internal control over financial reporting and compliance.

*Bryce Holder, CPA, PA
Boone, NC
October 31, 2013*

MANAGEMENT DISCUSSION
AND ANALYSIS

Watauga County

Year Ended June 30, 2013

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, 2013. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the County's financial statements and notes which follow this narrative.

Financial Highlights

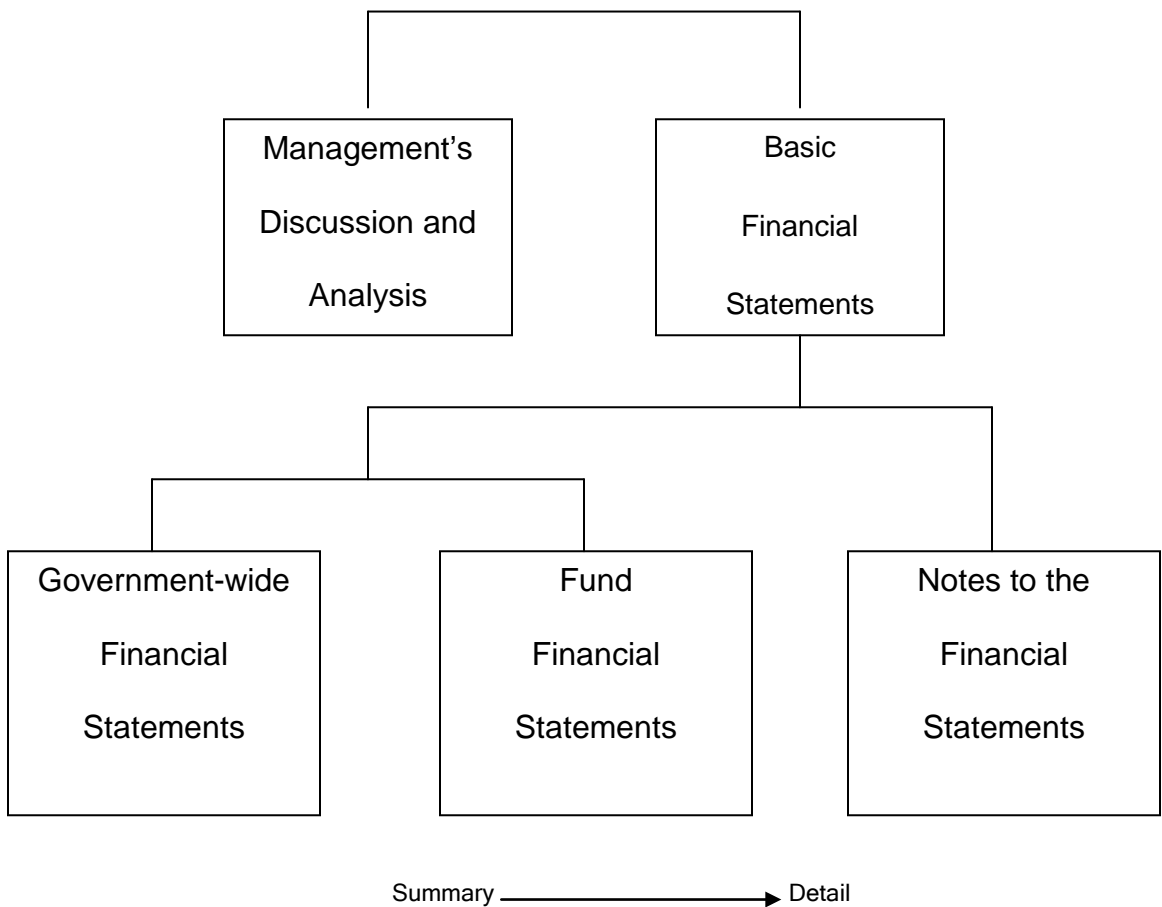
- The assets of the County exceeded its liabilities at the close of the fiscal year by \$118,828,983.
- The County's total net position increased by \$4,669,912 primarily due to an increase in revenues and a reduction in expenditures over last year.
- The County's unassigned fund balance for the general fund was \$14,653,916 at the end of the year, representing 31.73% of total General Fund expenditures. This is an increase of \$1,170,236 in unassigned fund balance over the previous year.
- With savings from the prior year's refinance of the two high school loans, an additional principle amount of \$329,113 was made to reduce County outstanding debt.
- Due to savings in the old high school demolition project, \$100,000 was set aside for future community college building projects. This is the first funding for future capital projects since the recession began.

Overview of the Financial Statements

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

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

**Required Components of Annual Financial Report
Figure 1**



Basic Financial Statements

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

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

The next sections of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

Directly following the notes is the **required supplemental information**. This section contains funding information about the County's pension plan and the other postemployment benefits plan.

After the required supplemental information, **supplemental information** is provided to show details about the County's non-major governmental funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes solid waste services offered by Watauga County. The final category is the component units. AppalCART is a separate governmental entity, which operates a transportation authority in Watauga County. Watauga County Board of Commissioners appoints the 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 six voting members of the Authority Board are appointed by the County Board of Commissioners.

Fund Financial Statements

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

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

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

Proprietary Funds - Watauga County has one proprietary fund. Enterprise funds are used to report the same functions presented as business-like activities in the government-wide financial statements. Watauga County uses enterprise funds to account for its solid waste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Position and Statement of Activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has nine fiduciary funds, two of which are pension trust funds and the other seven are agency funds.

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

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information can be found beginning on page 39 of this report.

Government-Wide Financial Analysis

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

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
	Current and other assets	\$ 28,839,101	28,563,130	4,002,844	3,763,548	32,841,945
Capital assets	<u>146,450,379</u>	<u>148,003,342</u>	<u>5,057,803</u>	<u>5,341,586</u>	<u>151,508,182</u>	<u>153,344,928</u>
Total asset	<u>175,289,480</u>	<u>176,566,472</u>	<u>9,060,647</u>	<u>9,105,134</u>	<u>184,350,127</u>	<u>185,671,606</u>
Long-term liabilities, outstanding	57,154,795	64,262,189	107,334	108,488	57,262,129	64,370,677
Other liabilities	<u>7,729,669</u>	<u>6,770,957</u>	<u>131,765</u>	<u>370,901</u>	<u>7,861,434</u>	<u>7,141,858</u>
Total liabilities	<u>64,884,464</u>	<u>71,033,146</u>	<u>239,099</u>	<u>479,389</u>	<u>65,123,563</u>	<u>71,512,535</u>
Net position:						
Net investment in capital assets	91,969,492	89,000,011	5,057,803	5,272,997	97,027,295	94,273,008
Restricted	5,133,954	3,492,687	-	-	5,133,954	3,492,687
Unrestricted	<u>13,073,927</u>	<u>13,040,628</u>	<u>3,593,807</u>	<u>3,352,748</u>	<u>16,667,734</u>	<u>16,393,376</u>
Total net position	\$ <u>110,177,373</u>	<u>105,533,326</u>	<u>8,651,610</u>	<u>8,625,745</u>	<u>118,828,983</u>	<u>114,159,071</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$118,828,983 at June 30, 2013. The County's net position increased by \$4,669,912 for the fiscal year ended June 30, 2013. Net position is reported in three categories: Net investment in capital assets of \$97,027,295, Restricted net position of \$5,133,954 and Unrestricted net position of \$16,667,734.

The net investment in capital assets is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2013, the increase in this category of net position is due to current year debt reductions causing a significant increase.

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

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

Several particular aspects of the County's financial operations affected the reporting of total unrestricted net position:

- Continued diligent management of the operational budget expenditures
- use of grant revenues as available to replace or supplement other County revenue sources
- Careful monitoring of the County's fiscal condition throughout the year

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services	1,397,756	1,229,275	4,030,200	4,047,422	5,427,956	5,276,697
Operating grants and contributions	4,737,368	5,000,932	119,216	156,484	4,856,584	5,157,416
Capital grants	967,309	382,903	-	-	967,309	382,903
General revenues:						
Property taxes	30,805,481	30,571,565	-	-	30,805,481	30,571,565
Other taxes	12,517,867	12,564,370	-	-	12,517,867	12,564,370
Grant and contributions not restricted to specific programs	21,957	22,986	-	-	21,957	22,986
Donations	-	-	-	-	-	-
Other	442,317	549,970	29,201	71,921	471,518	621,891
Total revenues	50,890,055	50,322,001	4,178,617	4,275,827	55,068,672	54,597,828
Expenses:						
General government	8,687,043	9,080,312	-	-	8,687,043	9,080,312
Public safety	11,953,270	11,511,254	-	-	11,953,270	11,511,254
Economic and physical development	669,236	898,594	-	-	669,236	898,594
Environment protection	354,039	366,422	-	-	354,039	366,422
Humans services	7,479,761	7,602,785	-	-	7,479,761	7,602,785
Cultural and recreation	1,343,391	1,612,304	-	-	1,343,391	1,612,304
Education	13,653,331	13,238,159	-	-	13,653,331	13,238,159
Interest on long-term debt	2,137,400	2,663,252	-	-	2,137,400	2,663,252
Solid Waste			4,095,099	3,812,981	4,095,099	3,812,981
Total expenses	46,277,471	46,973,082	4,095,099	3,812,981	50,372,570	50,786,063
Increase (decrease) in net position before transfers and special items	4,612,584	3,348,919	83,518	462,846	4,696,102	3,811,765
Transfers	57,653	60,410	(57,653)	(60,410)	-	-
Increase (decrease) in net position after transfer and special items	4,670,237	3,409,329	25,865	402,436	4,696,102	3,811,765
Net position, beginning, previously reported	105,533,326	102,583,617	8,625,745	8,223,309	114,159,071	110,806,926
Restatement	(26,190)	(459,620)	-	-	(26,190)	(459,620)
Net position, beginning, restated	105,507,136	102,123,997	8,625,745	8,223,309	114,132,881	110,347,306
Net position, ending	110,177,373	105,533,326	8,651,610	8,625,745	118,828,983	114,159,071

Governmental activities: Governmental activities increased the County's net position by \$4,644,047 thereby accounting for 99.45% of the total growth in the net position of Watauga County. Key elements of this increase are as follows:

- Increased gross collections of property tax revenue above budgeted amounts, proven by the County increasing the tax collection percentage to 98.02%, which is below the 2012 statewide average of 98.07% and above the average collection percentage of 97.20% for counties with populations of 50,000 to 99,999.
- Decrease in expenditures due to frozen positions and diligent budget management.

Business-type activities: Business-type activities increased Watauga County's net position by \$25,865. Key elements of this increase are as follows:

- Increase in operating expenditures primarily due to purchase of a new Caterpillar wheel loader at \$220,408.
- Completion of the gas to energy system allowing for sale of energy credits and excess electricity.

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, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Funds increased to \$14,653,916 while total fund balance increased to \$19,362,279. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.73 percent of total General Fund expenditures, while total fund balance represents 42.02 percent of that same amount.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues, transfers and expenditures by \$3,235,862 with approximately \$2.5 million of the amendments related to additional projects and grant funding received. The actual operating revenues for the General Fund were \$485,155 more than the budgeted amount. Actual operating expense was less than budgeted by \$3,584,615.

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 position of the Solid Waste Fund at the end of the fiscal year amounted to \$3,593,807. The total increase in proprietary net position was \$25,865.

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, 2013, totals \$151,508,182 (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 and equipment for County departments
- Continued work on the high school capital project
- Closed out of the gas to energy construction project

**Watauga County's Capital Assets
Figure 4 (net of depreciation)**

	Governmental Activities	Business Activities	Total
	2013	2013	2013
Land	\$ 12,512,584	975,497	\$ 13,488,081
Buildings	67,328,752	4,123,207	71,451,959
Other improvements	3,123,661	753,491	3,877,152
Equipment	6,426,264	1,510,135	7,936,399
Vehicles	1,959,122	1,265,741	3,224,863
Construction in progress	79,741,271	-	79,741,271
Intangible assets	15,600	-	15,600
Total	\$ 171,107,254	\$ 8,628,071	\$ 179,735,325

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, 2013, Watauga County had bonded debt outstanding of \$2,355,000 all of which is backed by the good faith and credit of the County.

Watauga County's Outstanding Debt
Figure 5

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 2,355,000	\$ 3,570,000
Installment purchase	\$ 55,384,080	\$ 60,035,549

Watauga County's total debt decreased by \$5,866,473 or (9.77%) during the past fiscal year due to debt service payments and refinance of the two high school loans. As part of the loan refinance, Watauga County received a bond rating by Standard and Poor's of AA- and a rating of Aa3 from Moody's Investor Services on the Series A portion of the transaction. 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 as of June 30, 2013 is \$708,347,606.

Additional information regarding Watauga County's long-term debt can be found in note 3.B.7 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The County continues to experience minor growth in tourism and has seen continued revenue increases for the past two years related to tourism
- The County is experiencing an unemployment rate of 8.2%, somewhat below the state average of 8.8%, but still higher than historical rates before the economic downturn of the past few years
- Appalachian State University provides continued stability to the local economy as a major employer and source of overall positive economic impact from the student population
- New construction and real estate sales have shown light increase predominately within the commercial market, consistent with state and national trends.
- The property revaluation to be effective January 1, 2014 may result in reductions in overall property values due to the large second home owner population

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental activities -The County's property tax rate is maintained at the rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate, generating approximately \$3,021,096 in property tax revenue, is earmarked for debt service and capital needs for the public school system. Sales tax revenue is projected with a minor decrease due to change in the allocation method from per capita to ad valorem. Additional funding is expected from three local municipalities to offset any decrease in sales tax revenues.

Budgeted expenditures in the General Fund include increased school funding, department budgets with minor increases and continued limited capital purchases. Funds set aside for future capital school projects and a minimal amount for county projects are included in the budget.

Businesses-type Activities- Budgeted revenues for greenbox and landfill fees have increased slightly in the Solid Waste Fund. Tipping fees are projected to decline due to a decrease in the waste stream and increased recycling. Budgeted expenditures include funding for an increase in waste hauling expenses due to potential contract changes at the renewal in April 2014. Funds have been budgeted for a new garbage collection truck in the amount of \$285,000.

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. The report can also be found on our website www.wataugacounty.org/main/App_Pages/Dept/Finance/countyAudits.aspx.

BASIC FINANCIAL STATEMENTS

Watauga County, North Carolina
Statement of Net Position
June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
ASSETS					
Cash and cash equivalents	\$ 23,685,458	3,652,892	27,338,350	279,902	1,001,049
Restricted cash	564,252	-	564,252	-	-
Receivables (net)	1,665,311	325,057	1,990,368	26,875	-
Due from other governments	2,429,912	24,895	2,454,807	1,470,561	149,376
Prepaid expenses	50,000	-	50,000	29,542	-
Inventory	-	-	-	96,063	-
Intangible asset - advanced funding of pension obligation	444,168	-	444,168	-	-
Capital assets:					
Land and construction in progress	92,269,456	975,497	93,244,953	1,267,242	-
Other capital assets, net of depreciation	54,180,923	4,082,306	58,263,229	10,234,793	-
Total capital assets	146,450,379	5,057,803	151,508,182	11,502,035	-
Total assets	175,289,480	9,060,647	184,350,127	13,404,978	1,150,425
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized charge on refunding	74,482	-	74,482	-	-
Total deferred outflows of resources	74,482	-	74,482	-	-
LIABILITIES					
Accounts payable and accrued expenses	895,721	131,765	1,027,486	757,287	87,383
Accrued interest payable	203,643	-	203,643	-	-
Performance bond deposits	88,964	-	88,964	-	-
Due to other governments	90,220	-	90,220	-	-
Unamortized liability for bond premiums	4,879,037	-	4,879,037	-	-
Liabilities payable from restricted assets	27,012	-	27,012	-	-
Long-term liabilities:					
Due within one year	6,424,109	-	6,424,109	58,431	7,863
Due in more than one year	52,275,758	107,334	52,383,092	-	-
Total liabilities	64,884,464	239,099	65,123,563	815,718	95,246
DEFERRED INFLOWS OF RESOURCES					
Revenue paid in advance	-	-	-	200,000	-
Grant paid in advance	-	-	-	18,986	-
Property taxes uncollected	201,919	-	201,919	-	-
Prepaid taxes and other fees	100,206	169,938	270,144	-	-
Total deferred inflows of resources	302,125	169,938	472,063	218,986	-
NET POSITION					
Net investment in capital assets	91,969,492	5,057,803	97,027,295	11,502,035	-
Restricted for:					
Stabilization by State Statute	4,549,990	-	4,549,990	-	149,376
Public safety	425,591	-	425,591	-	-
Register of Deeds	155,405	-	155,405	-	-
Environmental protection	2,968	-	2,968	-	-
Tourism promotion	-	-	-	-	905,803
Unrestricted (deficit)	13,073,927	3,593,807	16,667,734	868,239	-
Total net position	\$ 110,177,373	8,651,610	118,828,983	12,370,274	1,055,179

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, 2013

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 8,687,043	587,564	380,189	-
Public safety	11,953,270	478,303	518,795	17,600
Economic and physical development	669,236	-	4,439	-
Environmental Protection	354,039	-	27,593	-
Human service	7,479,761	48,509	3,805,758	-
Cultural and recreation	1,343,391	283,380	-	359,410
Education	13,653,331	-	594	590,299
Interest on long-term debt	2,137,400	-	-	-
Total governmental activities	<u>46,277,471</u>	<u>1,397,756</u>	<u>4,737,368</u>	<u>967,309</u>
Business-type activities:				
Solid waste	4,095,099	4,030,200	119,216	-
Total	<u>\$ 50,372,570</u>	<u>5,427,956</u>	<u>4,856,584</u>	<u>967,309</u>
Component units:				
AppalCART	\$ 3,834,630	1,714,143	1,632,589	1,503,048
Watauga County District U Tourism Development Authority	<u>\$ 994,284</u>	<u>-</u>	<u>173,292</u>	<u>91,100</u>

General revenues:

Taxes:

- Property taxes, levied for general purpose
- Local option sales tax
- Other taxes and licenses
- Grants and contributions not restricted to specific programs
- Investment earnings, unrestricted
- Miscellaneous, unrestricted
- Gain on sale of assets
- Transfers

Total general revenues, special items, and transfers

Change in net position

Net position, beginning, previously reported

Restatement

Net position, beginning, restated

Net position, ending

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
(7,719,290)	-	(7,719,290)		
(10,938,572)	-	(10,938,572)		
(664,797)	-	(664,797)		
(326,446)	-	(326,446)		
(3,625,494)	-	(3,625,494)		
(700,601)	-	(700,601)		
(13,062,438)	-	(13,062,438)		
(2,137,400)	-	(2,137,400)		
(39,175,038)	-	(39,175,038)		
-	54,317	54,317		
(39,175,038)	54,317	(39,120,721)		
			1,015,150	
				(729,892)
\$ 30,805,481	-	30,805,481	-	-
10,725,494	-	10,725,494	-	-
1,792,373	-	1,792,373	-	961,318
21,957	-	21,957	-	-
55,829	7,295	63,124	29	313
372,078	11,550	383,628	-	-
14,410	10,356	24,766	7,808	-
57,653	(57,653)	-	-	-
43,845,275	(28,452)	43,816,823	7,837	961,631
4,670,237	25,865	4,696,102	1,022,987	231,739
105,533,326	8,625,745	114,159,071	11,347,287	823,440
(26,190)	-	(26,190)	-	-
105,507,136	8,625,745	114,132,881	11,347,287	823,440
\$ 110,177,373	8,651,610	118,828,983	12,370,274	1,055,179

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

Watauga County, North Carolina
Balance Sheet
June 30, 2013

	General	Capital Projects Fund	Watauga High Fund	Other Governmental Funds	Total Governmental Fund
ASSETS					
Cash and cash equivalents	\$ 17,818,187	5,758,229	109,042	-	23,685,458
Restricted cash and cash equivalents	158,373	-	-	405,879	564,252
Taxes receivable, net	1,060,456	-	-	240,792	1,301,248
Due from other governments	2,383,043	-	-	46,729	2,429,772
Accounts receivable, net	37,950	-	-	-	37,950
Land purchase deposit	50,000	-	-	-	50,000
Total assets	\$ 21,508,009	5,758,229	109,042	693,400	28,068,680
LIABILITIES					
Accounts payable and accrued liabilities	\$ 893,839	-	-	-	893,839
Performance bond deposits	88,964	-	-	-	88,964
Due to other governments	2,265	-	-	87,955	90,220
Liabilities to be paid from restricted assets	-	-	1,881	27,012	28,893
Total liabilities	985,068	-	1,881	114,967	1,101,916
DEFERRED INFLOWS OF RESOURCES					
Sales tax refund on Capital Project	-	-	140	-	140
Taxes receivable	1,060,456	-	-	152,842	1,213,298
Prepaid taxes	58,785	-	-	-	58,785
Prepaid sales and services fees	41,421	-	-	-	41,421
Total deferred inflows of resources	1,160,662	-	140	152,842	1,313,644
FUND BALANCES					
Restricted for:					
Stabilization for State Statute	4,549,990	-	-	-	4,549,990
Public Safety	-	-	-	425,591	425,591
Register of Deeds	155,405	-	-	-	155,405
Grant Requirements	2,968	-	-	-	2,968
Committed					
Capital Projects	-	5,758,229	107,021	-	5,865,250
Unassigned	14,653,916	-	-	-	14,653,916
Total fund balances	19,362,279	5,758,229	107,021	425,591	25,653,120
Total liabilities, deferred inflows, and fund balances	\$ 21,508,009	5,758,229	108,902	693,400	28,068,680

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	25,653,120
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the funds.	444,168
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	146,450,379
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	326,253
Deferred inflows of resources for taxes receivable	1,011,519
Charges related to advance on refunding bond issues.	74,482
Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(63,782,548)
Net assets of governmental activities	\$ 110,177,373

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, 2013

	General	Capital Projects Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 27,908,138	-	-	2,929,600	30,837,738
Local option sales taxes	10,725,494	-	-	-	10,725,494
Other taxes and licenses	775,836	-	-	1,016,537	1,792,373
Unrestricted intergovernmental	21,957	-	-	-	21,957
Restricted intergovernmental	4,915,632	-	-	326,047	5,241,679
Permits and fees	853,042	-	-	-	853,042
Sales and services	731,204	-	-	-	731,204
Investment earnings	43,835	11,662	332	691	56,520
Donations	194,051	-	-	-	194,051
Miscellaneous	473,337	-	140	-	473,477
Total revenues	46,642,526	11,662	472	4,272,875	50,927,535
EXPENDITURES					
Current:					
General government	6,632,040	-	-	981,129	7,613,169
Public safety	8,213,803	-	-	3,201,750	11,415,553
Economic and physical development	653,482	-	-	10,394	663,876
Environmental protection	352,070	-	-	-	352,070
Human services	7,062,601	-	-	-	7,062,601
Cultural and recreational	1,368,829	-	-	-	1,368,829
Education	13,653,331	-	-	-	13,653,331
Capital outlay	-	-	411,928	75,000	486,928
Debt service:					
Principle	5,866,473	-	-	-	5,866,473
Interest	2,281,219	-	-	-	2,281,219
Total expenditures	46,083,848	-	411,928	4,268,273	50,764,049
Excess (deficiency) of revenues over expenditures	558,678	11,662	(411,456)	4,602	163,486
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	1,609,738	100,000	-	-	1,709,738
Transfers to other funds	(100,000)	(1,552,085)	-	-	(1,652,085)
Total other financing sources and uses	1,509,738	(1,452,085)	-	-	57,653
Net change in fund balance	2,068,416	(1,440,423)	(411,456)	4,602	221,139
Fund balances-beginning	17,293,863	7,198,652	518,758	420,988	25,432,261
Fund balances-ending	\$ 19,362,279	5,758,229	107,302	425,590	25,653,400

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

Watauga County, North Carolina
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balance of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2013

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

Net changes in fund balances - total governmental funds	\$	221,139
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

		(1,552,968)
--	--	-------------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds

		(32,257)
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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, 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:

Other postemployment benefits	(4,322)	
Compensated absences	28,789	
Advance funding of LEO pension obligation	(436)	
Interest expense	143,819	
Combined adjustment	167,850	167,850

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 position. 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.

		5,866,473
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Total changes in net position of governmental activities	\$	4,670,237
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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 -
Budget and Actual - General Fund
For the Year Ended June 30, 2013

General Fund				
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 27,360,605	27,360,605	27,908,138	547,533
Local option sales tax	10,241,090	10,241,090	10,725,494	484,404
Other taxes and licenses	690,000	690,750	775,836	85,086
Unrestricted intergovernmental	20,000	20,000	21,957	1,957
Restricted intergovernmental	4,139,980	6,773,211	4,915,632	(1,857,579)
Permits and fees	646,100	646,100	853,042	206,942
Sales and services	724,365	757,815	731,204	(26,611)
Investment earnings	75,500	75,500	43,835	(31,665)
Donations	18,000	218,600	194,051	(24,549)
Miscellaneous	317,360	344,010	473,337	129,327
Total revenues	<u>44,233,000</u>	<u>47,127,681</u>	<u>46,642,526</u>	<u>(485,155)</u>
Expenditures:				
Current:				
General government	7,626,020	8,955,166	6,632,040	2,323,126
Public safety	8,355,565	8,398,338	8,213,803	184,535
Economic & Physical Development	521,126	707,146	653,482	53,664
Environmental Protection	369,846	383,042	352,070	30,972
Human Services	7,140,220	7,412,795	7,062,601	350,194
Cultural & Recreation	1,380,532	1,398,677	1,368,829	29,848
Education	12,991,600	14,265,607	13,653,331	612,276
Debt service:				
Principle retirement	5,866,473	5,866,473	5,866,473	-
Interest and other charges	2,281,219	2,281,219	2,281,219	-
Total expenditures	<u>46,532,601</u>	<u>49,668,463</u>	<u>46,083,848</u>	<u>3,584,615</u>
Revenues over (under) expenditures	<u>(2,299,601)</u>	<u>(2,540,782)</u>	<u>558,678</u>	<u>3,099,460</u>
Other financing sources (uses):				
Transfers from other funds	1,557,653	1,609,738	1,609,738	-
Transfers to other funds	-	(100,000)	(100,000)	-
Fund balance appropriated	741,948	1,031,044	-	(1,031,044)
Total other financing sources (uses)	<u>2,299,601</u>	<u>2,540,782</u>	<u>1,509,738</u>	<u>(1,031,044)</u>
Revenues and other sources over (under) expenditures and other uses	-	-	2,068,416	2,068,416
Fund balances, beginning of year			17,293,863	-
Fund balances, end of year	\$		<u>19,362,279</u>	<u>-</u>

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

Watauga County, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,652,892
Receivables, net	325,057
Due from other governments	24,895
Total current assets	4,002,844
Capital assets:	
Land and construction in progress	975,497
Other capital assets, net of depreciation	4,082,306
Total capital assets	5,057,803
Total assets	9,060,647
LIABILITIES	
Current liabilities:	
Accounts payable	131,765
Compensated absences	107,334
Total current liabilities	239,099
DEFERRED INFLOWS OF RESOURCES	
Unearned Revenue	169,938
NET POSITION	
Net investment in capital assets	5,057,803
Unrestricted	3,593,807
Total net position	\$ 8,651,610

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

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
OPERATING REVENUES:		
Charges for services	\$	4,030,200
Restricted intergovernmental revenues		119,216
		<hr/>
Total operating revenues		4,149,416
		<hr/>
OPERATING EXPENSES:		
Landfill operations		3,656,457
Recycling operations		96,237
Depreciation		341,385
		<hr/>
Total operating expenses		4,094,079
		<hr/>
Operating income (loss)		55,337
		<hr/>
NONOPERATING REVENUES (EXPENSES):		
Interest and investment revenue		7,295
Interest paid on long term debt		(1,020)
Gain (loss) on sale of assets		10,356
Gain on asset value adjustment		11,550
		<hr/>
Total non operating revenue (expenses)		28,181
		<hr/>
Income (loss) before transfers		83,518
		<hr/>
Transfers (to) from other funds (net)		(57,653)
		<hr/>
Change in net position		25,865
		<hr/>
Total net position, beginning		8,625,745
		<hr/>
Total net position, ending	\$	<u>8,651,610</u>

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

Watauga County, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers	\$ 4,008,711
Cash paid for goods and services	(2,366,194)
Cash paid to employees for services	(1,346,202)
Cash paid for other post employment benefits	(39,620)
Other operating revenue	119,216
Net cash provided by (used) operating activities	<u>375,911</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>(57,653)</u>
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	10,356
Acquisition and construction of capital assets	(46,052)
Principle paid on installment purchase contracts	(68,589)
Interest paid on installment purchase contracts	(1,020)
Net cash used by capital and related financing activities	<u>(105,305)</u>
Cash flows from investing activities:	
Interest on investments	<u>7,295</u>
Net increase (decrease) in cash and cash equivalents	220,248
Cash and cash equivalents, July 1	<u>3,432,644</u>
Cash and cash equivalents, June 30	<u>\$ 3,652,892</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ <u>55,337</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	341,385
Changes in assets and liabilities:	
Increase in accounts receivable	(30,333)
Increase in fees receivable	8,844
Increase in accounts payable and accrued liabilities	41,453
Decrease in accrued OPEB liability	(39,620)
Decrease in accrued vacation pay	(1,155)
Total adjustments	<u>320,574</u>
Net cash used by operating activities	<u>\$ 375,911</u>

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

Watauga County, North Carolina
 Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2013

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ <u>808,336</u>	<u>73,621</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u>-</u>	<u>73,621</u>
Net position:		
Assets held in trust for pension benefits	\$ <u>808,336</u>	<u>-</u>

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

Watauga County, North Carolina
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2013

		Pension Trust Funds
		<hr/>
Additions:		
Employer contributions	\$	260,040
Interest earned		3,490
		<hr/>
Total additions		263,530
		<hr/>
Deductions:		
Benefits		170,315
Administrative expense		9,336
		<hr/>
Total deductions		179,651
		<hr/>
Change in net position		83,879
Net position, beginning		724,457
		<hr/>
Net position, ending	\$	<u><u>808,336</u></u>

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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 column 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 tax; and the Watauga County Commissioners adopted a resolution levying this tax and created the Watauga County District U Tourism Development Authority. The Authority operates within Watauga County's boundaries for the promotion and development of tourism, and the County provides room occupancy tax proceeds as their main source of revenue to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. 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, 815 West King St., Boone, NC 28607.

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statement: The statement of net position and the statement of activities display information about the primary government net position (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

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 different business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect 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 principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

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

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

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 transfer and disposal sites.

The County reports the following other fund types:

Pension Trust Funds – The County maintains two pension trust funds – the Other Post-Employment Benefits Fund and the Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Special Separation Allowance Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The Other Postemployment Benefit Irrevocable Trust Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees.

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 Trust Fund, which

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities within the County; 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, the Deed of Trust Fee Fund to account for fees collected by the Register of Deeds which are remitted to the State Treasurer on a monthly basis, and the Town of Boone Tax Fund which accounts for property taxes billed and collected by the County on behalf of the Town of Boone.

Non-major Funds – The County maintains seven legally budgeted non-major funds. The Federal Equitable Sharing Fund, the State Substance Abuse Tax Fund, the Emergency Telephone System Fund, the Fire Districts Fund, the Occupancy Tax Fund, and the CDBG Scattered Site Housing Funds are reported as non-major special revenue funds. The PARTF Rocky Knob Capital Project Fund is reported as a non-major capital project fund.

Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connecting with a proprietary fund's principle ongoing operations. The principle 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 principle and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental 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 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 Project Fund, the Federal Equitable Sharing, the State Substance Abuse Tax, the Emergency Telephone System, Fire Districts, and Occupancy Tax Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Scattered Site Housing Grant Special Revenue Fund, the Watauga High School Capital Project Fund and the PARTF Rocky Knob Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the County, AppalCART, and the Watauga County District U Tourism Development Authority are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, AppalCART, and the Authority may designate, as an official depository, any

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

bank or savings association whose principle office is located in North Carolina. Also, the County, AppalCART, and the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

The County, AppalCART, and the Authority's investments are carried at fair value as determined by quoted market prices. The NCCMT 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.

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. Restricted Cash

Cash is shown as restricted based on the revenue source of the funds.

4. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012.

5. Allowances for Doubtful Accounts

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

6. Inventory

The inventories of AppalCART are maintained for fuel oil, tires, and vehicle parts; valuation is at last in first out (LIFO) basis.

7. 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 Fund to account for the operations of the landfill. At this time, all landfill assets were transferred to this fund at original cost less accumulated depreciation from date of purchase. Property, plant, and equipment acquired after July 1, 1989, are recorded at original cost at time of acquisition. After July 1, 2002, the Fund's minimum capitalization cost is \$5,000. Prior to July 1, 2002, the Fund did not have a minimum capitalization cost. Plant assets of the County are

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss on disposition is not calculated except in extraordinary circumstances. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

The County holds title to a Watauga County Board of Education property that has not been included in capital assets. The property has been deeded to permit installment purchase financing. Lease agreements between the County and the Board of Education give the Board of Education full use of the facility, full responsibility for maintenance of the facility, and provide the County will convey title back to the Board of Education once all restrictions of the financing agreements have been met. The property is reflected as a capital asset in the financial statements of the Board of Education.

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

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

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

	<u>Years</u>
Office furniture and equipment	5 to 7
Maintenance and shop equipment	8
Vehicles	7 to 12
Land improvements	10
Buildings	50

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

	<u>Years</u>
Computer equipment	5
Furniture and equipment	7

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County has one item that meets this criterion – a charge on refunding that had previously been classified as an asset. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County has only three items that meet the criterion for this category – prepaid taxes, prepaid camp and other service fees, and sales tax refunds.

9. Long-term Obligations

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

10. 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 vacation policy of the Authority provide for the accumulation of up to 15 days earned vacation leave with such leave being fully vested when earned. For the government-wide statement, an expense and liability for compensated absences and salary-related payments are recorded as the leave is earned.

The sick leave policies of the County, the Authority, and AppalCART provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement 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 units.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position 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, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not expendable resource.

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors or imposed by creditors or imposed by law.

Reserved for Stabilization by State Statute – portion of fund balance restricted under State law [G.S. 159-8(a)].

Reserved for Register of Deeds – portion of fund balance legally restricted for automation and technology enhancements in the Register of Deeds' office [G.S. 161-11.3].

Reserved for Public Safety – portion of fund balance representing the aggregate of net assets for three special revenue funds: the Emergency Telephone System Fund, the State Substance Abuse Tax Fund, and the Federal Equitable Sharing Fund.

Reserved for No Till Drill – portion of fund balance restricted by grant revenue source for expenditures associated with the no till drill equipment.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

Committed Fund Balance – portion of fund balance which can only be used for a specific purpose by a majority vote of Watauga County’s governing board (highest body of decision making authority). Any change or removal of specific purpose requires majority action by the governing board.

Committed for Capital Projects – portion of fund balances set aside for future capital project expenditures.

Assigned Fund Balance – portion of fund balance the governing board has budgeted in the next fiscal year budget.

Subsequent Year’s Expenditures – portion of fund balance not already classified in restricted or committed designated in the board approved next fiscal year’s appropriations.

Unassigned Fund Balance – portion of the total fund balance is available for appropriation that has not been restricted, committed, or assigned to specific purposes or other funds at year-end.

1. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The Government Fund Balance Sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the Government-Wide Statement of Net Position. The net adjustment consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 171,107,254
Less accumulated depreciation	(24,656,876)
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	444,168
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available in the fund statements	326,113
Liabilities for deferred inflows of resources but earned and therefore reported in the fund statements but not the government-wide	1,011,379
Deferred charges related to advance refunding bond issued – included on government-wide statement of net position but are not current financial resources.	74,482
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	(62,618,113)
Compensated absences	(960,791)
Accrued interest payable	<u>(203,643)</u>
Total adjustment	<u>\$ 84,523,973</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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 position of governmental activities as reported in the Government-Wide Statement of Activities. There are several elements of the total adjustment as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the Statement of Activities	\$ 1,092,016
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	(2,644,984)
Principle payments on debt owed are recorded as a use of funds on the fund statements but affect only the Statement of Net Position in the government-wide	5,866,473
The advance funding of pension obligations	(436)
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)	170,902
Amortization of refunding costs not recorded on fund statements	(27,083)
Advanced funding of other postemployment benefits	(4,322)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	28,789
Revenues reported in the Statement of Activities that do not provide current resources are not recorded as revenues in the fund statements:	
Decrease in deferred inflows of resources	(37,571)
Increase in accrued interest receivable on taxes	5,314
Total adjustment	<u>\$ 4,449,098</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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All of the County's, AppalCART's, and the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's, AppalCART's, and the Authority's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, AppalCART, and the Authority'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.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, AppalCART, or the Authority. Because of the inability to measure the exact amount of collateral pledged for the County, AppalCART, or the Authority, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. The State Treasurer enforces minimum capitalization for all pooling method financial institutions. The County, AppalCART, and the Authority rely on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the County's deposits had a carrying amount of \$23,885,680 and a bank balance of \$24,202,509. Of the bank balance, \$1,000,000 was covered by federal depository insurance, and \$8,712,716 in non-interest bearing deposits and \$15,172,964 in interest bearing deposits were covered by collateral held under the pooling method. At June 30, 2013 Watauga County had \$2,800 cash on hand.

At June 30, 2013, the AppalCART's deposits had a carrying amount of \$223,385 and a bank balance of \$433,478. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$183,478 in interest bearing deposits were covered by collateral held under the pooling method. At June 30, 2013, AppalCART had \$150 cash on hand.

At June 30, 2013, the Authority's deposits had a carrying amount of \$699,684 and a bank balance of \$749,080. Of the balance, \$250,000 was covered by federal depository insurance and \$499,080 in interest bearing deposits was covered by collateral held under the pooling method. The Authority had no cash on hand.

2. Investments

At June 30, 2013, the County's investments consisted of \$1,844,430 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's and \$3,013,942 in the North Carolina Capital Management Trust's Term Portfolio, which is unrated and has a portfolio duration of 0.3 years. The term portfolio is authorized to invest obligations of the US governmental agencies and high grade money market instruments as permitted under NC General Statute 159-30 as amended. The County has no policy on credit risk.

At June 30, 2013, AppalCART's investments consisted of \$56,367 in the North Carolina Capital Management Trust's Cash Portfolio. AppalCART has no policy on credit risk.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

At June 30, 2013, the Authority's investments consisted of \$301,365 in the North Carolina Capital Management Trust's Cash Portfolio. The Authority has no policy on credit risk.

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

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

Year Levied	Tax	Interest	Total
2010	\$ 630,436	173,370	803,806
2011	623,181	119,962	743,143
2012	625,044	64,067	689,111
2013	<u>629,258</u>	<u>0</u>	<u>629,258</u>
Total	\$ <u>2,507,919</u>	<u>357,399</u>	<u>2,865,318</u>

4. Receivables

Receivables at the government-wide level at June 30, 2013, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 37,949	1,544,020	2,383,043	\$ 3,965,012
Other Governmental	-	<u>264,347</u>	<u>46,869</u>	<u>311,216</u>
Total receivables	37,949	1,808,367	2,429,912	4,276,228
Allowance for doubtful accounts	-	<u>(514,166)</u>	-	<u>(514,166)</u>
Total-governmental activities	\$ <u>37,949</u>	<u>1,294,201</u>	<u>2,429,912</u>	\$ <u>3,762,062</u>
Business-type activities				
Solid Waste	\$ 419,056	-	24,895	\$ 443,951
Allowance for doubtful accounts	<u>(93,998)</u>	-	-	<u>(93,998)</u>
Total-business-type activities	\$ <u>325,058</u>	<u>-</u>	<u>24,895</u>	\$ <u>349,953</u>

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

Home and Community Block Grant	\$ 816
Local Option Sales Tax	1,653,651
June DMV fees for tag office	6,795
Grant reimbursement/USDOJ Drug Court	2,924
NC Lottery projects	35,176
Town of Blowing Rock ABC taxes due	296
Town of Boone Tax collection fee	15,907
Town of Boone ABC taxes due	1,098

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

POA reimbursements - USDA	1,680
Court fees	42,188
NC DOT grant reimbursement- Brookshire project	65,000
DSS reimbursements	440,178
NC DOA soil tech cost share	4,762
Wireless revenues	46,729
Solid Waste Disposal Tax	3,615
Scrap Tire Tax	17,226
White Goods Tax	4,054
Medicaid reimbursements	4,659
Sales Tax Refunds	108,053
Total:	<u><u>\$ 2,454,807</u></u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,655,435	-	142,851	\$ 12,512,584
Intangible	-	15,600	-	15,600
Construction in progress	79,458,603	412,928	130,260	79,741,271
Total capital assets not being depreciated	<u>92,114,038</u>	<u>428,528</u>	<u>273,111</u>	<u>92,269,455</u>
Capital assets being depreciated:				
Buildings	67,227,046	101,706	-	67,328,752
Other improvements	2,678,400	445,261	-	3,123,661
Equipment	6,114,684	332,124	20,544	6,426,264
Vehicles and motorized equipment	1,963,074	62,735	66,688	1,959,121
Total capital assets being depreciated	<u>77,983,204</u>	<u>941,826</u>	<u>87,232</u>	<u>78,837,798</u>
Less accumulated depreciation for:				
Buildings	16,530,550	1,392,438	-	17,922,988
Other improvements	463,198	312,023	-	775,221
Equipment	3,529,280	791,128	15,320	4,305,088
Vehicles and motorized equipment	1,570,871	149,395	66,688	1,653,578
Total accumulated depreciation	<u>22,093,899</u>	<u>2,644,984</u>	<u>82,008</u>	<u>24,656,875</u>
Total capital assets being depreciated, net	<u>55,889,305</u>			<u>54,180,923</u>
Governmental activity capital assets, net	<u><u>\$ 148,003,343</u></u>			<u><u>\$ 146,450,378</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

Primary Government

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

General government	\$1,197,321
Public safety	650,302
Education	10,143
Economic and physical development	1,969
Human services	419,423
Cultural and recreational	<u>365,826</u>
Total depreciation expense	<u>\$2,644,984</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 975,497	-	-	\$ 975,497
Construction in progress	<u>183,011</u>	<u>509</u>	<u>183,520</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,158,508</u>	<u>509</u>	<u>183,520</u>	<u>975,497</u>
Capital assets being depreciated:				
Improvements	557,476	196,015	-	753,491
Buildings	4,123,207	-	-	4,123,207
Equipment	1,496,610	44,209	30,684	1,510,135
Vehicles	<u>1,264,661</u>	<u>4,611</u>	<u>3,531</u>	<u>1,265,741</u>
Total capital assets being depreciated	<u>7,441,954</u>	<u>244,835</u>	<u>34,215</u>	<u>7,652,574</u>
Less accumulated depreciation for:				
Improvements	504,869	18,821	-	523,690
Building	783,813	84,467	-	868,280
Equipment	897,263	229,156	26,970	1,099,449
Vehicles	<u>1,072,931</u>	<u>81,449</u>	<u>75,531</u>	<u>1,078,849</u>
Total accumulated depreciation	<u>3,258,876</u>	<u>413,893</u>	<u>102,501</u>	<u>3,570,268</u>
Total capital assets being depreciated, net	<u>4,183,078</u>			<u>4,082,306</u>
Solid Waste Fund capital assets, net	<u>\$ 5,341,586</u>			<u>\$ 5,057,803</u>

Construction commitments

The government has active construction projects as of June 30, 2013. The projects include a new high school and Brookshire underpass project. At June 30, 2013, the government's commitments with contractors are as follows:

	Spent-to-date	Remaining Commitment
Brookshire Underpass	\$ 1,000	\$ -
Watauga High School	<u>79,740,271</u>	<u>4,619</u>
Total	<u>\$ 79,741,271</u>	<u>\$ 4,619</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,114,242	-	-	\$ 1,114,242
Construction in progress	<u>5,970,417</u>	<u>800,004</u>	<u>6,617,421</u>	<u>153,000</u>
Total capital assets not being depreciated	<u>7,084,659</u>	<u>800,004</u>	<u>6,617,421</u>	<u>1,267,242</u>
Capital assets being depreciated:				
Buildings	-	6,604,128	-	6,604,128
Land improvements	159,662	-	-	159,662
Office furniture and equipment	220,306	13,293	-	233,599
Shop equipment	367,730	14,058	-	381,788
Vehicles	<u>6,000,662</u>	<u>846,189</u>	<u>238,220</u>	<u>6,608,631</u>
Total capital assets being depreciated	<u>6,748,360</u>	<u>7,477,668</u>	<u>238,220</u>	<u>13,987,808</u>
Less accumulated depreciation for:				
Buildings	-	8,685	-	8,685
Land improvements	149,731	1,396	-	151,127
Office furniture and equipment	130,308	17,160	-	147,468
Shop equipment	148,248	32,251	-	180,499
Vehicles	<u>2,883,149</u>	<u>620,307</u>	<u>238,220</u>	<u>3,265,236</u>
Total accumulated depreciation	<u>3,311,436</u>	<u>679,799</u>	<u>238,220</u>	<u>3,753,015</u>
Total capital assets being depreciated, net	<u>3,436,924</u>			<u>10,234,793</u>
AppalCART capital assets, net	<u>\$10,521,583</u>			<u>\$11,502,035</u>

Capital asset activity for the Watauga County District U Tourism Development Authority for the year ended June 30, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Furniture and fixtures	\$ 3,636	-	-	3,636
Computer equipment	<u>13,778</u>	-	-	<u>13,778</u>
Total Capital assets being depreciated	<u>17,414</u>	-	-	<u>17,414</u>
Less accumulated depreciation for:				
Furniture and fixtures	3,636	-	-	3,636
Computer equipment	<u>13,778</u>	-	-	<u>13,778</u>
Total accumulated depreciation	<u>17,414</u>	-	-	<u>17,414</u>
Total capital assets being depreciated, net	<u>\$ -</u>			<u>-</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2013, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Total
Governmental activities:				
General	\$ 642,229	253,067	203,643	1,098,939
Capital projects	1,881	-	-	1,881
Other governmental	<u>114,967</u>	<u>-</u>	<u>-</u>	<u>114,967</u>
Total-governmental activities	<u>759,077</u>	<u>253,067</u>	<u>203,643</u>	<u>1,215,787</u>
Business-type activities:				
Solid Waste	\$ <u>101,598</u>	<u>22,616</u>	<u>312</u>	<u>124,526</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, 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, 2013, 2012, and 2011 were \$1,321,306, \$1,390,105, and \$1,175,760, 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 this report as a fiduciary fund.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active plan members	<u>44</u>
Total	<u>48</u>

A separate report was not issued for the plan.

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 \$48,016, or 2.75% 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 following table shows the components of the County's annual pension cost for the current year, the amount actually contributed to the plan, and changes in the County's net obligation for the Separate Allowance.

Annual Required Contribution	\$ 47,634
Interest on net pension obligation	(3,345)
Adjustment to annual required contribution	<u>4,163</u>
Annual pension cost	48,452
Contributions made	<u>48,016</u>
Decrease in net pension obligation	436
Net pension obligation, beginning of year	<u>(66,892)</u>
Net pension obligation, end of year	<u>\$ (66,456)</u>

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return and (b) projected salary increases of 4.25% to 7.85% per year. The inflation component was 3.00%. The assumptions do not include postretirement benefits increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 53,168	62.18 %	\$ (61,686)
2012	45,131	111.54	(66,892)
2013	48,452	99.10	(66,456)

4. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 41.51 percent funded. The actuarial accrued liability for benefits was \$490,697, and the actuarial value of assets was \$203,683, resulting in an unfunded actuarial accrued liability (UAAL) of \$287,014.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,743,117, and the ratio of the UAAL to the covered payroll was 16.47 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 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. 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, 2013 were \$95,828, which consisted of \$87,682 from the County and \$8,146 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 five percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2013 to these plans were \$673,525 which consisted of \$510,914 from the County and \$162,611 from employees.

e. Registers of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Register of Deeds' Supplemental Pension Fund, a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county Register of Deeds who is retired under the Local Government Employees'

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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, 2013, the County's required and actual contributions were \$6,197.

f. Other Postemployment Benefits – Watauga County

Health Benefits

Under a County resolution as of September 1, 2001 Watauga County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employers defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System and have at least five years of creditable service with the County. The County has elected to partially pay the future overall cost of coverage for these benefits. The HCB Plan is available to qualified retirees at 100%, with a \$400 monthly maximum paid toward premium, until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. The HCB Plan is reported in the County's report as a fiduciary fund. A separate report was not issued for the Plan.

On January 1, 2011, the County transitioned to a high deductible health care plan (HDHC) with a health savings account (HSA) option. The Board of Commissioners, as part of the annual insurance renewal, determines if County funding may be provided to eligible employees and retiree into the HSA to assist in offsetting the deductibles.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

	General Employees:	Sanitation:
Retirees and dependents receiving benefits	27	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan Members	<u>237</u>	<u>37</u>
Total	<u>264</u>	<u>38</u>

Funding Policy. The Board of Commissioners established the contribution requirements of plan members and these requirements may be amended by the Board. Per a County resolution, the County is required to contribute the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Board.

The current ARC rate is 1.77% of annual covered payroll. For the current year, the County contributed \$202,688 or 2.02% of annual covered payroll. The County obtains healthcare coverage through private insurers.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

Summary of Significant Accounting Policies. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Under a County resolution, the contributions are recognized when due and the County will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements, are reported as 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. Administration costs of the HCB Plan are financed through investment earnings.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contributions of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution	\$ 177,098
Interest on net OPEB obligation	(13,697)
Adjustment to annual required contribution	<u>13,084</u>
Annual OPEB cost (expense)	176,485
Contributions made	<u>(211,783)</u>
Increase (decrease) in net OPEB obligation	(35,298)
Net OPEB obligation, beginning of year	<u>(342,414)</u>
Net OPEB obligation, end of year	\$ <u>(377,712)</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2013 were as follows:

3 Year Trend Information			
For Year Ended June 30	Annual OPEB Cost (APC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 161,583	346.9 %	\$ (285,852)
2012	189,277	129.9	(342,414)
2013	176,485	120.0	(377,712)

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was 20.7 percent funded. The actuarial accrued liability for benefits was \$2,522,669, and the actuarial value of assets was \$522,755, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,999,914. The covered payroll (annual payroll of active employees covered by the plan) was \$10,011,037, and the ratio of UAAL to the covered payroll was 20.0%.

Actuarial valuations of an ongoing plan involve estimated of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The rate included a 3.00 percent inflation assumption. The medical cost trend rate varied between 8.50 percent and 5.00 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2012 was 30 years.

g. Other Employment Benefits

Death Benefits

The County has elected to provide death benefits to all eligible employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit 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, 2013, the County made contributions to the State for death benefits of \$10,318. The County's required contributions for employees represented .12% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

h. Retirement System – AppalCART and Watauga County District U Tourism Development Authority

Please see the separately issued financial reports of AppalCART and Watauga County District U Tourism Development Authority for a complete description of each of their pension plans.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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

4. Deferred Outflows and Inflows of Resources

The balance in deferred outflows of resources is a charge on refunding of debt of \$74,482.

	Unavailable Revenue	Unearned Revenue
Prepaid user fees not yet earned (General)	\$ -	41,421
Prepaid taxes not yet earned (General)	-	58,782
Prepaid user fees not yet earned (Enterprise)		169,938
Taxes receivable, net (General), less penalties	1,060,456	-
Taxes receivable, net (Special Revenue)	152,842	-
Sales tax refund on restricted intergovernmental revenues (Capital Projects)	-	140
Total	\$ 1,213,298	270,281

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools 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 \$136.4 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 and workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. The pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation.

The County 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 \$1,123,800 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2013

surety bond. The Finance Officer, Tax Administrator, Register of Deeds, and County Manager are each individually bonded for \$50,000 each. The Sheriff is bonded for \$25,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

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; and natural disasters. AppalCART is insured with the NC Association of County Commissioners Liability and Property pool that provides coverage for general liability in the amount of \$2,000,000. This is the same pool that the County participates in. Worker's compensation is provided by a commercial insurer.

The Watauga County District U Tourism Development Authority is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured with the NC Association of County Commissioners Liability and Property and Worker's Compensation Pools that provide coverage for general liability in the amount of \$2,000,000. These are the same pools that the County participates in.

6. Contingent Liabilities

On October 7, 2011, it was determined the joint agency, New River Service Authority (New River), would have to cease operations due to substantial financial losses over the last several years. The losses became apparent during the 2010-11 fiscal year financial statement preparation and the five counties involved (Alleghany, Ashe, Avery, Watauga and Wilkes) have worked to determine the liabilities and assets. Based on fiscal information received, the counties determined it was necessary to dissolve New River. As of this time, the actual amounts of the liabilities for each County have not been determined, but it could have a material effect on the County's finances.

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements as lessee.

b. Installment Purchase

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

The first 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 principle payments of \$83,333 plus interest at 3.24 percent.

The second installment purchase was executed on August 15, 2008 for the purchase of land for the Tweetsie Incentive Project. This installment purchase calls for quarterly principle payments of \$65,000 plus interest at 5.942 percent.

The third installment purchase was executed for Qualified School Construction Bonds on June 14, 2010 for school renovations. This installment purchase calls for annual principle payments of \$129,028 plus interest at 5.8 percent with a federal interest credit giving an effective rate of

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

zero percent prior to federal sequestration reductions of 8.7% of annual repayments of interest.

The fourth and fifth installment purchase agreements were executed on June 28, 2012 to refinance the construction of the new high school. These installment purchases were refinanced June 28, 2012 into limited obligation bonds. The limited obligation bonds were issued in two series, A and B. Series A is for a principle amount of \$45,045,000 with terms ranging from 2015 to 2028. Series B is for \$10 million with a term of three years and a set rate of 1.81 percent.

For Watauga County, the future minimum payments as of June 30, 2013, including \$18,806,313 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principle	Interest	Principle	Interest
2014	4,263,318	2,248,058	-	-
2015	3,847,291	2,150,235	-	-
2016	4,117,361	2,052,859	-	-
2017	4,082,361	1,917,276	-	-
2018	4,077,361	1,749,144	-	-
2019-2023	17,536,388	6,354,391	-	-
2024-2028	<u>17,460,000</u>	<u>2,334,350</u>	-	-
Principle payments	<u>\$ 55,384,080</u>	<u>\$ 18,806,313</u>	<u>-</u>	<u>-</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. Principle and interest payments are appropriated when due. The County's general obligation bonds payable at June 30, 2013 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	\$	375,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.0-4.25 percent		830,000
\$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>1,150,000</u>
Total	\$	<u>2,355,000</u>

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

Year Ending June 30	Governmental Activities	
	Principle	Interest
2014	1,200,000	92,795
2015	<u>1,155,000</u>	<u>43,125</u>
Total	<u>\$ 2,355,000</u>	<u>\$ 135,920</u>

At June 30, 2013, Watauga County had a legal debt margin of \$708,347,606.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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 position. 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 position. 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.

Debt Related to Capital Activities Of the total Governmental Activities debt listed only \$54,480,885 relates to assets the County holds title. There is no unspent restricted cash related to this debt.

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, 2013:

	Balance			Current	
	July 1, 2012	Increases	Decreases	Balance	Portion of
				June 30, 2013	Balance
<u>Governmental activities:</u>					
General obligation debt	\$ 3,570,000	-	1,215,000	2,355,000	\$ 1,200,000
Installment purchases	60,035,549	-	4,651,469	55,384,080	4,263,318
Compensated absences	989,579	798,301	827,088	960,792	960,792
Total governmental activities	<u>\$ 64,595,128</u>	<u>798,301</u>	<u>6,693,557</u>	<u>58,699,872</u>	<u>\$ 6,424,110</u>
<u>Business-type activities:</u>					
Installment purchases	68,589	-	68,589	-	\$ -
Compensated absences	108,488	64,036	65,191	107,333	107,333
Other postemployment benefits	39,620	-	39,620	-	-
Total business-type activities	<u>\$ 216,697</u>	<u>64,036</u>	<u>173,400</u>	<u>107,333</u>	<u>\$ 107,333</u>
<u>Discretely presented component units:</u>					
Compensated absences – AppalCART	\$ 61,809	73,331	76,709	58,431	\$ 58,431
Compensated absences – Watauga County TDA	\$ 8,844	9,343	10,324	7,863	\$ 7,863

For Watauga County and the Authority, compensated absences for governmental activities are liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned. For AppalCART, compensated absences are accounted for on the LIFO basis, assuming that employees are taking leave time as it is earned.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2013, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$ 100,000
From the Capital Projects Fund to the General Fund	1,552,085
From the Solid Waste Fund to the General Fund for debt service	<u>57,653</u>
Total	\$ <u>1,709,738</u>

D. Fund Balance

Watauga County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-county funds, county funds. For the purposes of fund balance classification expenditures are to be spent from restricted fund balance first, flowed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

The following schedule provides management and citizens with information on the portion of General fund balance available for appropriation:

Total fund balance – General Fund	\$ 19,362,279
Less:	
Stabilization for State Statute	4,549,990
Register of Deeds	155,405
Grant Requirements	<u>2,968</u>
Remaining fund balance	\$ <u>14,653,916</u>

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

Encumbrances: General Fund - \$2,120,420 Non-Major funds - \$4,135

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, 2013. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$495,000 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2013. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$541,127 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2013

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 \$810,980 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.

	<u>Federal</u>	<u>State</u>
Supplemental Nutrition Assistance Program	\$ 5,558,776	-
Temporary Assistance for Needy Families	79,727	-
Medical Assistance Program	19,379,514	10,943,994
Child Welfare - Adoption Subsidy	-	83,729
Foster Care	59,396	15,023
Adoption Assistance	146,883	39,082
Adult Assistance	-	271,666
Links	16,836	-
	<u>25,241,132</u>	<u>11,353,494</u>

Note 7 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

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

Note 8 - Change in Accounting Principles/Restatement

The County implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs, which were previously deferred and amortized must be included in current expenditures. Previously deferred bond issuance cost totaling \$26,190 were recognized as an expenditure in the current year. As a result beginning net position decreased from \$105,533,326 to \$105,507,136.

Required Supplemental Financial Data

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits

Watauga County, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information

Schedule 1

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)
12/31/2007	146,330	253,515	107,185	57.72	1,493,567	7.18 %
12/31/2008	160,403	244,637	84,234	65.57	1,727,417	4.88
12/31/2009	172,321	445,615	273,294	38.67	1,888,358	14.47
12/31/2010	182,734	418,911	236,177	43.62	1,737,216	13.60
12/31/2011	193,407	476,644	283,237	40.58	1,824,693	15.52
12/31/2012	203,683	490,697	287,014	41.51	1,743,117	16.47

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	30,943	129 %
2009	24,577	207
2010	27,043	109
2011	52,879	73
2012	44,535	114
2013	47,634	101

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2012. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, closed
Remaining amortization period	18 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	5.00%

Watauga County, North Carolina
Other Postemployment Benefits
Required Supplementary Information

Schedule 2

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/2009	\$ -	\$ 1,899,693	\$ 1,899,693	0%	\$10,936,838	17.4%
12/31/2011	\$ 476,515	\$ 2,648,536	\$ 2,172,021	18%	\$ 9,419,789	23.1%
12/31/2012	\$ 522,755	\$ 2,522,669	\$ 1,999,914	2070%	\$10,011,037	20.0%

Schedule of Employer Contributions:

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2011	160,959	348.1%
2012	189,788	89.2%
2013	177,098	119.6%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2012. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
Medical cost trend rate	8.50 - 5.00%
Year of Ultimate trend rate	2018
*Includes inflation at	3.00%

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

Watauga County, North Carolina
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance
Revenues:			
Taxes - ad valorem:			
Current year	\$	27,234,632	
Prior years		509,680	
Advertising and interest		163,826	
Total Taxes - ad valorem	<u>27,360,605</u>	<u>27,908,138</u>	<u>547,533</u>
Local Option Sales Taxes:			
Article 39 and 44		4,475,326	
Article 40 one-half of one percent		2,310,745	
Article 42 one-half of one percent		2,546,948	
Medicaid Hold Harmless payment		1,392,475	
Total Taxes - Local Option Sales	<u>10,241,090</u>	<u>10,725,494</u>	<u>484,404</u>
Taxes - other:			
Real estate transfer tax		316,409	
ABC Bottle tax		18,743	
Heavy equipment rental tax		3,792	
Gross receipts tax - county		41,325	
Franchise Tax		395,567	
Total Taxes - other	<u>690,750</u>	<u>775,836</u>	<u>85,086</u>
Unrestricted intergovernmental:			
Payments in lieu of taxes		21,957	
Total Unrestricted intergov. rev.	<u>20,000</u>	<u>21,957</u>	<u>1,957</u>
Restricted intergov. revenues:			
Grants-Federal & State		4,193,080	
Public School Building Capital Fund - Lottery		590,299	
Court facilities fees		132,253	
Total Restricted intergov. revenues	<u>6,773,211</u>	<u>4,915,632</u>	<u>(1,857,579)</u>
Permits and fees:			
Gun storage fees-DV		383	
Drug fees awarded by courts		646	
Gun permits		50,280	
Serving civil summons		66,316	
Jail and officer fees		25,415	
Planning and inspection fees		317,049	
Register of deeds fees		341,965	
Fire inspection fees		4,198	
Occupancy tax administrative fee		19,811	
Child Support fees		26,979	
Total Permits and fees	<u>646,100</u>	<u>853,042</u>	<u>206,942</u>
Sales and service:			
POA services		21,530	
Recreation department revenues		283,380	
Sales of tax maps/data processing items		1,764	
NC DMV fees		106,172	
Reimbursement for prisoners		14,016	
Tax collection fees-Towns		108,149	
Passport processing fees		11,467	
Election revenues		77	
Sale of fixed assets		19,634	
Blowing Rock communication services		165,015	
Total Sales and Service	<u>757,815</u>	<u>731,204</u>	<u>(26,611)</u>
Investment earnings:			
Interest earned on investments	<u>75,500</u>	<u>43,835</u>	<u>(31,665)</u>
Miscellaneous:			
Other		473,337	
Donations		194,051	
Total Miscellaneous	<u>562,610</u>	<u>667,388</u>	<u>104,778</u>
TOTAL REVENUES	<u>47,127,681</u>	<u>46,642,526</u>	<u>(485,155)</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government			
Governing Body:			
Salaries and benefits		54,447	
Operating expenses		5,222	
Total Governing Body	<u>62,897</u>	<u>59,669</u>	<u>3,228</u>
Administration:			
Salaries and benefits		299,444	
Operating expenses		7,532	
Total Administration	<u>320,276</u>	<u>306,976</u>	<u>13,300</u>
Finance:			
Salaries and benefits		281,945	
Operating expenses		53,463	
Total Finance	<u>356,487</u>	<u>335,408</u>	<u>21,079</u>
Tax Administration:			
Salaries and benefits		875,666	
Operating expenses		103,929	
Total Tax Administration	<u>1,167,749</u>	<u>979,595</u>	<u>188,154</u>
Tax Revaluation:			
Salaries and benefits		24,235	
Operating expenses		111,370	
Total Tax Revaluation	<u>320,370</u>	<u>135,605</u>	<u>184,765</u>
Tag office:			
Salaries and benefits		141,282	
Operating expenses		10,228	
Total Tag office	<u>158,807</u>	<u>151,510</u>	<u>7,297</u>
Legal Services:			
Operating expenses	<u>65,500</u>	<u>38,493</u>	<u>27,007</u>
Court facilities:			
Operating expenses	<u>1,500</u>	<u>946</u>	<u>554</u>
Elections:			
Salaries and benefits		207,921	
Operating expenses		126,999	
Total Elections	<u>337,682</u>	<u>334,920</u>	<u>2,762</u>
Register of Deeds:			
Salaries and benefits		385,195	
Operating expenses		79,935	
Total Register of Deeds	<u>473,060</u>	<u>465,130</u>	<u>7,930</u>
General administration:			
Operating expenses		534,349	
Capital outlay		15,600	
Total General Administration	<u>1,160,264</u>	<u>549,949</u>	<u>610,315</u>
Information technologies:			
Salaries and benefits		360,747	
Operating expenses		331,981	
Capital outlay		63,963	
Total Information technologies	<u>784,440</u>	<u>756,691</u>	<u>27,749</u>
Maintenance:			
Salaries and benefits		946,807	
Operating expenses		37,950	
Total Maintenance	<u>992,013</u>	<u>984,757</u>	<u>7,256</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Buildings			
Courthouse:			
Operating expenses		105,934	
Capital Outlay		4,441	
Total Courthouse	<u>116,225</u>	<u>110,375</u>	<u>5,850</u>
East Annex:			
Operating expenses	<u>33,371</u>	<u>33,324</u>	<u>47</u>
Administration Building:			
Operating expenses	<u>25,225</u>	<u>20,383</u>	<u>4,842</u>
Emergency Management:			
Operating expenses	<u>1,000</u>	<u>205</u>	<u>795</u>
Hannah:			
Operating expenses	<u>21,630</u>	<u>21,608</u>	<u>22</u>
Health Department:			
Operating expenses	<u>54,156</u>	<u>51,384</u>	<u>2,772</u>
AppalCART:			
Operating expenses	<u>2,100</u>	<u>1,740</u>	<u>360</u>
Library:			
Operating expenses	<u>52,460</u>	<u>45,209</u>	<u>7,251</u>
Old Caldwell College & Tech. Inst:			
Operating expenses	<u>1,885</u>	<u>1,881</u>	<u>4</u>
Western Watauga Comm. Center:			
Operating expenses	<u>64,619</u>	<u>32,168</u>	<u>32,451</u>
Parking Lots:			
Operating expenses	<u>1,700</u>	<u>206</u>	<u>1,494</u>
West Courthouse Annex:			
Operating expenses	<u>85,250</u>	<u>50,270</u>	<u>34,980</u>
Human Services Center:			
Operating expenses	<u>92,726</u>	<u>75,816</u>	<u>16,910</u>
Appalachian Enterprise Center:			
Operating expenses	<u>20,325</u>	<u>18,608</u>	<u>1,717</u>
Law Enforcement Center:			
Operating expenses	<u>206,730</u>	<u>200,959</u>	<u>5,771</u>
Old Watauga High School:			
Operating expenses	<u>550,000</u>	<u>399,215</u>	<u>150,785</u>
NRSA Houses:			
Operating expenses	<u>2,500</u>	<u>1,448</u>	<u>1,052</u>
Recreation Administration Center:			
Operating expenses	<u>2,000</u>	<u>497</u>	<u>1,503</u>
Aquatics Center:			
Operating expenses	<u>131,527</u>	<u>130,118</u>	<u>1,409</u>
Opt./Maintenance Facility:			
Operating expenses	<u>44,576</u>	<u>36,576</u>	<u>8,000</u>
Recreation Fields/Parks:			
Operating expenses		45,558	
Capital outlay		44,910	
Total Recreation Fields/Parks	<u>436,790</u>	<u>90,468</u>	<u>346,322</u>
Old Cove Creek School:			
Operating expenses	<u>17,810</u>	<u>14,701</u>	<u>3,109</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Brookshire Park:			
Operating expenses		17,370	
Capital outlay		148,500	
Total Brookshire Park	<u>748,850</u>	<u>165,870</u>	<u>582,980</u>
Anne Marie Drive Fields:			
Operating expenses	<u>26,441</u>	<u>20,021</u>	<u>6,420</u>
Brookshire Soccer Complex:			
Operating expenses	<u>14,225</u>	<u>9,341</u>	<u>4,884</u>
Total Public Buildings	<u>2,754,121</u>	<u>1,532,391</u>	<u>1,221,730</u>
Total General Government	<u>8,955,166</u>	<u>6,632,040</u>	<u>2,323,126</u>
Public Safety			
Sheriff's department:			
Salaries and benefits		2,684,488	
Operating expenses		356,581	
Capital outlay		78,841	
Total Sheriff's department	<u>3,231,368</u>	<u>3,119,910</u>	<u>111,458</u>
Communications:			
Salaries and benefits		649,287	
Operating expenses		47,473	
Total Communications	<u>733,872</u>	<u>696,760</u>	<u>37,112</u>
Jail:			
Salaries and benefits		1,367,065	
Operating expenses		625,561	
Total Jail	<u>1,992,736</u>	<u>1,992,626</u>	<u>110</u>
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		247,817	
Operating expenses		397,577	
Total Emerg. Mgt. & Fire Protect.	<u>666,653</u>	<u>645,394</u>	<u>21,259</u>
Planning and Inspections:			
Salaries and benefits		546,579	
Operating expenses		21,813	
Total Planning and Inspections	<u>571,528</u>	<u>568,392</u>	<u>3,136</u>
Medical examiner:			
Operating expenses	<u>39,200</u>	<u>39,200</u>	<u>-</u>
Ambulance and rescue squad:			
Operating expenses	<u>985,520</u>	<u>983,303</u>	<u>2,217</u>
Animal control:			
Salaries and benefits		108,199	
Operating expenses		10,922	
Total Animal control	<u>123,826</u>	<u>119,121</u>	<u>4,705</u>
Forestry:			
Operating expenses	<u>53,635</u>	<u>49,097</u>	<u>4,538</u>
Total Public Safety	<u>8,398,338</u>	<u>8,213,803</u>	<u>184,535</u>
Economic & Physical Development			
Transportation:			
Operating expenses	<u>147,325</u>	<u>147,325</u>	<u>-</u>
Special Appropriations:	<u>454,586</u>	<u>445,103</u>	<u>9,483</u>
Economic Development:			
Operating expenses	<u>105,235</u>	<u>61,054</u>	<u>44,181</u>
Total Economic & Physical Development	<u>707,146</u>	<u>653,482</u>	<u>53,664</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Environmental Protection			
Cooperative extension:			
Salaries and benefits		220,820	
Operating expenses		14,043	
Total Cooperative extension	<u>254,203</u>	<u>234,863</u>	<u>19,340</u>
Soil conservation:			
Salaries and benefits		108,339	
Operating expenses		8,868	
Total Soil conservation	<u>128,839</u>	<u>117,207</u>	<u>11,632</u>
Total Environmental Protection	<u>383,042</u>	<u>352,070</u>	<u>30,972</u>
Human Services			
Public health:			
Operating expenses	<u>568,183</u>	<u>568,183</u>	<u>-</u>
Mental health:			
Operating expenses	<u>221,194</u>	<u>221,194</u>	<u>-</u>
Social services - administration:			
Salaries and benefits		2,616,188	
Operating expenses		390,187	
Capital outlay		12,722	
Total Social services - administration	<u>3,068,751</u>	<u>3,019,097</u>	<u>49,654</u>
Beneficiary payments:	<u>876,764</u>	<u>814,934</u>	<u>61,830</u>
State foster care and daycare			
Room and board		270,345	
Daycare		958,895	
Total State foster care and daycare	<u>1,302,085</u>	<u>1,229,240</u>	<u>72,845</u>
Project on Aging:			
Salaries and benefits		873,448	
Operating expenses		250,313	
Total Project on Aging	<u>1,266,786</u>	<u>1,123,761</u>	<u>143,025</u>
Veterans services:			
Salaries and benefits		83,487	
Operating expenses		2,705	
Total Veterans services	<u>109,032</u>	<u>86,192</u>	<u>22,840</u>
Total Human Services	<u>7,412,795</u>	<u>7,062,601</u>	<u>350,194</u>
Education			
Public Schools - current		11,840,239	
Public Schools - capital outlay		1,002,112	
Community College - current		800,980	
Community College - capital outlay		10,000	
Total Education	<u>14,265,607</u>	<u>13,653,331</u>	<u>612,276</u>
Cultural and Recreational			
Library:			
Operating expenses	<u>495,000</u>	<u>495,000</u>	<u>-</u>
Recreation:			
Salaries and benefits		577,203	
Operating expenses		120,924	
Total Recreation	<u>727,472</u>	<u>698,127</u>	<u>29,345</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, 2013

	Final Budget	Actual	Variance
Aquatics:			
Salaries and benefits		163,304	
Operating expenses		12,398	
Total Aquatics	176,205	175,702	503
Total Cultural and Recreational	1,398,677	1,368,829	29,848
Debt Service			
Principle retirement		5,866,473	
Interest & fees		2,281,219	
Total Debt Service	8,147,692	8,147,692	-
TOTAL EXPENDITURES	49,668,463	46,083,848	3,584,615
Excess (deficiency) of revenues over expenditures	(2,540,782)	558,678	3,099,460
OTHER FINANCING SOURCES (USES):			
Transfers to Capital Projects Fund	(100,000)	(100,000)	-
Transfers from Capital Projects Fund	1,552,085	1,552,085	-
Transfers from Solid Waste Fund	57,653	57,653	-
Fund Balance Appropriated	1,031,044	-	(1,031,044)
TOTAL OTHER FINANCING SOURCES (USES)	2,540,782	1,509,738	(1,031,044)
Excess (deficiency) of revenues over expenditures & other sources (uses)	\$ -	2,068,416	2,068,416
Fund balances at beginning of year		17,293,863	
Fund balances at end of year		\$ 19,362,279	

Watauga County, North Carolina
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2013

Statement 2

	<u>Special Revenue Funds</u>						<u>Capital Project Funds</u>			
	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Funds	Occupancy Tax Fund	CDBG Scattered Site Housing Fund	Total Nonmajor Special Revenue Funds	PARTF Rocky Knob Park Capital Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS:										
Cash and cash equivalents	\$ 83,634	68,756	227,500	25,984	5	-	405,879	-	-	405,879
Due from other governments	-	-	46,729	-	-	-	46,729	-	-	46,729
Accounts receivable, net	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	152,842	87,950	-	240,792	-	-	240,792
Total assets	\$ 83,634	68,756	274,229	178,826	87,955	-	693,400	-	-	693,400
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:										
Liabilities:										
Accounts payable and accrued liabilities	-	428	600	25,984	-	-	27,012	-	-	27,012
Due to other governments	-	-	-	-	87,955	-	87,955	-	-	87,955
Total Liabilities	-	428	600	25,984	87,955	-	114,967	-	-	114,967
Deferred Inflows of Resources										
Taxes receivable	-	-	-	152,842	-	-	152,842	-	-	152,842
Total deferred inflows of resources	-	-	-	152,842	-	-	152,842	-	-	152,842
Fund Balances:										
Restricted for Public Safety	83,634	68,328	273,629	-	-	-	425,591	-	-	425,591
Total fund balances	83,634	68,328	273,629	-	-	-	425,591	-	-	425,591
Total liabilities, deferred inflows of resources, and fund balances	\$ 83,634	68,756	274,229	178,826	87,955	-	693,400	-	-	693,400

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

Statement 3

	Special Revenue Funds							Capital Project Funds			
	Federal Equitable Sharing Fund	State Substance Abuse Tax	Emergency Telephone System	Fire Districts Fund	Occupancy Tax Fund	Scattered Site Housing Fund	Scattered Site Housing Fund	Total Nonmajor Special Revenue Funds	PARTF Rocky Knob Park Capital Project	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES											
Ad valorem taxes	\$ -	-	-	2,929,600	-	-	-	2,929,600	-	-	2,929,600
Other taxes and licenses	-	35,408	-	-	981,129	-	-	1,016,537	-	-	1,016,537
Restricted intergovernmental	20,075	-	251,533	-	-	(2,561)	7,000	276,047	50,000	50,000	326,047
Other miscellaneous revenues	-	-	-	-	-	-	-	-	-	-	-
Investment earnings	141	119	431	-	-	-	-	691	-	-	691
Total revenues	<u>20,216</u>	<u>35,527</u>	<u>251,964</u>	<u>2,929,600</u>	<u>981,129</u>	<u>(2,561)</u>	<u>7,000</u>	<u>4,222,875</u>	<u>50,000</u>	<u>50,000</u>	<u>4,272,875</u>
EXPENDITURES											
Current:											
General government	-	-	-	-	981,129	-	-	981,129	-	-	981,129
Public safety	-	16,127	256,023	2,929,600	-	-	-	3,201,750	-	-	3,201,750
Economic and Physical Development	-	-	-	-	-	3,394	7,000	10,394	-	-	10,394
Capital outlay	-	-	-	-	-	-	-	-	75,000	75,000	75,000
Total expenditures	<u>-</u>	<u>16,127</u>	<u>256,023</u>	<u>2,929,600</u>	<u>981,129</u>	<u>3,394</u>	<u>7,000</u>	<u>4,193,273</u>	<u>75,000</u>	<u>75,000</u>	<u>4,268,273</u>
Excess (deficiency) of revenues over expenditures	<u>20,216</u>	<u>19,400</u>	<u>(4,059)</u>	<u>-</u>	<u>-</u>	<u>(5,955)</u>	<u>-</u>	<u>29,602</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>4,602</u>
OTHER FINANCING SOURCES (USES)											
Net change in fund balances	20,216	19,400	(4,059)	-	-	(5,955)	-	29,602	(25,000)	(25,000)	4,602
Fund balances - beginning	63,418	48,927	277,688	-	-	5,955	-	395,988	25,000	25,000	420,988
Fund balances - ending	<u>\$ 83,634</u>	<u>68,327</u>	<u>273,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425,590</u>	<u>-</u>	<u>-</u>	<u>425,590</u>

Watauga County, North Carolina
 Federal Equitable Sharing Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - Federal	\$	20,075	
Investment Earnings		141	
Total revenues	<u>14,000</u>	<u>20,216</u>	<u>6,216</u>
Expenditures:			
Public Safety			
Capital Outlay	<u>14,000</u>	<u>-</u>	
Total expenditures	<u>14,000</u>	<u>-</u>	<u>(14,000)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>20,216</u>	<u>20,216</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>20,216</u>	<u>20,216</u>
Fund balance at beginning of year		<u>63,418</u>	
Fund balance at end of year		<u>\$ 83,634</u>	

Watauga County, North Carolina
 State Substance Abuse Tax Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - State	\$	35,408	
Investment Earnings		119	
	<u>20,200</u>	<u>35,527</u>	<u>15,327</u>
Total revenues			
Expenditures:			
Public Safety		14,632	
Capital Outlay		1,495	
	<u>20,200</u>	<u>16,127</u>	<u>4,073</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>19,400</u>	<u>19,400</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>19,400</u>	<u>19,400</u>
Fund balance at beginning of year		<u>48,927</u>	
Fund balance at end of year		<u>\$ 68,327</u>	

Statement 6

Watauga County, North Carolina
 Emergency Telephone System Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$	251,533	
Investment earnings		431	
	<u>251,533</u>	<u>251,964</u>	<u>431</u>
Total revenues			
Expenditures:			
Public safety:			
Implementation services		67,536	
Training		2,436	
Hardware		66,510	
Software		34,000	
Telephones		85,541	
	<u>302,685</u>	<u>256,023</u>	<u>46,662</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(51,152)</u>	<u>(4,059)</u>	<u>47,093</u>
Other financing sources (uses):			
Appropriated fund balance	<u>51,152</u>	<u>-</u>	<u>(51,152)</u>
Total Other Financing sources (uses):	<u>51,152</u>	<u>-</u>	<u>(51,152)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ -</u>	<u>(4,059)</u>	<u>(4,059)</u>
Fund balance at beginning of year		<u>277,688</u>	
Fund balance at end of year		<u>\$ 273,629</u>	

Watauga County, North Carolina
 Fire Districts Funds
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Ad valorem taxes	\$ 2,935,879	2,929,600	(6,279)
Total revenues	<u>2,935,879</u>	<u>2,929,600</u>	<u>(6,279)</u>
Expenditures:			
Public safety:			
Beaver Dam Fire District	115,988	114,182	1,806
Blowing Rock Fire District	467,361	469,042	(1,681)
Boone Fire District	745,838	742,872	2,966
Cove Creek Fire District	232,171	229,749	2,422
Deep Gap Fire District	187,953	187,785	168
Foscoe Fire District	469,135	469,337	(202)
Meat Camp Fire District	205,875	207,675	(1,800)
Shawneehaw Fire District	96,412	95,623	789
Stewart Simmons Fire District	159,787	156,989	2,798
Todd Fire District	64,082	65,704	(1,622)
Zionville Fire District	112,231	111,504	727
Beech Mountain Fire Service District	1,998	1,986	12
Cove Creek Fire Service District	302	301	1
Foscoe Fire Service District	71,302	71,350	(48)
Shawneehaw Fire Service District	5,444	5,501	(57)
Total expenditures	<u>2,935,879</u>	<u>2,929,600</u>	<u>6,279</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	-	<u>-</u>
Fund balance at beginning of year		-	
Fund balance at end of year		<u>-</u>	

Watauga County, North Carolina
Occupancy Tax Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Other taxes and licenses	\$ <u>975,000</u>	<u>981,129</u>	<u>6,129</u>
Total revenues	<u>975,000</u>	<u>981,129</u>	<u>6,129</u>
Expenditures:			
Tourism Development		961,318	
Administrative fee		<u>19,811</u>	
Total expenditures	<u>975,000</u>	<u>981,129</u>	<u>(6,129)</u>
Excess (deficiency) of revenues over expenditures	\$ <u><u>-</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
 CDBG Scattered Site Housing
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental	\$ 400,000	399,845	-	399,845	(155)
Program Revenues	<u>19,335</u>	<u>19,335</u>	<u>(2,561)</u>	<u>16,774</u>	<u>(2,561)</u>
Total revenues	<u>419,335</u>	<u>419,180</u>	<u>(2,561)</u>	<u>416,619</u>	<u>(2,716)</u>
Expenditures:					
Residence rehabilitation	313,000	313,000	-	313,000	-
Local option/Emergency	59,335	53,225	3,394	56,619	2,716
Grant administration	<u>47,000</u>	<u>47,000</u>	<u>-</u>	<u>47,000</u>	<u>-</u>
Total expenditures	<u>419,335</u>	<u>413,225</u>	<u>3,394</u>	<u>416,619</u>	<u>2,716</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>5,955</u>	<u>(5,955)</u>	<u>-</u>	<u>-</u>
Fund balance at beginning of year			<u>5,955</u>		
Fund balance at end of year		\$	<u><u>-</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, 2013

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental	\$ 225,000	-	7,000	7,000	(218,000)
Total revenues	<u>225,000</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>	<u>(218,000)</u>
Expenditures:					
Residence rehabilitation	180,000	-	-	-	180,000
Local option/Emergency	22,500	-	-	-	22,500
Grant administration	22,500	-	7,000	7,000	15,500
Total expenditures	<u>225,000</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>	<u>218,000</u>
Excess (deficiency) of revenues over expenditures	\$ <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
 PARTF - Rocky Knob Project
 Statement of Revenues and Expenditures and Changes in
 Fund Balance - Budget and Actual
 From Inception and For the Fiscal Year Ended June 30, 2013

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted Intergovernmental	\$ 500,000	450,000	50,000	500,000	-
Other revenues	575,600	239,723	-	239,723	(335,877)
Total Revenues	<u>1,075,600</u>	<u>689,723</u>	<u>50,000</u>	<u>739,723</u>	<u>(335,877)</u>
Expenditures:					
Principal		495,000	-	495,000	
Interest		26,463	-	26,463	
Capital Projects		143,260	75,000	218,260	
Total Expenditures	<u>1,075,600</u>	<u>664,723</u>	<u>75,000</u>	<u>739,723</u>	<u>335,877</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
Fund balance at beginning of year			<u>25,000</u>		
Fund balance at end of year			<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, 2013

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
Revenues:					
Investment earnings	\$ 746,000	613,130	332	613,462	(132,538)
NC Lottery Funds	350,000	350,000	-	350,000	-
Other revenues	1,288,400	1,463,851	140	1,463,991	175,591
Total Revenues	<u>2,384,400</u>	<u>2,426,981</u>	<u>472</u>	<u>2,427,453</u>	<u>43,053</u>
Expenditures:					
Capital Projects	79,804,520	79,328,343	411,928	79,740,271	64,249
Excess (deficiency) of revenues over expenditures	<u>(77,420,120)</u>	<u>(76,901,362)</u>	<u>(411,456)</u>	<u>(77,312,818)</u>	<u>107,302</u>
Other financing sources (uses):					
Operating transfers - in (out):					
From Capital Projects Fund	1,548,881	1,548,881	-	1,548,881	--
From General Fund	5,871,239	5,871,239	-	5,871,239	--
Loan proceeds	70,000,000	70,000,000	-	70,000,000	--
Total other financing sources (uses)	<u>77,420,120</u>	<u>77,420,120</u>	<u>-</u>	<u>77,420,120</u>	<u>--</u>
Increase (decrease) in fund balance	\$ <u><u>--</u></u>	<u><u>518,758</u></u>	<u><u>(411,456)</u></u>	<u><u>107,302</u></u>	<u><u>107,302</u></u>
Fund balance at beginning of year			<u>518,758</u>		
Fund balance at end of year			<u>\$ <u><u>107,302</u></u></u>		

Watauga County, North Carolina
 Capital Projects Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Investment earnings	\$ -	11,662	11,662
Expenditures:			
General government	100,000	-	100,000
Excess (deficiency) of revenues over expenditures	(100,000)	11,662	111,662
Other Financing Sources (Uses):			
Transfer from other funds	100,000	100,000	-
Transfer to other funds	(1,552,085)	(1,552,085)	-
Appropriated fund balance	1,552,085	-	(1,552,085)
Total other financing sources	100,000	(1,452,085)	(1,552,085)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	-	(1,440,423)	(1,440,423)
Fund balance at beginning of year		7,198,652	
Fund balance at end of year		\$ 5,758,229	

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures Budget and Actual (NON-GAAP)
For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Landfill charges	\$	4,040,556	
Restricted intergovernmental revenues		119,216	
Total	<u>4,085,743</u>	<u>4,159,772</u>	<u>74,029</u>
Non-operating revenues:			
Investment earnings	<u>5,000</u>	<u>7,295</u>	<u>2,295</u>
Total revenues	<u>4,090,743</u>	<u>4,167,067</u>	<u>76,324</u>
Expenditures:			
Landfill operations:			
Salaries and employee benefits		1,295,143	
Other operating expenditures		2,362,844	
Total landfill operations	<u>3,805,594</u>	<u>3,657,987</u>	<u>147,607</u>
Recycling operations:			
Salaries and employee benefits		51,059	
Other operating expenses		44,803	
Total recycling operations	<u>96,953</u>	<u>95,862</u>	<u>1,091</u>
Budgetary appropriations			
Interest paid		1,020	
Debt principle		68,589	
Capital outlay		46,052	
Total budgetary appropriations	<u>248,131</u>	<u>115,661</u>	<u>132,470</u>
Total expenditures	<u>4,150,678</u>	<u>3,869,510</u>	<u>281,168</u>
Revenues under/(over) expenditures	<u>(59,935)</u>	<u>297,557</u>	<u>357,492</u>
Other financing sources (uses):			
Transfers to general fund for debt payment	(57,653)	(57,653)	-
Appropriated fund balance	<u>117,588</u>	<u>-</u>	<u>(117,588)</u>
Total other financing sources (uses):	<u>59,935</u>	<u>(57,653)</u>	<u>(117,588)</u>
Revenues over expenditures and other sources (uses)	<u>\$ -</u>	<u>239,904</u>	<u>239,904</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		57,602	
Depreciation		(341,385)	
Payment of debt principle		68,589	
Decrease in accrued leave payable		1,155	
Total reconciling items		<u>(214,039)</u>	
Change in net assets	\$	<u>25,865</u>	

Watauga County, North Carolina
Combining Statement of Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2013

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ <u>213,943</u>	<u>594,393</u>	\$ <u>808,336</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	\$ <u>-</u>	<u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net position:			
Assets held in trust for pension benefits	\$ <u>213,943</u>	<u>594,393</u>	\$ <u>808,336</u>

Watauga County, North Carolina
Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2013

	<u>LEO Special Separation Allowance</u>	<u>Other Post Employment Benefits</u>	<u>Totals</u>
Additions:			
Employer contributions	\$ 48,257	211,783	\$ 260,040
Interest	<u>395</u>	<u>3,095</u>	<u>3,490</u>
Total additions	<u>48,652</u>	<u>214,878</u>	<u>263,530</u>
Deductions:			
Benefits	38,015	132,300	170,315
Administrative expense	<u>241</u>	<u>9,095</u>	<u>9,336</u>
Total deductions	<u>38,256</u>	<u>141,395</u>	<u>179,651</u>
Change in net position	10,396	73,483	83,879
Net position, beginning	<u>203,547</u>	<u>520,910</u>	<u>724,457</u>
Net position, ending	<u>\$ 213,943</u>	<u>594,393</u>	<u>\$ 808,336</u>

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Social Services:				
Assets:				
Cash and Investments	\$ 36,377	219,311	245,368	\$ 10,320
Liabilities:				
Accounts Payable	\$ 36,377	219,311	245,368	\$ 10,320
Vehicle Tax-Towns:				
Assets:	7,892	112,697	108,527	12,062
Liabilities:				
Accounts Payable	7,892	112,697	108,527	12,062
Town of Boone Ad valorem Taxes:				
Assets:	4,524	5,337,133	5,333,821	7,836
Liabilities:				
Accounts Payable	4,524	5,337,133	5,333,821	7,836
Jail Commissary:				
Assets:				
Cash and Investments	16,153	117,207	125,341	8,019
Liabilities:				
Accounts Payable	16,153	117,207	125,341	8,019
Fines and Forfeitures:				
Assets:				
Cash and Investments	-	303,098	273,209	29,889
Liabilities:				
Accounts Payable	-	303,098	273,209	29,889
DMV Tax Interest Fund:				
Assets:				
Cash and Investments	1,222	9,131	9,595	758
Liabilities:				
Accounts Payable	1,222	9,131	9,595	758
Deed of Trust Fee Fund:				
Assets:				
Cash and Investments	4,346	52,977	52,586	4,737
Liabilities:				
Accounts Payable	4,346	52,977	52,586	4,737
Total - All Agency Funds				
Assets:				
Cash and Investments	\$ 70,514	6,151,554	6,148,447	\$ 73,621
Liabilities:				
Accounts Payable	\$ 70,514	6,151,554	6,148,447	\$ 73,621

Watauga County, North Carolina
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2013

Fiscal year:	Uncollected Balance June 30, 2012	Additions	Collections and Credits	Uncollected Balance June 30, 2013
2012 - 2013	\$ -	27,834,337	27,234,590	599,747
2011 - 2012	624,955	-	356,187	268,768
2010 - 2011	289,396	-	117,040	172,356
2009 - 2010	167,123	-	50,507	116,616
2008 - 2009	118,711	-	30,780	87,931
2007 - 2008	78,352	-	13,603	64,749
2006 - 2007	68,612	-	8,792	59,820
2005 - 2006	54,554	-	3,518	51,036
2004 - 2005	41,018	-	3,928	37,090
2003 - 2004	38,354	-	1,524	36,830
2002 - 2003	38,046	-	38,046	-
	\$ 1,519,121	27,834,337	27,858,515	1,494,943
Plus: 2013 - 2014 receivable				49,077
Less: Allowance for uncollectible accounts General Fund				(483,564)
Ad valorem taxes receivable - net General Fund			\$	1,060,456

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$ 27,908,138
Reconciling items:		
Advertising and interest collected	(163,826)	
Taxes written off	36,123	
Prior year releases	78,080	
Total reconciling items	(49,623)	
Total collections and credits		\$ 27,858,515

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2013

	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	\$ 8,461,562,032	\$ 0.313	26,484,689	\$ 26,484,689	-
Motor vehicles	368,773,489	0.313	1,154,261	-	1,154,261
Penalties	-		3,055	3,055	-
Total	<u>8,830,335,521</u>		<u>27,642,005</u>	<u>26,487,744</u>	<u>1,154,261</u>
Discoveries:					
Current year taxes	88,957,277	0.313	278,436	278,436	-
Prior year taxes	-		25,022	25,022	-
Penalties	-		21	21	-
Total	<u>88,957,277</u>		<u>303,479</u>	<u>303,479</u>	<u>-</u>
Abatements:	<u>(35,510,224)</u>		<u>(111,147)</u>	<u>(84,275)</u>	<u>(26,872)</u>
Total property valuation	<u>\$ 8,883,782,574</u>				
Net levy			27,834,337	26,706,948	1,127,389
Uncollected taxes at June 30, 2013			<u>599,747</u>	<u>529,665</u>	<u>70,082</u>
Current year's taxes collected			<u>\$ 27,234,590</u>	<u>26,177,283</u>	<u>1,057,307</u>
Current levy collection percentage			<u>97.85%</u>	<u>98.02%</u>	<u>93.78%</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2013

Secondary Market Disclosures:

Assessed Valuation:		
Assessment Ratio		100%
Real Property	\$	8,477,817,607
Personal Property		335,530,744
Public Service Companies		79,411,220
Total Assessed Valuation	\$	<u>8,892,759,571</u>
Tax Rate per \$100		0.313
Net Levy (Includes penalties, discoveries, releases and abatements)	\$	<u><u>27,834,337</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, 2013:

Fire Protection District	Tax Rate per \$100	Net Levy
Beaver Dam	0.05	\$ 114,021
Beech Mtn Rural	0.05	\$ 2,107
Blowing Rock	0.05	\$ 468,494
Boone Rural	0.04	\$ 747,142
Cove Creek	0.05	\$ 232,192
Cove Creek Rural	0.05	\$ 301
Deep Gap	0.05	\$ 187,337
Foscoe	0.05	\$ 465,471
Foscoe Rural	0.05	\$ 71,049
Meat Camp	0.05	\$ 210,766
Shawneehaw	0.05	\$ 94,501
Shawneehaw Rural	0.05	\$ 5,351
Stewart Simmons	0.05	\$ 146,466
Todd	0.07	\$ 64,195
Zionville	0.05	\$ <u>111,384</u>
Total Net Fire Protection District Levies		\$ <u><u>2,920,777</u></u>

Watauga County, North Carolina
 Ten Largest Taxpayers
 For the Year Ended June 30, 2013

Taxpayer	Type of Business	2012 Assessed Valuation	Percentage of Total Assessed Valuation	
Blue Ridge Electric Membership Coop	Electric Utility	\$ 54,712,800	0.62	%
BR Development Group LLC	Real Estate Development	63,690,180	0.72	
Dugger Valley Inv Group LLC	Real Estate Development	50,548,500	0.57	
Mountaineer Village LLC	Rental Properties	25,769,700	0.29	
Lowe's Home Centers	Home Supply Center	21,559,300	0.24	
Appalachian South	Rental Properties	20,002,600	0.23	
Horizon Acquisition #2 LLC	Rental Properties	18,906,800	0.21	
Wm Land Boone LTD Ptnrp	Real Estate Development	16,164,500	0.18	
Templeton Properties LP	Commercial Rental Properties	15,254,500	0.17	
Paul Brown Enterprises	Rental Properties	13,210,190	0.15	
		<u>\$ 299,819,070</u>	<u>3.37</u>	<u>%</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Year Ended June 30, 2013

	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>0.05</u>	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 114,021	2,107	468,494	747,142	232,192	301	187,337	465,471
Uncollected taxes at June 30, 2013	<u>3,360</u>	<u>127</u>	<u>13,272</u>	<u>15,567</u>	<u>7,701</u>	-	<u>7,062</u>	<u>7,101</u>
Current year's taxes collected	\$ <u>110,661</u>	<u>1,980</u>	<u>455,222</u>	<u>731,575</u>	<u>224,491</u>	<u>301</u>	<u>180,275</u>	<u>458,370</u>
Current levy collection percentage	<u>97.05%</u>	<u>93.97%</u>	<u>97.17%</u>	<u>97.92%</u>	<u>96.68%</u>	<u>100.00%</u>	<u>96.23%</u>	<u>98.47%</u>

	Foscoe Rural Fire Service District	Meat Camp 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>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.07</u>	<u>0.05</u>
Net levy	\$ 71,049	210,766	94,501	5,351	146,466	64,195	111,384
Uncollected taxes at June 30, 2013	<u>890</u>	<u>9,574</u>	<u>1,945</u>	<u>15</u>	<u>2,365</u>	<u>1,234</u>	<u>3,000</u>
Current year's taxes collected	\$ <u>70,159</u>	<u>201,192</u>	<u>92,556</u>	<u>5,336</u>	<u>144,101</u>	<u>62,961</u>	<u>108,384</u>
Current levy collection percentage	<u>98.75%</u>	<u>95.46%</u>	<u>97.94%</u>	<u>99.72%</u>	<u>98.39%</u>	<u>98.08%</u>	<u>97.31%</u>

COMPLIANCE SECTION

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Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated October 31, 2013. Our report includes a reference to other auditors who audited the financial statements of AppalCART and Watauga County District U Tourism Development Authority, as described in our report on Watauga County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of Watauga County District U Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watauga County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watauga County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bryce Holder, CPA, P.A.
Boone, North Carolina
October 31, 2013

BRYCE HOLDER, CPA, P.A.

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Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Watauga County, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Watauga County's major federal programs for the year ended June 30, 2013. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Watauga County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Watauga County's compliance.

Opinion on Each Major Federal Program

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bryce Holder, CPA, P.A.
Boone, North Carolina
October 31, 2013

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Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major State Program

We have audited Watauga County, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County's major state programs for the year ended June 30, 2013. Watauga County's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Watauga county's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, 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 state program occurred. An audit includes examining, on a test basis, evidence about Watauga

County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, Watauga County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Bryce Holder, CPA, P.A.
Boone, North Carolina
October 31, 2013*

WATAUGA COUNTY, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013

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
Childcare Cluster	93.596
	93.575
	93.713
	93.558
	93.714

Dollar threshold used to distinguish Between Type A and Type B Programs: \$ 674,025

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, 2013

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

Title XIX Medicaid
NC Public School Building Capital Fund-Lottery Proceeds

II. Financial Statement Findings:

There were no findings or questioned costs.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs.

IV. State Award Findings and Questioned Costs

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2013

Finding 2011

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

Finding 2012

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

Watauga County, North Carolina
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2013

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:					
Supplemental Nutrition Assistance Program					
State Administrative Matching Grants					
for the Food Stamp Program	10.561		\$ 223,292	-	223,292
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		23,132	-	-
Total U.S. Dept. of Agriculture			<u>246,424</u>	<u>-</u>	<u>223,292</u>
U.S. Dept. of Housing and Urban Development					
Passed-through the N.C. Dept. of Commerce					
Community Development Block Grant	14.228	06-C-1541	5,955	-	-
Community Development Block Grant	14.228	12-C-2431	7,000	-	-
Total U.S. Dept. of Housing and Urban Development			<u>12,955</u>	<u>-</u>	<u>-</u>
U.S. Dept. of Homeland Security					
Passed-through the N.C. Dept. of Public Safety:					
Emergency Management Performance Grant	97.042		35,502	-	35,502
Interoperable Emergency Communications	97.055		5,941	-	-
State Homeland Security Program	97.073		5,248	-	-
Total U.S. Dept. of Homeland Security			<u>46,691</u>	<u>-</u>	<u>35,502</u>
U.S. Dept. of Justice					
State Criminal Alien Assistance Program	16.606		6,532	-	-
Organized Crime Drug Enforcement Task Forces	16.610		1,234	-	-
Drug Court Discretionary Grant	16.585		27,587	-	9,196
Total U.S. Dept. of Justice			<u>35,353</u>	<u>-</u>	<u>9,196</u>
U.S. Dept. of Transportation					
Passed-through the N.C. Dept. of Transportation					
Hazardous Materials Emergency Planning Grant	20.703		4,378	-	-
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 B					
Grants for Supportive Services and Senior Centers	93.044		25,947	1,366	2,935
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		87,496	4,605	10,233
State Match on Home Delivered Meals Program			-	30,505	3,389
Senior Center			-	15,669	5,224
Family Caregiver Support Program	93.052		3,375	225	400
Fan Relief			-	400	-
NC Senior Medicare Patrol Grant	93.048		1,000	-	-
Total Aging Cluster			<u>117,818</u>	<u>52,770</u>	<u>22,181</u>
Social Services Block Grant (SSBG)					
In-home Services	93.667		18,147	465	2,068
In-home Services - State Match			-	86,947	9,661
Seniors Health Insurance Information Program	93.779		6,328	-	-
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Family Preservation	93.556		2,155	-	-
Temporary Assistance for Needy Families					
Administration	93.558		216,995	-	168,245
Direct Benefit Payments	93.558		79,727	-	-
Child Support Enforcement	93.563		172,214	-	88,551

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2013

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		338,440	-	-
Child Welfare Services	93.645		19,093	2,229	7,107
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		-	83,729	26,312
Title IV-E Foster Care	93.658		96,169	6,170	71,279
Foster Care - Direct Benefit Payments	93.658		59,396	15,023	17,043
Adoption Assistance - Direct Benefit Payments	93.659		146,883	39,082	39,082
Social Services Block Grant	93.667		157,978	13,534	54,804
DCD Smart Start			-	21,150	-
Adoption/Foster Care Special Provision			17,460	2,503	5,573
Total Division of Social Services			<u>1,448,803</u>	<u>323,602</u>	<u>511,906</u>
Subsidized Child Care					
Child Care Development Fund Cluster					
Division of Social Services					
Child Care Development Fund - Administration	93.596		80,000	-	-
Child Care and Development Fund - Discretionary	93.575		233,840	-	-
Child Care and Development Fund - Mandatory	93.596		102,091	-	-
Child Care and Development Fund - Match	93.596		212,324	96,547	-
Total Child Care Development Fund Cluster			<u>628,255</u>	<u>96,547</u>	<u>-</u>
Temporary Assistance for Needy Families (TANF)	93.558		127,438	-	-
Smart Start			-	3,405	-
State Appropriations			-	90,115	-
TANF - Maintenance of Effort			-	60,314	-
ARRA - Emergency Contingency for Social Security Block Grant	93.667		4,728	-	-
Foster Care Title IV-E	93.658		5,616	2,748	-
Total Subsidized Child Care (Note 3)			<u>766,037</u>	<u>253,129</u>	<u>-</u>
Passed-through the N.C. Board of Elections:					
Help America Vote Act	93.617		5,768	-	-
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		19,379,514	10,943,994	-
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		461,668	11,634	448,161
State/County Special Assistance	93.778		8,221	-	25,981
Health Choice	93.767		33,203	1,216	9,371
Links	93.674		1,647	412	-
Links- Direct Benefit Payments	93.674		16,836	-	-
Total U.S. Department of Health & Human Services			<u>22,121,697</u>	<u>11,533,987</u>	<u>995,419</u>
Total Federal Awards			<u>22,467,498</u>	<u>11,533,987</u>	<u>1,263,409</u>
State Awards:					
N.C. Dept. of Health and Human Services					
Division of Social Services					
State/County Special Assistance for Adults - Direct Benefit Payments			-	271,666	271,666
State Foster Care Benefits Program			-	121,492	121,492
Total N.C. Dept. of Health and Human Services			<u>-</u>	<u>393,158</u>	<u>393,158</u>
N.C. Dept. of Public Safety					
Division of Administration, Community Programs					
Juvenile Crime Prevention Council Programs-Gang Violence Prevention			-	14,422	-
Juvenile Crime Prevention Council Programs			-	114,912	34,384
Total N.C. Dept. of Public Safety			<u>-</u>	<u>129,334</u>	<u>34,384</u>

Watauga County, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2013

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
N.C. Dept. of Public Instruction					
NC Public School Building Capital Fund-Lottery Proceeds			-	590,299	-
Public School National Forest Service			-	594	-
Total N.C. Dept. of Public Instruction			-	590,893	-
N.C. Division of Parks and Recreation					
Parks and Recreation Trust Fund			-	50,000	50,000
N.C. Dept. of Transportation					
Workfirst/Employment Transportation Operating Assistance			-	10,511	-
Elderly and Disabled Transportation Assistance			-	54,324	-
Rural General Public Program			-	60,580	-
Total N.C. Dept. of Transportation			-	125,415	-
N.C. Dept. of Agriculture					
Soil Conservation Assistance			-	3,600	65,621
Soil Conservation Cost Sharing			-	23,993	23,993
Total N.C. Dept. of Agriculture			-	27,593	89,614
N.C. Dept. of Environment, Health, and Natural Resources					
Division of Waste Management Trust Fund					
Community Waste Reduction and Recycling Grant			-	14,200	17,432
N.C. Electronics Management Fund			-	2,997	-
Division of Water Quality					
Water Resources Development Project Grant			-	65,000	82,500
Total N.C. Dept. of Environment, Health, and Natural Resources			-	82,197	99,932
N.C. Division of Veteran's Affairs					
Veteran's Service Program			-	1,452	36,754
Total State Awards			-	1,400,042	703,842
Total Federal and State Awards			\$ 22,467,498	12,934,029	1,967,251

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
Supplemental Nutrition Assistance Program-noncash	10.551	\$ 5,558,776	-
Temporary Assistance for Needy Families	93.558	79,727	-
Medical Assistance Program	93.778	19,379,514	10,943,994
Child Welfare - Adoption Subsidy	93.645	-	83,729
Foster Care	93.658	59,396	15,023
Adoption Assistance	93.659	146,883	39,082
Adult Assistance		-	271,666
Links	93.674	16,836	-
NC Public School Building Capital Fund-Lottery Proceeds			590,299

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