

WATAUGA COUNTY, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

WATAUGA COUNTY, NORTH CAROLINA

BOARD OF COUNTY COMMISSIONERS

James Deal, Chairman

William R. Winkler, III, Vice Chairman

Tim Futrelle

John Cooper

Winston Kinsey

COUNTY OFFICIALS

Robert W. Nelson

County Manager

Margaret Pierce

Finance Director

Anthony DiSanti

County Attorney

JoAnn Townsend

Register of Deeds

Kelvin Byrd

Tax Administrator

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Independent Auditor's Report

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watauga County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the AppalCART or the Watauga County District U Tourism Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the AppalCART and the Watauga County District U Tourism Development Authority is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North

Carolina as of June 30, 2010, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, on our consideration of Watauga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, and the Law Enforcement Officers' Special Separation Allowance and Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules, and the accompanying schedule of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Bryce Holder, CPA, PA

October 22, 2010

FINANCIAL SECTION

Watauga County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2010

Management's Discussion and Analysis

As management of Watauga County, we offer readers of Watauga County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements and notes, which follow this narrative.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the fiscal year by \$109,629,752.
- The County's total net assets increased by \$40,658,090 primarily due to an increase in revenues and expenditures less than budgeted amounts along with the transfer of the old Watauga High School and the Mabel Elementary School from the Watauga County Board of Education.
- The County's unreserved fund balance for the general fund was \$16,861,411 at the end of the year, representing 35.94% of total General Fund expenditures.
- Watauga County continued construction of a new Watauga High School. Projected occupancy date of the 273,000+ square foot facility is July 2010.
- Watauga County's bond rating was downgraded by Moody's Investor Service from Aa3 to Aa2 due to global recalibration of all Moody's public rating scales. This was not due to any review of or change in the County's financial position.
- Watauga County's bond rating was upgraded by Standard and Poor's Rating Services from AA- to AA. This was due to a detailed financial review.

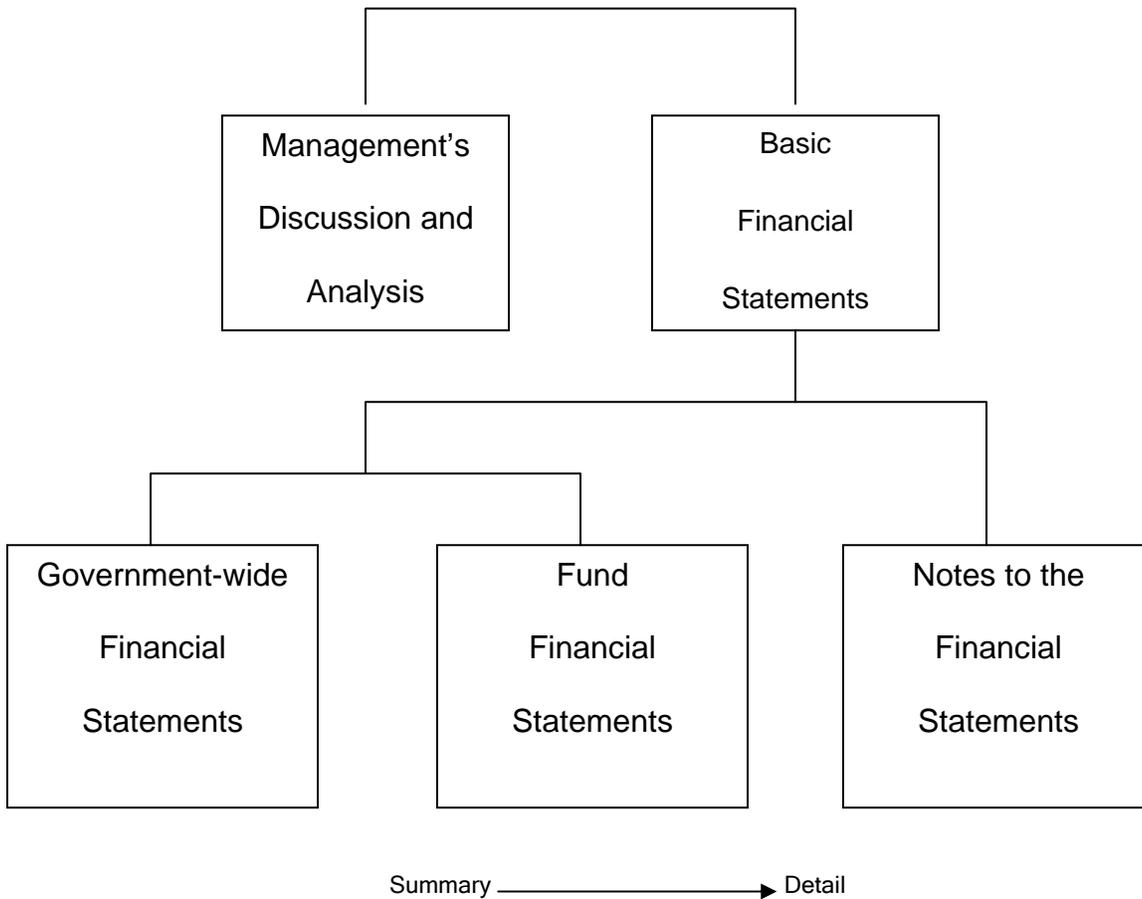
Overview of the Financial Statements

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

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next 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. After the notes, **supplemental information** is provided to show details about the County's programs. Budgetary information required by the General Statutes also can be found in this part of the statements.

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

Government-wide Financial Statements

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

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

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes landfill services offered by Watauga County. The final category is the component units. AppalCART is a separate not-for-profit organization, which operates a transportation authority primarily in Watauga County. Watauga County Board of Commissioners appoints the seven-member governing body. Watauga County provides some financial support and AppalCART is financially accountable to the County. Effective July 1, 2006, the Watauga County Board of Commissioners levied a six percent occupancy tax and created a Tourism Development Authority to administer funds collected to promote tourism in the unincorporated areas (District U) of the county. The seven member Authority Board is appointed by the County Board of Commissioners.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Watauga County, like all governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into 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. This method has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

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

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 14 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

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

	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 36,860,004	56,091,913	2,996,586	2,570,816	39,856,590	58,662,729
Capital assets	<u>147,715,142</u>	<u>92,428,235</u>	<u>5,162,998</u>	<u>5,538,673</u>	<u>152,878,140</u>	<u>97,966,908</u>
Total asset	<u>184,575,146</u>	<u>148,520,148</u>	<u>8,159,584</u>	<u>8,109,489</u>	<u>192,734,730</u>	<u>156,629,637</u>
Long-term liabilities, outstanding	50,277,129	83,241,428	89,215	314,129	50,366,344	83,555,557
Other liabilities	<u>32,326,064</u>	<u>3,663,684</u>	<u>412,570</u>	<u>438,734</u>	<u>32,738,634</u>	<u>4,102,418</u>
Total liabilities	<u>82,603,193</u>	<u>86,905,112</u>	<u>501,785</u>	<u>752,863</u>	<u>83,104,978</u>	<u>87,657,975</u>
Net assets:						
Invested in capital assets, net of related debt	76,419,417	39,070,022	5,117,430	5,314,853	81,536,847	44,384,875
Restricted	1,111,551	1,073,284	--	--	1,111,551	1,073,284
Unrestricted	<u>24,440,985</u>	<u>21,471,730</u>	<u>2,540,369</u>	<u>2,041,773</u>	<u>26,981,354</u>	<u>23,513,503</u>
Total net assets	\$ <u>101,971,953</u>	<u>61,615,036</u>	<u>7,657,799</u>	<u>7,356,626</u>	<u>109,629,752</u>	<u>68,971,662</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$109,629,752 at June 30, 2010. The County's net assets increased by \$40,658,090 for the fiscal year ended June 30, 2010. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$81,536,847, Restricted net assets of \$1,111,551 and Unrestricted net assets of \$26,981,354.

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2010, the increase in this category of net assets is due to current year additions to capital assets being more than offset by current year depreciation expenses and new long-term debt issuances.

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

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

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

- Continued diligence in the collection of property taxes by achieving a collection percentage of 97.42%, which is comparable to the 2009 statewide average of 97.05% and well above the average collection percentage of 96.4% for counties with populations of 25,000 to 49,999.

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

	Government Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	2,182,838	1,465,345	4,067,836	3,895,892	6,250,674	5,361,236
Operating grants and contributions	6,228,031	5,534,212	100,822	106,340	6,328,853	5,640,552
Capital grants	--	--	--	--	--	--
General revenues:						
Property taxes	30,044,889	29,561,074	--	--	30,448,889	29,561,074
Other taxes	10,472,813	12,508,532	--	--	10,472,813	12,508,532
Grants and contributions not restricted to specific programs	22,538	30,040	--	--	22,538	30,040
Donations	45,000	--	--	--	45,000	--
Other	961,743	1,741,385	7,473	27,520	969,216	1,768,905
Total revenues	49,957,852	50,840,588	4,029,752	4,029,752	54,137,983	54,870,340
Expenses:						
General government	8,115,419	8,103,706	--	--	8,115,419	8,103,706
Public safety	10,788,233	11,318,382	--	--	10,788,233	11,318,382
Economic and physical development	1,317,324	1,102,563	--	--	1,317,324	1,102,563
Environmental protection	141,030	--	--	--	141,030	--
Human services	7,510,996	8,091,300	--	--	7,510,996	8,091,300
Cultural and recreation	1,513,275	1,321,470	--	--	1,513,275	1,321,470
Education	12,902,066	14,206,909	--	--	12,902,066	14,206,909
Interest on long-term debt	3,191,790	3,635,985	--	--	3,191,790	3,635,985
Solid Waste	--	--	3,799,545	4,241,753	3,799,545	4,241,753
Total expenses	45,480,133	47,780,315	3,799,545	4,241,753	49,279,678	52,022,068
Increase (decrease) in net assets before transfers and special items	4,477,719	3,060,273	376,586	(212,001)	4,858,305	2,848,272
Transfers	75,413	78,470	(75,413)	(78,470)	--	--
Special item, transfer of schools	30,493,628	--	--	--	30,493,628	--
Increase (decrease) in net assets	35,046,760	3,138,743	301,173	(290,471)	35,347,933	2,848,272
Net assets, July 1	61,615,036	58,268,132	7,647,097	7,647,097	68,971,662	65,915,229
Prior period adjustments	5,310,157	208,161	--	--	5,310,157	208,161
Net assets, June 30	101,971,953	61,615,036	7,657,799	7,356,626	109,629,752	68,971,662

Governmental activities: Governmental activities increased the County's net assets by \$35,046,760 thereby accounting for 99.15% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Increased collections of property tax revenue above budgeted amounts
- Solicitation of additional grant revenues for the Public Safety and Education
- Increase of the County's high tax collections rate to 97.42% from 97.01%
- Transfer of ownership to the County of old Watauga High School and Mabel Elementary School

Business-type activities: Business-type activities increased Watauga County's net assets by \$301,173. Key element of this increase is as follows:

- Decrease in operating expenditures primarily due to reduction in contracted waste removal expenses
- Increase in revenue from solid waste operations due to enhanced recycling activities
- Reduced debt service costs

Financial Analysis of the County's Funds

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

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

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$16,861,411 while total fund balance decreased to \$23,058,989. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35.94 percent of total General Fund expenditures, while total fund balance represents 47.16 percent of that same amount.

At June 30, 2010, the governmental funds of Watauga County reported a combined fund balance of \$34,078,425, a 34.45 percent decrease over last year. The primary reason for this decrease is the continued construction of the new high school.

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 \$6,077,211.

The actual operating revenues for the General Fund were \$277,168 more than the budgeted amount. Actual operating expense was less than budgeted by \$4,813,363.

Proprietary Funds - Watauga County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid waste Landfill Fund at the end of the fiscal year amounted to \$2,540,369. The total increase in proprietary net assets was \$498,596.

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, 2010, totals \$152,878,140 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles for County departments
 - Purchase of 45+ acres of land at Rocky Knob for recreational use
 - Continued improvement of 75+ acres of land at Brookshire Park for mixed uses of recreation, affordable housing, and a commerce park
 - Continued construction of new county wide high school on 90+ acres site
 - Continued major renovation of Watauga County Courthouse HVAC system
 - Transfer of ownership to County of old Watauga High School and Mabel Elementary School
-

Watauga County's Capital Assets

Figure 4

WATAUGA COUNTY'S CAPITAL ASSETS

(net of depreciation)

	Governmental	Business	Total
	Activities	Activities	
	2010	2010	2010
Land	\$ 12,485,435	975,497	13,460,932
Buildings	57,584,054	3,488,204	61,072,258
Other improvements	604,673	74,054	678,727
Equipment	1,929,230	261,001	2,190,230
Vehicles	391,580	308,608	700,188
Construction in progress	74,720,171	55,633	74,775,804
Total	\$147,715,413	5,162,997	152,878,139

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, 2010, Watauga County had bonded debt outstanding of \$7,360,274 all of which is backed by the good faith and credit of the County.

Watauga County's Outstanding Debt

General Obligation Bonds

Figure 5

	Governmental Activities	
	2010	2009
General obligation bonds	\$7,360,274	7,405,000
Installment purchase	\$71,876,966	74,798,271

Watauga County's total debt decreased by \$2,966,031 or (4.2%) during the past fiscal year due to normal debt service payments.

As mentioned in the financial highlights section of this document, Watauga County increased its bond rating by Standard and Poor's to AA. This bond rating is a good indication of the sound financial condition of Watauga County. A good bond rating also helps keep interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Watauga County is \$689,993,287.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 41 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The County is experiencing limited growth in tourism after a slow year due to the overall economy
- The County is experiencing an unemployment rate of 6.8%, well below the state average of 9.1%
- Appalachian State University's economic impact is estimated at \$506 million a year and provides continued stability to the local economy
- New construction and real estate sales have remained relatively flat consistent with state and national trends
- The County delayed the property tax revaluation scheduled to be effective January 1, 2012

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental activities -The County's property tax rate is maintained at rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate which generates approximately \$2.856 million in property tax revenue is earmarked for debt service and capital needs for the public school system. Sales tax revenue is projected to remain flat due to a slow economy.

Budgeted expenditures in the General Fund includes no increase in the current expense appropriation to outside agencies, no funding for capital reserve, and limited capital purchases.

Businesses-type Activities- Budgeted revenues for tipping, greenbox, and landfill fees remain stable in the Solid waste Fund although a slight decline is anticipated in tipping fees due to a decrease in the waste stream from increased recycling. Budgeted expenditures include funding for an increase county-wide focus on recycling efforts.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Watauga County, North Carolina
Statement of Net Assets
June 30, 2010

Exhibit A

	Primary Government			Component Units	
	Governmental	Business-type	Total	AppalCART	Watauga County
	Activities	Activities			District U Tourism Development Authority
ASSETS					
Cash and cash equivalents	\$ 32,020,231	2,617,449	34,637,680	128,224	799,932
Receivables (net)	2,226,363	356,453	2,582,816	3,857	10,000
Due from other governments	1,999,792	22,684	2,022,476	1,539,507	56,800
Inventories	--	--	--	142,589	--
Other assets	170,723	--	170,723	241	--
Deferred charges - issuance cost	74,021	--	74,021	--	--
Deferred charges - refunding	287,081	--	287,081	--	--
Intangible asset - advanced funding of pension obligation	81,793	--	81,793	--	--
Capital assets:					
Land, improvements, and construction in progress	87,205,605	1,031,130	88,236,735	--	--
Other capital assets, net of depreciation	60,509,537	4,131,868	64,641,405	6,304,448	5,990
Total capital assets	147,715,142	5,162,998	152,878,140	6,304,448	5,990
Total assets	184,575,146	8,159,584	192,734,730	8,118,866	872,722
LIABILITIES					
Accounts payable and accrued expenses	1,035,850	148,081	1,183,931	82,225	20,023
Unearned revenue	120,905	209,551	330,456	18,819	--
Accrued interest payable	1,038,068	--	1,038,068	--	--
Customer deposits	78,134	--	78,134	--	--
Due to other governments	4,974	--	4,974	37,813	--
Net OPEB Liability	103,792	9,370	113,162	--	--
Long-term liabilities:					
Due within one year	29,944,341	45,568	29,989,909	911,167	--
Due in more than one year	50,277,129	89,215	50,366,344	--	4,697
Total liabilities	82,603,193	501,785	83,104,978	1,050,024	24,720
NET ASSETS					
Invested in capital assets, net of related debt	76,419,417	5,117,430	81,536,847	6,304,448	5,990
Restricted for:					
Public safety	877,615	--	877,615	--	--
Register of Deeds	233,936	--	233,936	--	--
Unrestricted (deficit)	24,440,985	2,540,369	26,981,354	764,394	842,012
Total net assets	\$ 101,971,953	7,657,799	109,629,752	7,068,842	848,002

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, 2010

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:				
Governmental Activities:				
General government	\$ 8,115,419	545,117	--	--
Public safety	10,788,233	613,609	831,268	--
Economic and physical development	1,317,324	730,718	373,799	--
Environmental Protection	141,030	--	141,030	--
Human service	7,510,996	14,719	3,673,761	--
Cultural and recreation	1,513,275	278,675	431,670	--
Education	12,902,066	--	776,503	--
Interest on long-term debt	3,191,790	--	--	--
Total governmental activities	45,480,133	2,182,838	6,228,031	--
Business-type activities:				
Solid waste	3,799,545	4,067,836	100,822	--
Total	\$ 49,279,678	6,250,674	6,328,853	--
Component units:				
AppalCART	\$ 3,126,729	1,253,406	1,470,379	2,157,093
Watauga County District U Development Authority	\$ 1,132,226	--	15,100	--

General revenues:

- Taxes:
 - Property taxes, levied for general purpose
 - Local option sales tax
 - Other taxes and licenses
- Grants and contributions not restricted to specific programs
- Investment earnings, unrestricted
- Miscellaneous, unrestricted
- Future period funding
- Donations, unrestricted
- Gain on sale of assets
- Special item - transfer of Old High School and Mabel Elementary School
- Transfers
 - Total general revenues, special items, and transfers
 - Change in net assets
- Net assets - beginning
- Prior period adjustment
- Net assets - ending

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

Net (Expense) Revenues and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
(7,570,302)	--	(7,570,302)		
(9,343,356)	--	(9,343,356)		
(212,807)	--	(212,807)		
--	--	--		
(3,822,516)	--	(3,822,516)		
(802,930)	--	(802,930)		
(12,125,563)	--	(12,125,563)		
(3,191,790)	--	(3,191,790)		
(37,069,264)	--	(37,069,264)		
--	369,113	369,113		
(37,069,264)	369,113	(36,700,151)		
			1,754,149	
				1,117,126
\$ 30,044,889	--	30,044,889	--	--
9,695,504	--	9,695,504	--	--
777,309	--	777,309	--	713,411
22,538	--	22,538	--	--
94,808	6,086	100,894	716	2,949
866,935	--	866,935	--	--
--	--	--	--	--
45,000	--	45,000	--	--
--	1,387	1,387	7,479	--
30,493,628	--	30,493,628	--	--
75,413	(75,413)	--	--	--
72,116,024	(67,940)	72,048,084	8,195	716,360
35,046,760	301,173	35,347,933	1,762,344	(400,766)
61,615,036	7,356,626	68,971,662	5,306,498	1,248,768
5,310,157	--	5,310,157	--	--
\$ 101,971,953	7,657,799	109,629,752	7,068,842	848,002

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

Watauga County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2010

Exhibit C

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Fund
ASSETS					
Cash and cash equivalents	\$ 21,343,983	3,660,782	6,128,032	887,434	32,020,231
Taxes receivable, net	984,830	--	--	128,192	1,113,022
Due from other governments	1,999,792	--	--	--	1,999,792
Due from other funds	81,890	--	--	--	81,890
Accounts receivable, net	308,317	--	421,952	301,878	1,032,147
Other assets	170,723	--	--	--	170,723
Total assets	<u>\$ 24,889,535</u>	<u>3,660,782</u>	<u>6,549,984</u>	<u>1,317,504</u>	<u>36,417,805</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 756,433	--	71,775	207,642	1,035,850
Unearned revenue	6,254	--	--	--	6,254
Deferred revenue	984,751	--	--	147,527	1,132,278
Performance deposits	78,134	--	--	--	78,134
Due to other governments	4,974	--	--	--	4,974
Due to other funds	--	--	--	81,890	81,890
Total liabilities	<u>1,830,546</u>	<u>--</u>	<u>71,775</u>	<u>437,059</u>	<u>2,339,380</u>
Fund balances:					
Reserved for:					
State statute	2,476,414	--	--	32,351	2,508,765
Encumbrances	3,010,904	--	--	--	3,010,904
Register of Deeds	233,937	--	--	--	233,937
E-911	75,902	--	--	--	75,902
Other post employment benefits	399,276	--	--	--	399,276
No Till Drill	1,145	--	--	--	1,145
Unreserved	16,861,411	3,660,782	--	--	20,522,193
Unreserved, reported in nonmajor:					
Special revenue funds	--	--	--	848,094	848,094
Capital projects funds	--	--	6,478,209	--	6,478,209
Total fund balances	<u>23,058,989</u>	<u>3,660,782</u>	<u>6,478,209</u>	<u>880,445</u>	<u>34,078,425</u>
Total liabilities and fund balances	<u>\$ 24,889,535</u>	<u>3,660,782</u>	<u>6,549,984</u>	<u>1,317,504</u>	

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

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

81,793

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

147,715,142

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

81,194

Liabilities for earned but deferred revenues in fund statements.

1,017,627

Deferred charges based on refunding issues.

361,102

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 (Note 3).

(81,363,330)

Net assets of governmental activities

\$ 101,971,953

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, 2010

Exhibit D

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 27,431,505	--	--	2,648,381	30,079,886
Local option sales taxes	9,695,504	--	--	--	9,695,504
Other taxes and licenses	777,309	--	--	730,718	1,508,027
Unrestricted intergovernmental	22,538	--	--	--	22,538
Restricted intergovernmental	5,447,543	--	--	758,954	6,206,497
Permits and fees	619,442	--	--	--	619,442
Sales and services	832,678	--	--	--	832,678
Investment earnings	61,459	15,295	17,620	1,957	96,331
Donations	--	45,000	--	--	45,000
Miscellaneous	213,014	--	686,352	--	899,366
Total revenues	<u>45,100,992</u>	<u>60,295</u>	<u>703,972</u>	<u>4,140,010</u>	<u>50,005,269</u>
EXPENDITURES					
Current:					
General government	7,948,822	--	--	730,718	8,679,540
Public safety	7,493,607	--	--	3,293,779	10,787,386
Economic and physical development	1,064,070	--	--	--	1,064,070
Human services	7,129,120	--	--	--	7,129,120
Cultural and recreational	1,383,532	--	--	--	1,383,532
Intergovernmental:					
Education	12,902,066	--	--	--	12,902,066
Capital outlay	--	--	19,814,874	31,372	19,846,246
Debt service:					
Principal	4,751,325	--	--	--	4,751,325
Interest	3,222,531	--	--	--	3,222,531
Total expenditures	<u>45,895,073</u>	<u>--</u>	<u>19,814,874</u>	<u>4,055,869</u>	<u>69,765,816</u>
Excess (deficiency) of revenues over expenditures	<u>(794,081)</u>	<u>60,295</u>	<u>(19,110,902)</u>	<u>84,141</u>	<u>(19,760,547)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	6,117,019	4,025,171	5,045,505	--	15,187,695
Transfers to other funds	(7,521,795)	(7,590,487)	--	--	(15,112,282)
Future projects funding	--	--	--	--	--
Proceeds from loan	1,785,274	--	--	--	1,785,274
Total other financing sources and uses	<u>380,498</u>	<u>(3,565,316)</u>	<u>5,045,505</u>	<u>--</u>	<u>1,860,687</u>
Net change in fund balance	(413,583)	(3,505,021)	(14,065,397)	84,141	(17,899,860)
Fund balances-beginning	23,472,572	7,165,803	20,543,606	796,304	51,978,285
Fund balances-ending	<u>\$ 23,058,989</u>	<u>3,660,782</u>	<u>6,478,209</u>	<u>880,445</u>	<u>34,078,425</u>

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

Watauga County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

Exhibit D

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

Net changes in fund balances - total governmental funds	\$	(17,899,860)
---	----	--------------

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

55,286,907

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

Other postemployment benefits	(47,469)	
Compensated absences	53,907	
Advance funding of pension obligation	3,034	
Accrued interest expense	36,158	
Taxes receivable	<u>122,620</u>	
Combined adjustment		168,250

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

2,801,620

Total changes in net assets of governmental activities	\$	<u><u>40,356,917</u></u>
--	----	--------------------------

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

Watauga County, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2010

General Fund				
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 26,666,644	26,666,644	27,431,505	764,861
Local option sales tax	10,081,552	10,081,552	9,695,504	(386,048)
Other taxes and licenses	638,323	641,632	777,309	135,677
Unrestricted intergovernmental	13,000	13,000	22,538	9,538
Restricted intergovernmental	3,576,900	5,493,273	5,447,543	(45,730)
Permits and fees	626,500	626,500	619,442	(7,058)
Sales and services	987,854	772,913	832,678	59,765
Investment earnings	221,156	221,156	61,459	(159,697)
Donations	--	--	--	--
Miscellaneous	249,858	307,154	213,014	(94,140)
Total revenues	43,061,787	44,823,824	45,100,992	277,168
Expenditures:				
Current:				
General government	7,224,630	11,051,801	7,948,822	3,102,979
Public safety	7,541,111	7,712,662	7,493,607	219,055
Economic & Physical	924,025	1,202,351	1,064,070	138,281
Human services	6,938,258	7,481,350	7,129,120	352,230
Cultural and recreation	1,418,889	1,417,304	1,383,532	33,772
Education	12,183,939	13,867,975	12,902,066	965,909
Debt service:				
Principal retirement	4,751,325	4,751,325	4,751,325	-
Interest and other charges	3,223,668	3,223,668	3,222,531	1,137
Total expenditures	44,205,845	50,708,436	45,895,073	4,813,363
Revenues over (under) expenditures	(1,144,058)	(5,884,612)	(794,081)	5,090,531
Other financing sources (uses):				
Transfers from other funds	5,110,559	6,117,019	6,117,019	--
Transfers to other funds	(4,025,171)	(7,521,795)	(7,521,795)	--
Future project funding	--	--	--	--
Loan proceeds	--	1,785,274	1,785,274	--
Fund balance appropriated	58,670	5,504,114	--	(5,504,114)
Total other financing sources (uses)	1,144,058	5,884,612	380,498	(5,504,114)
Revenues and other sources over (under) expenditures and other uses	--	--	(413,583)	(413,583)
Fund balances, beginning of year	--	--	23,472,572	--
Fund balances, end of year	\$ --	--	23,058,989	--

Watauga County, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,617,449
Receivables, net	356,453
Due from other governments	22,684
Total current assets	2,996,586
Capital assets:	
Land, improvements, and construction in progress	1,031,130
Other capital assets, net of depreciation	4,131,868
Total capital assets	5,162,998
Total assets	8,159,584
LIABILITIES	
Current liabilities:	
Accounts payable	148,081
Installment purchase payable	45,568
Total current liabilities	193,649
Noncurrent liabilities:	
Deferred Revenue	209,551
Compensated absences	89,215
Accrued other post employment benefit	9,370
Total noncurrent liabilities	308,136
Total liabilities	501,785
NET ASSETS	
Invested in capital assets, net of related debt	5,117,430
Unrestricted	2,540,369
Total net assets	\$ 7,657,799

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

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Fund
	Solid Waste Fund
OPERATING REVENUES:	
Charges for services	\$ 4,067,836
Restricted intergovernmental revenues	100,822
Total operating revenues	4,168,658
OPERATING EXPENSES:	
Landfill operations	3,122,050
Recycling operations	75,652
Depreciation	595,902
Total operating expenses	3,793,604
Operating income (loss)	375,054
NONOPERATING REVENUES (EXPENSES):	
Interest and investment revenue	6,086
Interest paid on long term debt	(5,941)
Gain (loss) on sale of assets	1,387
Total non operating revenue (expenses)	1,532
Income (loss) before transfers	376,586
Transfers (to) from other funds (net)	(75,413)
Change in net assets	301,173
Total net assets - beginning	7,356,626
Total net assets - ending	\$ 7,657,799

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 Fiscal Year Ended June 30, 2010

	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers	\$ 4,064,234
Cash paid for goods and services	(2,068,800)
Cash paid to employees for services	(1,205,648)
Other operating revenue	100,822
Net cash provided by (used) operating activities	890,608
Cash flows from noncapital financing	
Operating transfers (net)	(75,413)
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	1,387
Acquisition and construction of capital assets	(220,228)
Principal paid on installment purchase contracts	(178,252)
Interest paid on installment purchase contracts	(5,941)
Net cash used by capital and related financing activities	(403,034)
Cash flows from investing activities:	
Interest on investments	6,086
Net increase (decrease) in cash and cash equivalents	418,247
Cash and cash equivalents, July 1	2,199,202
Cash and cash equivalents, June 30	\$ 2,617,449
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 375,054
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	595,902
Changes in assets and liabilities:	
Increase in accounts receivable	(7,523)
Increase in deferred revenue	3,921
Decrease in accounts payable and accrued liabilities	(80,125)
Increase in accrued OPEB	4,472
Decrease in accrued vacation pay	(1,093)
Total adjustments	515,554
Net cash used by operating activities	\$ 890,608

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

**Watauga County, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010**

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ <u>182,734</u>	<u>49,241</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u> --</u>	<u>49,241</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>182,734</u>	<u> --</u>

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

Watauga County, North Carolina
Statement of Changes in Fiduciary Net
Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

Exhibit J

		Pension Trust Fund
		<u>June 30,</u> <u>2010</u>
Additions:		
Employer contributions	\$	29,566
Interest earned		<u>413</u>
Total additions		<u>29,979</u>
Deductions:		
Benefits		19,328
Administrative expense		<u>238</u>
Total deductions		<u>19,566</u>
Change in net assets		10,413
Net assets, beginning		<u>172,321</u>
Net assets, ending	\$	<u><u>182,734</u></u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 and tourism development tax; and the Watauga County commissioners adopted a resolution levying this tax and created the Watauga County District U Tourism Development Authority. The Authority operates within Watauga County's boundaries for the benefit of the County's residents, and the County provides financial support to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. Watauga County's Board of Commissioners appoints the six voting members of the Authority. The Watauga County District U Tourism Development Authority has a June 30 year end and is presented as if it is a governmental fund. Complete financial statements may be obtained from the entity's administrative offices at Watauga County District U Tourism Development Authority, 815 West King St., Boone, NC 28607

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

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

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

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

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

The County reports the following major governmental funds:

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

The County reports the following major enterprise fund:

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

The County reports the following fund types:

Pension Trust Fund- The County maintains one Pension Trust Fund – 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, that account for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

Agency Funds – Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the 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, 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, and the Deed of Trust Fee fund which accounts for the five dollars of each fee collected by the register of deeds for registering or filing a deed of trust or mortgage and remitted to the State Treasurer on a monthly basis.

Measurement Focus and Basis of Accounting

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

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

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

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

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

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

C. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Reserve, the Substance Abuse Tax, the Emergency Telephone, Fire District, Occupancy Tax, and Revaluation Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Scattered Site Housing Grant, the CDBG Hospitality House and the Upper Watauga River Project Special Revenue Funds and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities and Fund Equity

1. Deposits and Investments

All deposits of the County, 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 bank or savings association whose principal 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 principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

D. Assets, Liabilities and Fund Equity (continued)

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 to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. AppalCART and the Authority consider demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009.

4. Allowances for Doubtful Accounts

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

5. Inventory

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

D. Assets, Liabilities and Fund Equity (continued)

6. Capital Assets

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

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

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

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

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

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 & Equipment	7

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

D. Assets, Liabilities and Fund Equity (continued)

7. Long-term Obligations

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

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

8. Compensated Absences

The vacation policies of the County and AppalCART provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County's government-wide and proprietary funds and AppalCART, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The vacation policy of the Authority provided for the accumulation of up to 15 days earned vacation leave which 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 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. The sick leave policy of the Authority provides for the accumulation of up to 15 days of sick leave. Any accumulation over the 15 days is forfeited and the accumulated sick leave does not vest. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County or its component unit.

9. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

D. Assets, Liabilities and Fund Equity (continued)

9. Net Assets/Fund Balances (continued)

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

The governmental fund types classify fund balances as follows:

Reserved

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

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

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

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

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

Unreserved

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

E. Reconciliation of Government-wide and Fund Financial Statements

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

The government fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	165,842,778
Less accumulated depreciation	(18,127,636)
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	81,793
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	81,194
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	1,017,627
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	361,102
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:	
Other Postemployment liabilities	(103,792)
Bonds and installment financing	(79,237,220)
Compensated absences	(984,250)
Accrued interest payable	<u>(1,038,068)</u>
Total adjustment	<u>67,893,528</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

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

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

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 57,386,137
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	(2,099,230)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide	4,751,325
The advance funding of pension obligations	3,034
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)	36,158
Amortization of refunding costs not recorded on fund statements	(6,814)
Other postemployment benefits	(47,469)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	53,907
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities- it affects only the government-wide statement of net assets	(1,785,274)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

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

Decrease in deferred tax revenue for year ended 6/30/10	(49,394)
Decrease in accrued interest receivable on taxes for year ended 6/30/10	<u>7,969</u>
Total adjustment	\$ <u>58,256,777</u>

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

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

Noncompliance with North Carolina General Statutes

There were no instances of noncompliance with North Carolina Statutes.

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

A. **Assets**

1. **Deposits**

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

1. Deposits (continued)

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

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 other 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. The AppalCART and the Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2010, the County's deposits had a carrying amount of \$26,382,418 and a bank balance of \$27,948,790. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$30,333 in non-interest bearing deposits and \$27,168,457 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2010 Watauga County had \$2,850 cash on hand.

At June 30, 2010, the AppalCART's deposits had a carrying amount of \$75,892 and a bank balance of \$176,265. Of the bank balance, \$176,265 was covered by federal depository insurance.

At June 30, 2010, AppalCaRT had \$150 cash on hand.

At June 30, 2010, the Authority's deposits had a carrying amount of \$299,392 and a bank balance of \$343,463. Of the balance, \$250,000 was covered by federal depository insurance and \$93,463 in interest bearing deposits were covered by collateral held under the pooling method.

2. Investments

At June 30, 2010, the County's investments consisted of \$8,469,791 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's. The County has no policy on credit risk.

At June 30, 2010, the AppalCART's investments consisted of \$52,182 in the North Carolina Capital Management Trust's Cash Portfolio. The AppalCART has no policy on credit risk.

At June 30, 2010, the Authority's investments consisted of \$500,540 in the North Carolina Capital Management Trust's Cash Portfolio. The Authority has no policy on credit risk.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

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

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

Year Levied	Tax	Interest	Total
2007	\$ 616,480	174,156	790,636
2008	616,322	118,642	734,964
2009	623,093	63,867	686,960
2010	<u>630,436</u>	<u>--</u>	<u>630,436</u>
Total	\$ <u>2,486,331</u>	<u>356,665</u>	<u>2,842,996</u>

4. Receivables

Receivables at the government-wide level at June 30, 2010, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 730,269	1,867,320	1,999,782	4,597,371
Other Governmental	<u>301,878</u>	<u>151,084</u>	<u>--</u>	<u>452,962</u>
Total receivables	1,032,147	2,018,404	1,999,782	5,050,333
Allowance for doubtful accounts	<u>--</u>	<u>(522,020)</u>	<u>--</u>	<u>(522,020)</u>
Total-governmental activities	\$ <u>1,032,147</u>	<u>1,496,384</u>	<u>1,999,782</u>	<u>4,528,313</u>
Business-type activities				
Solid Waste	\$ 356,453	--	22,684	379,137
Allowance for doubtful accounts	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total-business-type activities	\$ <u>356,453</u>	<u>--</u>	<u>22,684</u>	<u>379,137</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

4. Receivables (continued)

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

Childcare Assistance	\$ 74,595
Local option sales tax	1,458,276
Scrap tire tax	13,036
White goods tax	4,371
Solid Waste Disposal Tax	5,278
NCDMV Fees	7,378
CDBG Grant Administration Fee	2,480
NCDENR – Parker Project	23,215
Domestic Violence Grant	3,734
Criminal Justice Partnership Program	14,614
County Administration	126,556
ARRA – Foster Care	483
Medicaid Hold Harmless	285,241
JCPC Gang Grant Funds	2,494
ARRA – Adoption Assistance	<u>725</u>
Total	\$ <u>2,022,476</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Adjustments	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 12,597,260	1,066,891	1,178,716	--	12,485,435
Construction in progress	<u>54,668,878</u>	<u>20,194,144</u>	<u>142,851</u>	--	<u>74,720,171</u>
Total not being depreciated	<u>67,266,138</u>	<u>21,261,035</u>	<u>1,321,567</u>	--	<u>87,205,606</u>
Capital assets being depreciated:					
Buildings	40,793,395	30,719,438	46,712	--	71,466,121
Other improvements	95,201	638,312	--	--	733,513
Equipment	3,724,708	932,926	35,463	--	4,622,171
Vehicles and motor equipment	<u>1,893,542</u>	<u>5,098</u>	<u>83,272</u>	--	<u>1,815,368</u>
Total being depreciated	<u>46,506,846</u>	<u>32,295,774</u>	<u>165,447</u>	--	<u>78,637,173</u>
Less accumulated depreciation for:					
Buildings	18,120,176	1,334,840	--	(5,572,949)	13,882,067
Improvements	40,146	70,782	--	17,912	128,840
Equipment	2,051,009	455,982	5,763	191,713	2,692,941
Vehicles and motor equipment	<u>1,133,416</u>	<u>237,626</u>	<u>61,877</u>	<u>114,623</u>	<u>1,423,788</u>
Total accumulated depreciation	<u>21,344,747</u>	<u>2,099,230</u>	<u>67,640</u>	<u>(5,248,701)</u>	<u>18,127,636</u>
Total being depreciated, net	<u>25,162,099</u>				<u>60,509,537</u>
Governmental activity, net	\$ <u>92,428,237</u>				<u>147,715,143</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Primary Government

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

General government	\$ 1,043,379
Public safety	467,330
Economic and physical development	40,002
Human services	380,440
Cultural and recreational	<u>168,059</u>
Total depreciation expense	\$ <u>2,099,230</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,377,212	--	401,715	975,497
Construction in progress	--	<u>55,633</u>	--	<u>55,633</u>
Total capital assets not being depreciated	<u>1,377,212</u>	<u>55,633</u>	<u>401,715</u>	<u>1,031,130</u>
Capital assets being depreciated:				
Improvements	518,256	39,219	--	557,475
Buildings	3,707,130	401,715	--	4,108,845
Equipment	1,373,020	--	1,872	1,371,148
Vehicles	<u>1,205,105</u>	<u>125,376</u>	<u>21,220</u>	<u>1,309,261</u>
Total capital assets being depreciated	<u>6,803,511</u>	<u>566,310</u>	<u>23,092</u>	<u>7,346,729</u>
Less accumulated depreciation for:				
Improvements	320,833	162,588	--	483,421
Buildings	455,484	165,157	--	620,641
Equipment	1,070,503	41,515	1,871	1,110,147
Vehicles	<u>795,230</u>	<u>226,642</u>	<u>21,219</u>	<u>1,000,653</u>
Total accumulated depreciation	<u>2,642,050</u>	<u>595,902</u>	<u>23,090</u>	<u>3,214,862</u>
Total capital assets being depreciated, net	<u>4,161,461</u>			<u>4,131,867</u>
Business-type activities capital assets, net	\$ <u>5,538,673</u>			<u>5,162,997</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Construction commitments

The government has active construction projects as of June 30, 2010. The projects include a new high school, soccer fields and a new recreation center. At June 30, 2010, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
New Recreation Center	\$ 219,823	100,000
Brookshire Park	1,767,242	120,000
Watauga High School	<u>72,733,106</u>	<u>6,478,209</u>
 Total	 \$ <u>74,720,171</u>	 <u>6,698,209</u>

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,114,242	--	--	1,114,242
Construction in progress	<u>370,364</u>	<u>1,647,877</u>	--	<u>2,018,241</u>
Total capital assets not being depreciated	<u>1,484,606</u>	<u>1,647,877</u>	--	<u>3,132,483</u>
Capital assets being depreciated:				
Land improvements	159,662	--	--	159,662
Office furniture and equipment	159,789	--	--	159,789
Vehicles	4,226,657	839,228	156,005	4,909,880
Shop equipment	<u>139,197</u>	<u>7,100</u>	--	<u>146,297</u>
Total capital assets being depreciated	<u>4,685,305</u>	<u>846,328</u>	<u>156,005</u>	<u>5,375,628</u>
Less accumulated depreciation for:				
Land improvements	140,421	3,663	--	144,084
Office furniture and equipment	95,734	12,164	--	107,898
Vehicles	1,509,466	469,399	147,389	1,831,476
Shop equipment	<u>114,948</u>	<u>5,257</u>	--	<u>120,205</u>
Total accumulated depreciation	<u>1,860,569</u>	<u>490,483</u>	<u>147,389</u>	<u>2,203,663</u>
Total capital assets being depreciated, net	<u>2,824,736</u>			<u>3,171,965</u>
AppalCART capital assets, net	\$ <u>4,309,342</u>			<u>6,304,448</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

5. Capital Assets (continued)

Capital asset activity for the Watauga County District U Tourism Development Authority for the year ended June 30, 2010 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	<u>17,414</u>	--	--	<u>17,414</u>
being depreciated				
Less accumulated				
depreciation for:				
Furniture and fixtures	1,068	734	--	1,802
Computer equipment	<u>6,852</u>	<u>2,770</u>	--	<u>9,622</u>
Total accumulated	<u>7,920</u>	<u>3,504</u>	--	<u>11,424</u>
depreciation				
Total capital assets	\$ <u>9,494</u>			<u>5,990</u>
being depreciated, net				

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2010, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$ 756,433	--	1,038,068	--	1,794,501
Capital projects	71,775	--	--	--	71,775
Other governmental	<u>207,642</u>	--	--	--	<u>207,642</u>
Total-governmental activities	\$ <u>1,035,850</u>	--	<u>1,038,068</u>	--	<u>2,073,918</u>
Business-type activities:					
Solid Waste	\$ <u>148,081</u>	--	--	--	<u>148,081</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

B. Liabilities (continued)

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.96% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Watauga County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$1,157,868, \$1,187,918, and \$1,133,203, respectively. The contributions made by the County equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>48</u>
Total	<u>50</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

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

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 \$29,566, or 1.7% of covered payroll. There were no contributions made by employees.

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

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefits increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2009 was 21 years.

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 30,254	131.69 %	\$ (71,918)
2009	23,908	128.61	(78,759)
2010	26,294	111.54	(81,793)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

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

4. Funded Status and Funding Progress.

As of December 31, 2009, the most recent actuarial valuation date, the plan was 38.67 percent funded. The actuarial accrued liability for benefits was \$445,615, and the actuarial value of assets was \$172,321, resulting in an unfunded actuarial accrued liability (UAAL) of \$273,294.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,888,358, and the ratio of the UAAL to the covered payroll was 14.47 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, 2010 were \$93,145, which consisted of \$85,339 from the County and \$7,806 from the law enforcement officers.

d. Supplemental Retirement Income Plans for General Employees

Employees, other than law enforcement, have the choice of participating in a 401(k) plan or a 457 deferred compensation plan. The County contributes 5.0 percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2010 to these plans were \$683,438 which consisted of \$512,785 from the County and \$170,653 from employees.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

e. Registers of Deeds' Supplemental Pension Fund

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

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to one and one-half percent (1.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2010, the County's required and actual contributions were \$5,377.

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%, \$400 monthly maximum, until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

f. Other Postemployment Benefits – Watauga County (continued)

Membership of the HCB Plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	18	--
Terminated plan members entitled to but not yet receiving benefits	--	--
Active plan Members	<u>237</u>	<u>46</u>
Total	<u>255</u>	<u>46</u>

Funding Policy The Board of Commissioners established the contribution requirements of plan members and 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 1.47% of annual covered payroll. For the current year, the County contributed \$65,400 or .6% of annual covered payroll. The County obtains healthcare coverage through private insurers. There were no contributions made by employees. The County's obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

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 cost 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

f. Other Postemployment Benefits – Watauga County (continued)

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 he postemployment healthcare benefits:

Annual required contribution	\$ 117,005
Interest on net OPEB obligation	2,449
Adjustment to annual required contribution	<u>2,113</u>
Annual OPEB cost (expense)	117,341
Contributions made	<u>(65,400)</u>
Increase (decrease) in net OPEB obligation	51,941
Net OPEB obligation, beginning of year	<u>61,221</u>
Net OPEB obligation, end of year	\$ <u>113,162</u>

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2009 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 117,341	55.7%	\$ 113,162

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$1,899,693, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,899,693. The covered payroll (annual payroll of active employees covered by the plan) was \$10,936,838, and the ratio of UAAL to the covered payroll was 17.4%.

The County has set aside assets to fund the plan; however, these assets are not legally held exclusively for retiree health benefits. The County is in the process of establishing a trust fund to legally hold these assets.

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 tot 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 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

f. Other Postemployment Benefits – Watauga County (continued)

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, 2009, 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 3.75 percent inflation assumption. The medical cost trend rate varied between 10.50 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, 2009, 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, 2010, the County made contributions to the State for death benefits of \$14,858. The County's required contributions for employees represented .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

2. Pension Plan Obligations (continued)

h. Retirement System – AppalCART

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

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

This rate of contribution is subject to change due to funding constraints. The contribution requirement for June 30, 2010 and 2009 amounted to \$100,523 and \$87,452, respectively. Payments of \$106,384 and \$85,589 were made for each fiscal year, respectively.

3. Groundwater Contamination/Landfill Closure

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

4. Deferred/Unearned Revenues

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

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid user fees not yet earned (General)	\$ 4,235	4,235
Prepaid grants not yet earned (Special Revenue)	9,335	19,335
Prepaid taxes not yet earned (General)	2,019	96,751
Prepaid taxes not yet earned (Special Revenue)	271	584
Prepaid user fees not yet earned (Enterprise)	209,551	209,551
Taxes receivable, net (General)	984,751	--
Taxes receivable, net (Special Revenue)	<u>127,921</u>	<u>--</u>
Total	\$ <u>1,348,083</u>	<u>330,456</u>

5. Risk Management

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

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. The County also is eligible to and has purchased commercial flood insurance for another \$692,900 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

B. Liabilities (continued)

5. Risk Management (continued)

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are covered by performance bonds through a commercial surety bond. The Finance Director, Tax Administrator, Register of Deeds, and County Manager are each individually bonded for \$50,000 each. The Sheriff is bonded for \$25,000.

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

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

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

6. Contingent Liabilities

At June 30, 2010, the County was a defendant in various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

7. Long-term Obligations

a. Capital Leases

The County has no capital lease agreements.

b. Installment Purchase

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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

B. Liabilities (continued)

7. Long-term Obligations (continued)

b. Installment Purchase (continued)

The County has seven installment purchases serviced by the general fund. The first installment purchase was executed on November 1, 1997, for the construction and renovation of the Human Services Center. On October 24, 2007, the loan terms were amended to reduce the interest rate from 5.2 percent to 3.84 percent annually for the remainder of the loan term. The loan terms now require quarterly principal and interest payments of \$70,337.

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

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

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

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

The seventh installment purchase was executed on December 15, 2009 for the purchase of the Rocky Knob Property. The agreement requires five annual principal payments of \$99,000 plus interest at 2.97 percent.

The County also has one installment purchase serviced by the Solid Waste Fund. The installment purchase was executed on September 6, 2007 for the purchase of equipment and requires twelve quarterly payments of \$46,084 which includes interest at 3.79 percent.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

7. Long-term Obligations (continued)

b. Installment Purchase (continued)

For Watauga County, the future minimum payments as of June 30, 2010, including \$17,960,841 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2011	\$ 28,540,314	2,798,302	45,568	409
2012	3,081,298	1,797,040	--	--
2013	2,942,333	1,672,335	--	--
2014	2,942,333	1,549,321	--	--
2015	2,942,333	1,426,102	--	--
2016-2020	13,428,335	5,340,041	--	--
2021-2028	<u>18,000,000</u>	<u>3,377,700</u>	--	--
Principal payments	\$ <u>71,876,946</u>		<u>45,568</u>	
Total interest payments		\$ <u>17,960,841</u>		<u>409</u>

c. General Obligation Indebtedness

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

The County's general obligation bonds payable at June 30, 2010 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	\$ 1,500,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	2,325,000
\$4,275,000 2004 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent	2,245,000
\$1,290,274 2010 Qualified School Construction Bonds, due in annual installments through June 1, 2020; with no stated interest rate	<u>1,290,274</u>
 Total	 \$ <u>7,360,274</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

7. Long-term Obligations (continued)

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 1,404,027	242,728
2012	1,354,027	192,618
2013	1,344,027	142,700
2014	1,329,027	92,795
2015	1,284,027	43,125
2016-2020	<u>645,139</u>	<u>--</u>
Total	\$ <u>7,360,274</u>	<u>713,966</u>

At June 30, 2010, Watauga County had a legal debt margin of \$689,993,287.

d. Advance Refunding

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

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

7. Long-term Obligations (continued)

e. Long-Term Obligation Activity

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 7,405,000	1,290,274	1,335,000	7,360,274	1,404,027
Installment purchases	74,798,271	495,000	3,416,325	71,876,946	28,540,314
Compensated absences	1,038,157	644,337	698,244	984,250	--
Other postemployment benefits	56,323	47,469	--	103,792	--
Total governmental activities	<u>\$ 83,297,751</u>	<u>2,477,080</u>	<u>5,449,569</u>	<u>80,325,262</u>	<u>29,944,341</u>
Business-type activities:					
Installment purchases	\$ 223,861	--	178,293	45,568	45,568
Compensated absences	90,308	50,350	51,444	89,214	--
Other postemployment benefits	4,898	4,472	--	9,370	--
Total business-type activities	<u>\$ 319,067</u>	<u>54,822</u>	<u>229,737</u>	<u>144,152</u>	<u>45,568</u>
Discretely presented component units:					
Compensated absences – AppalCART	<u>\$ 59,608</u>	<u>56,580</u>	<u>54,783</u>	<u>61,405</u>	<u>--</u>
Compensated absences – Watauga County District U Tourism Development Authority	<u>\$ 1,896</u>	<u>6,263</u>	<u>3,462</u>	<u>4,697</u>	<u>--</u>

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 3 - Detail Notes on All Funds (continued)

C. Interfund Balances and Activity

Transfers to/from other funds

Transfers to/from other funds at June 30, 2010, consists of the following:

From the General Fund to the Capital Reserve Fund to accumulate resources for future capital acquisitions	\$ 4,025,171
From the Capital Reserve Fund to the General Fund for the new construction Projects	6,041,606
From the Capital Reserve Fund to the Watauga High School Capital Project Fund for construction projects	1,548,881
From the Solid Waste Fund to the Debt Service Fund for debt service payments owed to the General Fund	75,413
From the General Fund to the Watauga High School Capital Project Fund for construction projects	<u>3,496,624</u>
Total	\$ <u>15,187,965</u>

Note 4 - Joint Ventures

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2010. 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 4 - Joint Ventures (continued)

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, 2010. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$565,127 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.

The County also participates in a joint venture to operate New River Behavioral Health Center with four other local governments. Each participating government appoints one County Commissioner to the Governing Board and they in turn appoint the other members. None of the participating governments have any equity interest in the Behavioral Health Center Department, so no equity interest has been reflected in the financial statements at June 30, 2010. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$302,687 to the Behavioral Health Care Department to supplement its activities. Complete financial statements for the Behavioral Health Care Department can be obtained at 895 State Farm Road, Suite 508, Boone, NC 28607.

Note 5 - Jointly Governed Organization

The County communally governs Caldwell Community College and Technical Institute with one other government and the community college system of the State of North Carolina. The County appoints two members of its fourteen members Board of Trustees. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$868,850 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>
Temporary assistance to needy families	\$ 81,859	--
Medicaid	19,387,059	6,782,255
Supplemental Nutrition Assistance program	4,368,224	--
Energy assistance	174,688	--
Adoption assistance	206,090	42,443
Adoption subsidy	--	80,651
Adult assistance	--	284,746
Title IV-E, Foster care	147,643	31,475
Links	6,397	--
Total	\$ <u>24,371,960</u>	<u>7,221,570</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

**Note 7 - Summary Disclosure of Significant Commitments and Contingencies
Federal and State Assisted Programs**

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

Note 8 - Interest on Unpaid Motor Vehicle Taxes

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

The following reports the total collections and disbursements of the interest collected by Watauga County for the fiscal year ending June 30, 2010:

Beginning balance	\$ 879
Total interest collected:	10,859
Total interest remitted	<u>11,027</u>
Amount due to Department of State Treasurer as of June 30, 2010	\$ <u><u>711</u></u>

Note 9 - Prior Period Adjustments – Government-wide Statements

During the fiscal year ended June 30, 2010, the County determined that some of the capital assets had been classified incorrectly and that prior years' depreciation had been overstated. Therefore, an entry has been made to correct the accumulated depreciation.

Note 10 - Special Item

During the fiscal year, the Watauga County Board of Education transferred title to the Mabel Elementary School to Watauga County as the County was required to use the school as collateral for the Qualified School Construction Bonds. The Watauga County Board of Education had previously transferred title to the old Watauga High School to Watauga County to facilitate offering the property for sale. Management set up the schools at their appraised value. This item is reflected on the government-wide statements as a special item because it is unusual in nature, but under the control of management.

Note 11 - Subsequent Events

In October 2010, Watauga County refinanced the installment purchase contracts used to build the new high school. The new loan terms on the \$25 million installment purchase contract changed the interest rate to 3.67 percent and state that the County still has the option to pay off the loan if the old high school is sold before June 2011. If the old school does not sell before June 2011, then the loan requires annual principal payments of \$1,470,588 starting June 2012 plus interest at 3.67 percent paid biannually. The interest rate on the \$45 million installment purchase contract decreased from 4.17 to 3.67 percent.

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 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)
12/31/2004	\$ 105,840	318,853	213,013	33.19 %	1,089,341	19.55 %
12/31/2005	121,075	314,210	193,135	38.53	1,320,159	14.63
12/31/2006	131,075	305,327	174,252	42.93	1,456,052	11.97
12/31/2007	146,330	253,515	107,185	57.72	1,493,567	7.18
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

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	
2004	\$ 30,843	100	%
2005	30,962	100	
2006	32,874	100	
2007	30,943	100	
2008	24,577	100	
2009	27,043	100	
2010	52,879	100	

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

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

Valuation date	12/31/09
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.5 – 12.3%
Includes inflation at	3.75%
Cost of living adjustments	N/A

**Watauga County, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress and
Schedule of Employer Contributions**

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 Percentage of Covered Payroll ((b-a)/c)
12/31/07	\$320,450	\$1,432,288	\$1,111,838	22.4%	\$ 9,979,587	11.1%
12/31/09	--	1,899,693	1,899,693	0.0	10,936,838	17.4

Schedule of Employer Contributions:

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2009	112,776	45.7%
2010	117,341	55.7

Notes to the Required Schedules:

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

Valuation date	12/31/09
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend	10.50 – 5.00%

*Includes inflation at 3.75%

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, 2010

	2010		Variance
	Budget	Actual	
Revenues:			
Taxes - ad valorem:			
Current year	\$	26,606,340	
Prior years		657,812	
Advertising and interest		167,353	
Total Taxes - ad valorem	26,666,644	27,431,505	764,861
Local Option Sales Taxes:			
Article 39 and 44		5,137,186	
Article 40 one-half of one percent		1,816,767	
Article 42 one-half of one percent		2,144,574	
Medicaid Hold Harmless payment		596,977	
Total Taxes - Local Option Sales	10,081,552	9,695,504	(386,048)
Taxes - other:			
Real estate transfer tax		317,805	
ABC - .05/bottle		18,302	
Heavy equipment rental tax		7,577	
Gross receipts tax - county		31,748	
Franchise Tax		401,877	
Total Taxes - other	641,632	777,309	135,677
Unrestricted intergov. rev.:			
Payments in lieu of taxes		22,538	
Total Unrestricted intergov. rev.	13,000	22,538	9,538
Restricted intergov. revenues:			
Grants-Federal & State		4,540,896	
Public School Facility Funds		679,422	
Public School Building Capital Fund - lottery		96,509	
POA-Town of Boone		1,857	
Court facilities fees		128,859	
Total Restricted intergov. revenues	5,493,273	5,447,543	(45,730)
Permits and fees:			
Gun permits		26,545	
Serving civil summons		49,724	
Jail and officer fees		27,953	
Planning and inspection fees		182,648	
Marriage license		5,900	
Register of deeds fees		306,040	
Fire inspection fees		3,325	
Occupancy tax administrative fee		17,307	
Total Permits and fees	626,500	619,442	(7,058)
Sales and service:			
POA In-home svc. - soc. serv.		14,719	
Recreation department revenues		278,675	
Sales of tax maps		947	
Data processing fees		311	
Copy revenue		6,470	
NC DMV fees		104,310	
NC reimbursement for prisoners		177,029	
Tax collection fees-Towns		102,276	
Jail medical service		2,134	
Passport processing fees		23,570	
Election revenues		32,407	
Sale of fixed assets		59,995	
Animal control fees		16,371	
Other		13,464	
Total Sales and service	772,913	832,678	59,765
Investment earnings:			
Interest earned on investments	221,156	61,459	(159,697)
Miscellaneous:	307,154	213,014	(94,140)
TOTAL REVENUES	44,823,824	45,100,992	277,168

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, 2010

	2010		Variance
	Budget	Actual	
EXPENDITURES:			
General Government			
Governing Body:			
Salaried and benefits		52,471	
Operating expenses		7,000	
Total Governing Body	65,780	59,471	6,309
Administration:			
Salaries and benefits		403,739	
Operating expenses		8,700	
Total Administration	421,021	412,439	8,582
Finance:			
Salaries and benefits		338,554	
Operating expenses		66,113	
Total Finance	443,433	404,667	38,766
Tax Supervisor:			
Salaries and benefits		1,068,067	
Operating expenses		90,184	
Capital Outlay		93,432	
Total Tax Supervisor	1,692,263	1,251,683	440,580
Tax Revaluation:			
Salaries and benefits		45,319	
Operating expenses		457	
Total Tax Revaluation	124,842	45,776	79,066
Tag office:			
Salaries and benefits		170,967	
Operating expenses		3,397	
Total Tag office	179,571	174,364	5,207
Legal Services:			
Operating expenses	47,900	43,407	4,493
Court facilities:			
Operating expenses	3,900	1,723	2,177
Elections:			
Salaries and benefits		175,401	
Operating expenses		91,188	
Total Elections	310,872	266,589	44,283
Register of Deeds:			
Salaries and benefits		387,679	
Operating expenses		92,795	
Total Register of Deeds	495,803	480,474	15,329
General administration:			
Operating expenses		757,239	
Capital outlay		910,340	
Total General Administration	3,376,184	1,667,579	1,708,605
Information technologies:			
Salaries and benefits		280,332	
Operating expenses		300,929	
Capital outlay		43,098	
Total Information technologies	737,727	624,359	113,368

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, 2010

	2010		Variance
	Budget	Actual	
Maintenance:			
Salaries and benefits		957,841	
Operating expenses		18,772	
Total Maintenance	1,006,087	976,613	29,474
Public Buildings			
Courthouse:			
Operating expenses		138,699	
Capital Outlay		345,169	
Total Courthouse	645,099	483,868	161,231
East Courthouse Annex:			
Operating expenses	28,935	27,931	1,004
Administration Building:			
Operating expenses	25,591	21,541	4,050
Emergency Management:			
Operating expenses	8,234	8,146	88
Hannah:			
Operating expenses	5,777	5,776	1
Animal Shelter:			
Operating expenses	12,175	8,329	3,846
Old Cove Creek School:			
Operating expenses	117,764	110,456	7,308
New Health Department:			
Operating expenses	72,835	50,813	22,022
Public Building-APPALCART:			
Operating expenses	2,353	1,953	400
New Library:			
Operating expenses	121,227	60,802	60,425
Tag office:			
Operating expenses	44,725	41,343	3,382
Caldwell College & Tech. Inst:			
Operating expenses	2,035	1,757	278
Watauga Comm. Center:			
Operating expenses	40,916	30,168	10,748
New Law Enforcement Center:			
Operating expenses	244,433	141,947	102,486
Parking Lots:			
Operating expenses	3,200	1,347	1,853
West Courthouse Annex:			
Operating expenses	37,756	34,208	3,548
Human Services Center:			
Operating expenses	102,284	73,203	29,081

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, 2010

	2010		Variance
	Budget	Actual	
Appalachian Enterprise Center:			
Operating expenses	11,583	9,669	1,914
Old Watauga High School:			
Operating expenses	27,326	--	27,326
Recreation Administration Center:			
Operating expenses	2,812	1,706	1,106
Aquatics Center:			
Operating expenses		76,832	
Capital outlay		32,234	
Total Aquatics Center	144,850	109,066	35,784
Opt./Maintenance Facility:			
Operating expenses	35,556	32,170	3,386
Recreation Fields/Parks:			
Operating expenses		61,212	
Capital outlay		13,867	
Total recreation fields/parks	103,226	75,079	28,147
Brookshire Park:			
Operating expenses		16,070	
Capital outlay		160,618	
Total Brookshire Park	240,283	176,688	63,595
Anne Marie Drive Fields:			
Operating expenses	22,250	16,238	6,012
Brookshire Soccer Complex:			
Operating expenses		9,747	
Capital outlay		5,727	
Total Brookshire Soccer Complex	43,193	15,474	27,719
Total Public Buildings	2,146,418	1,539,678	606,740
Total General Government	11,051,801	7,948,822	3,102,979
Public Safety			
Sheriff's department:			
Salaries and benefits		2,524,038	
Operating expenses		282,438	
Total Sheriff's department	2,882,356	2,806,476	75,880
Communications:			
Salaries and benefits		458,329	
Operating expenses		19,486	
Capital outlay		8,394	
Total Communications	489,884	486,209	3,675
COPS Program - DEC Grant:			
Operating expenses		2,687	
Capital outlay		4,944	
Total COPS Program - DEC Grant	7,642	7,631	11
Domestic Violence-NCDCCPS:			
Salaries and benefits		24,848	
Operating expenses		--	
Total Domestic Violence-NCDCCPS	47,062	24,848	22,214
Jail:			
Salaries and benefits		1,261,390	
Operating expenses		599,866	
Total Jail	1,893,873	1,861,256	32,617

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, 2010

	2010		Variance
	Budget	Actual	
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		218,813	
Operating expenses		401,997	
Total Emerg. Mgt. & Fire Protect.	635,114	620,810	14,304
Planning and Inspections:			
Salaries and benefits		526,895	
Operating expenses		43,223	
Total Planning and Inspections	603,645	570,118	33,527
Medical examiner:			
Operating expenses	27,000	25,000	--
Ambulance and rescue squad:			
Operating expenses	934,315	912,018	22,297
Animal control:			
Salaries and benefits		103,542	
Operating expenses		31,766	
Total Animal control	144,585	135,308	9,277
Forestry:			
Operating expenses	47,186	43,933	3,253
Total Public Safety	7,712,662	7,493,607	219,055
Economic & Physical Development			
Elderly & Disabled Transportation:			
Operating expenses	170,441	161,698	8,743
Special Appropriations:	443,045	441,572	1,473
Economic Development:			
Operating expenses	62,374	37,512	24,862
Cooperative extension:			
Salaries and benefits		201,305	
Operating expenses		15,285	
Total Cooperative extension	257,643	216,590	41,053
Soil conservation:			
Salaries and benefits		104,665	
Operating expenses		102,033	
Total Soil conservation	268,848	206,698	62,150
Total Economic & Physical Development	1,202,351	1,064,070	138,281
Human Services			
Public health:			
Operating expenses	565,127	565,127	--
Mental health:			
Operating expenses	304,057	302,687	1,370
Social services - admin.:			
Salaries and benefits		2,555,711	
Operating expenses		418,357	
Total Social services - admin.	3,011,184	2,974,068	37,116
Beneficiary payments:	1,080,758	972,462	108,296

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, 2010

	2010		Variance
	Budget	Actual	
State foster care and daycare			
Room & Board		6,000	
Other		643	
Purchase-daycare XX		995,862	
Total State foster care and daycare	1,064,653	1,002,505	62,148
Project on aging:			
Salaries and benefits		971,818	
Operating expenses		232,038	
Total Project on aging	1,347,156	1,203,856	143,300
Veterans service officer:			
Salaries and benefits		105,278	
Operating expenses		3,137	
Total Veterans service officer	108,415	108,415	--
Total Human Services	7,481,350	7,129,120	352,230
Education			
Public Schools - current		11,066,251	
Public Schools - capital outlay		966,965	
Community College - current		790,851	
Community College - capital outlay		77,999	
Total Education	13,867,975	12,902,066	965,909
Cultural and recreational			
Library:			
Operating expenses	495,000	495,000	--
Recreation:			
Salaries and benefits		549,604	
Operating expenses		116,346	
Total Recreation	695,224	665,950	29,274
Aquatics:			
Salaries and benefits		196,828	
Operating expenses		14,672	
Total Aquatics	215,650	211,500	4,150
Recreation - Maintenance:			
Operating expenses	11,430	11,082	348
Total Cultural and recreational	1,417,304	1,383,532	33,772
Debt Service			
Principal retirement		4,751,325	
Interest & fees		3,222,531	
Total Debt Service	7,974,993	7,973,856	1,137
TOTAL EXPENDITURES	50,708,436	45,895,073	4,813,363
Excess (deficiency) of revenues over expenditures	(5,884,612)	(794,081)	5,090,531
OTHER FINANCING SOURCES (USES):			
Transfers to Capital Reserve Fund	(4,025,171)	(4,025,171)	--
Transfers to Capital Projects Fund	(3,496,624)	(3,496,624)	--
Transfers from Capital Reserve Fund	6,041,606	6,041,606	--
Transfers from Solid Waste Fund	75,413	75,413	--
Proceeds from installment purchase contracts	1,785,274	1,785,274	--
Fund Balance Appropriated	5,504,114	--	(5,504,114)
TOTAL OTHER FINANCING SOURCES (USES):	5,884,612	380,498	(5,504,114)
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	--	(413,583)	(413,583)
Fund balances at beginning of year		23,472,572	
Fund balances at end of year		\$ 23,058,989	

**Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

Special Revenue Funds

	Substance Abuse Tax Fund	E-911 Telephone Surcharge Fund	Fire Districts Fund	Revaluation Fund	Occupancy Tax Fund	CDBG Scattered Site Housing Fund	CDBG Hospitality House	Upper Watauga River Project	Total Nonmajor Governmental Funds
ASSETS:									
Cash and cash equivalents	\$ --	701,113	33,742	2,830	290	--	--	--	737,975
Federal funds	69,532	--	--	--	--	--	--	--	69,532
State funds	79,927	--	--	--	--	--	--	--	79,927
Accounts receivable, net	--	32,351	--	--	56,733	48,393	62,832	101,569	301,878
Taxes receivable, net	--	--	128,192	--	--	--	--	--	128,192
Total assets	\$ 149,459	733,464	161,934	2,830	57,023	48,393	62,832	101,569	1,317,504
LIABILITIES AND FUND BALANCE									
Liabilities:									
Accounts payable and accrued liabilities	3,850	1,458	33,742	--	57,023	10,000	--	101,569	207,642
Deferred revenue	--	--	128,192	--	--	19,335	--	--	147,527
Due to other funds	--	--	--	--	--	19,058	62,832	--	81,890
Total Liabilities	3,850	1,458	161,934	--	57,023	48,393	62,832	101,569	437,059
Fund Balances:									
Reserved by state statute	--	32,351	--	--	--	--	--	--	32,351
Unreserved	145,609	699,655	--	2,830	--	--	--	--	848,094
Total fund balances	145,609	732,006	--	2,830	--	--	--	--	880,445
Total liabilities and fund balances	\$ 149,459	733,464	161,934	2,830	57,023	48,393	62,832	101,569	1,317,504

Watauga County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

Special Revenue Funds									
	Substance Abuse Tax	E-911 Telephone Surcharge	Fire Districts Fund	Revaluation Funds	Occupancy Tax Fund	Scattered Site Housing Fund	CDBG Hospitality House	Upper Watauga River Project	Total Nonmajor Governmental Funds
REVENUES									
Ad valorem taxes	\$ --	--	2,648,381	--	--	--	--	--	2,648,381
Other taxes and licenses	--	--	--	--	730,718	--	--	--	730,718
Restricted intergovernmental	15,324	388,212	--	--	--	48,393	165,995	141,030	758,954
Investment earnings	427	1,523	--	7	--	--	--	--	1,957
Total revenues	<u>15,751</u>	<u>389,735</u>	<u>2,648,381</u>	<u>7</u>	<u>730,718</u>	<u>48,393</u>	<u>165,995</u>	<u>141,030</u>	<u>4,140,010</u>
EXPENDITURES									
Current:									
General government	--	--	--	--	730,718	--	--	--	730,718
Public safety	38,169	251,811	2,648,381	--	--	--	--	--	2,938,361
Economic and Physical Development	--	--	--	--	--	48,393	165,995	--	214,388
Environmental Protection	--	--	--	--	--	--	--	141,030	141,030
Capital outlay	8,918	22,454	--	--	--	--	--	--	31,372
Total expenditures	<u>47,087</u>	<u>274,265</u>	<u>2,648,381</u>	<u>--</u>	<u>730,718</u>	<u>48,393</u>	<u>165,995</u>	<u>141,030</u>	<u>4,055,869</u>
Excess (deficiency) of revenues over expenditures	(31,336)	115,470	--	7	--	--	--	--	84,141
OTHER FINANCING SOURCES (USES)									
Proceeds from installment purchase contracts	--	--	--	--	--	--	--	--	--
Transfers to (from) other funds	--	--	--	--	--	--	--	--	--
Total other financing sources and uses	--	--	--	--	--	--	--	--	--
Net change in fund balances	(31,336)	115,470	--	7	--	--	--	--	84,141
Fund balances - beginning	176,945	616,536	--	2,823	--	--	--	--	796,304
Fund balances - ending	<u>\$ 145,609</u>	<u>732,006</u>	<u>--</u>	<u>2,830</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>880,445</u>

WATAUGA COUNTY, NORTH CAROLINA
 Substance Abuse Tax Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restricted intergovernmental - State	\$ 32,000	15,324	(16,676)
Investment Earnings	1,000	427	(573)
Total revenues	33,000	15,751	(17,249)
Expenditures:			
Public Safety			
Federal		5,400	
State		32,769	
Capital outlay - federal		8,918	
Total expenditures	48,000	47,087	(913)
Excess (deficiency) of revenues over expenditures	15,000	(31,336)	(16,336)
Other financing sources (uses)			
Appropriated fund balance	15,000	--	(15,000)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	(31,336)	(31,336)
Fund balance at beginning of year		176,945	
Fund balance at end of year		\$ 145,609	

WATAUGA COUNTY, NORTH CAROLINA
 E-911 Telephone Surcharge Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Restricted intergovernmental:			
Wireless 911 funds	\$	388,212	
Investment earnings		1,523	
Total revenues	405,000	389,735	(15,265)
Expenditures:			
Public safety:			
Salaries and employee benefits		54,450	
Operating expenses		197,361	
Capital outlay		22,454	
Total expenditures	446,576	274,265	172,311
Excess (deficiency) of revenues over expenditures	(41,576)	115,470	157,046
Other financing sources (uses):			
Appropriated fund balance	41,576	--	(41,576)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	115,470	115,470
Fund balance at beginning of year		616,536	
Fund balance at end of year		\$ 732,006	

WATAUGA COUNTY, NORTH CAROLINA
 Fire Districts Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 2,687,614	2,648,381	(39,233)
Total revenues	2,687,614	2,648,381	(39,233)
Expenditures:			
Public safety:			
Beaver Dam Fire District	107,530	109,118	(1,588)
Blowing Rock Fire District	452,237	450,163	2,074
Boone Fire District	628,274	618,993	9,281
Cove Creek Fire District	216,768	217,750	(982)
Deep Gap Fire District	179,030	179,273	(243)
Foscoe Fire District	453,293	451,192	2,101
Meat Camp Fire District	121,890	121,623	267
Meat Camp/Creston Fire District	4,126	3,953	173
Shawneehaw Fire District	87,638	89,591	(1,953)
Stewart Simmons Fire District	205,594	177,507	28,087
Todd Fire District	44,603	44,570	33
Zionville Fire District	111,656	111,192	464
Beech Mountain Fire Service District	1,795	1,781	14
Cove Creek Fire Service District	312	301	11
Foscoe Fire Service District	66,292	65,979	313
Shawneehaw Fire Service District	6,576	5,395	1,181
Total expenditures	2,687,614	2,648,381	39,233
Excess (deficiency) of revenues over expenditures	\$ <u> --</u>	<u> --</u>	<u> --</u>
Fund balance at beginning of year		--	
Fund balance at end of year		--	

WATAUGA COUNTY, NORTH CAROLINA
 Revaluation Fund
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Investment earnings	\$ --	7	7
Expenditures:			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	7	7
Other Financing Sources (Uses):			
Transfer to other funds	--	--	--
Appropriated fund balance	--	--	--
Total other financing sources	--	--	--
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	7	7
Fund balance at beginning of year		2,823	
Fund balance at end of year		\$ 2,830	

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, 2010

	2010		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes and licenses	\$ 767,500	730,718	(36,782)
Total revenues	767,500	730,718	(36,782)
Expenditures:			
Tourism Development		713,411	
Administrative fee		17,307	
Total expenditures	767,500	730,718	36,782
Excess (deficiency) of revenues over expenditures	\$ --	--	--
Fund balance at beginning of year		--	
Fund balance at end of year		\$ --	

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, 2010

	2010				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 400,000	--	48,393	48,393	(351,607)
Total revenues	400,000	--	48,393	48,393	(351,607)
Expenditures:					
Residence rehabilitation	313,000	--	31,100	31,100	281,900
Local option/Emergency	40,000	--	--	--	--
Grant administration	47,000	--	17,293	17,293	29,707
Total expenditures	400,000	--	48,393	48,393	311,607
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year		\$	--		

WATAUGA COUNTY, NORTH CAROLINA
 CDBG - Hospitality House
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 600,000	--	165,995	165,995	(434,005)
Total revenues	600,000	--	165,995	165,995	(434,005)
Expenditures:					
Continuing Services - Hospitality House	575,000	--	154,823	154,823	420,177
Grant Administration	25,000	--	11,172	11,172	13,828
Total expenditures	600,000	--	165,995	165,995	434,005
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			--		
Fund balance at end of year			\$ --		

WATAUGA COUNTY, NORTH CAROLINA
 Upper Watauga River Project
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	2010				
	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental	\$ 423,760	--	141,030	141,030	(282,730)
Total revenues	<u>423,760</u>	<u>--</u>	<u>141,030</u>	<u>141,030</u>	<u>(282,730)</u>
Expenditures:					
River Enhancement	390,486	--	141,030	141,030	249,456
Contingency	18,000	--	--	--	18,000
Grant administration	15,274	--	--	--	15,274
Total expenditures	<u>423,760</u>	<u>--</u>	<u>141,030</u>	<u>141,030</u>	<u>282,730</u>
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
Fund balance at beginning of year			<u>--</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, 2010

	<u>Budget</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total-to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Investment earnings	\$ 746,000	589,990	17,620	607,610	(138,390)
Other revenues	1,288,400	570,233	686,352	1,256,585	(31,815)
Total Revenues	<u>2,034,400</u>	<u>1,160,223</u>	<u>703,972</u>	<u>1,864,195</u>	<u>(170,205)</u>
Expenditures:					
Capital Projects	<u>79,404,520</u>	<u>52,941,232</u>	<u>19,814,874</u>	<u>72,756,106</u>	<u>6,648,414</u>
Excess (deficiency) of revenues over expenditures	<u>(77,370,120)</u>	<u>(51,781,009)</u>	<u>(19,110,902)</u>	<u>(70,891,911)</u>	<u>6,478,209</u>
Other financing sources (uses):					
Operating transfers - in (out):					
From Capital Reserve Fund	1,548,881	--	1,548,881	1,548,881	--
From General Fund	5,821,239	2,324,615	3,496,624	5,821,239	--
Loan proceeds	<u>70,000,000</u>	<u>70,000,000</u>	<u>--</u>	<u>70,000,000</u>	<u>--</u>
Total other financing sources (uses)	<u>77,370,120</u>	<u>72,324,615</u>	<u>5,045,505</u>	<u>77,370,120</u>	<u>--</u>
Increase (decrease) in fund balance	<u>\$ --</u>	<u>20,543,606</u>	<u>(14,065,397)</u>	<u>6,478,209</u>	<u>6,478,209</u>
Fund balance at beginning of year			<u>20,543,606</u>		
Fund balance at end of year			<u>\$ 6,478,209</u>		

Watauga County, North Carolina
Solid Waste Fund
Statement of Revenues and Expenditures
Budget and Actual (NON-GAAP)
For the Fiscal Year Ended June 30, 2010

	2010		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenues:			
Landfill charges	\$	4,069,223	
Restricted intergovernmental revenues		100,822	
Total	<u>3,896,246</u>	<u>4,170,045</u>	<u>273,799</u>
Non-operating revenues:			
Investment earnings	<u>20,000</u>	<u>6,086</u>	<u>(13,914)</u>
Total revenues	<u>3,916,246</u>	<u>4,176,131</u>	<u>259,885</u>
EXPENDITURES:			
Landfill operations:			
Salaries and employee benefits		1,163,494	
Other operating expenditures		1,955,177	
Total landfill operations	<u>3,891,057</u>	<u>3,118,671</u>	<u>772,386</u>
Recycling operations:			
Salaries and employee benefits		42,154	
Other operating expenses		33,498	
Total recycling operations	<u>81,507</u>	<u>75,652</u>	<u>5,855</u>
Budgetary appropriations			
Interest paid		5,941	
Debt principal		178,252	
Capital outlay		220,228	
Total budgetary appropriations	<u>540,634</u>	<u>404,421</u>	<u>136,213</u>
Total expenditures	<u>4,513,198</u>	<u>3,598,744</u>	<u>914,454</u>
Revenues under expenditures	<u>(596,952)</u>	<u>577,387</u>	<u>1,174,339</u>
Other financing sources (uses):			
Transfers to general fund for debt payment	(75,413)	(75,413)	--
Appropriated fund balance	<u>672,365</u>	<u>--</u>	<u>(672,365)</u>
Total other financing sources (uses):	<u>596,952</u>	<u>(75,413)</u>	<u>(672,365)</u>
Revenues over expenditures and other sources (use):	\$ <u><u>--</u></u>	501,974	<u>501,974</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		220,228	
Depreciation		(595,902)	
Payment of debt principal		178,252	
Increase in accrued OPEB		(4,472)	
Decrease in accrued vacation pay		1,093	
Total reconciling items		<u>(200,801)</u>	
Change in net assets		\$ <u><u>301,173</u></u>	

Watauga County, North Carolina
Combining Statement of Fiduciary Net Assets
Pension Trust Fund
For the Year Ended June 30, 2010

	LEO Special Separation Allowance
Assets	
Cash and cash equivalents	\$ <u>182,734</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued liabilities	\$ <u> --</u>
Total liabilities	<u> --</u>
Net Assets:	
Assets held in trust for pension benefits	\$ <u>182,734</u>

Watauga County, North Carolina
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Fund
For the Year Ended June 30, 2010

		LEO Special Separation Allowance
		<u> </u>
Additions:		
Employer contributions	\$	29,566
Interest		<u>413</u>
Total additions		<u>29,979</u>
Deductions:		
Benefits		19,328
Administrative expense		<u>238</u>
Total deductions		<u>19,566</u>
Change in net assets		10,413
Net assets, beginning		<u>172,321</u>
Net assets, ending	\$	<u><u>182,734</u></u>

Watauga County, North Carolina
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Social Services:				
Assets:				
Cash and Investments	\$ 20,680	277,246	267,593	30,333
Liabilities:				
Accounts Payable	\$ 20,680	277,246	267,593	30,333
Vehicle Tax-Towns:				
Assets:				
	2,759	93,165	91,625	4,299
Liabilities:				
Accounts Payable	2,759	93,165	91,625	4,299
Jail Commissary:				
Assets:				
Cash and Investments	10,334	63,185	59,621	13,898
Liabilities:				
Accounts Payable	10,334	63,185	59,621	13,898
Fines and Forfeitures:				
Assets:				
Cash and Investments	--	348,370	348,370	--
Liabilities:				
Accounts Payable	--	348,370	348,370	--
DMV Tax Interest Fund:				
Assets:				
Cash and Investments	879	10,859	11,027	711
Liabilities:				
Accounts Payable	879	10,859	11,027	711
Deed of Trust Fee Fund:				
Assets:				
Cash and Investments	--	8,640	8,640	--
Liabilities:				
Accounts Payable	--	8,640	8,640	--
Total - All Agency Funds				
Assets:				
Cash and Investments	\$ 34,652	801,465	786,876	49,241
Liabilities:				
Accounts Payable	\$ 34,652	801,465	786,876	49,241

Watauga County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2010

<u>Fiscal year:</u>	Uncollected Balance June 30, 2009	Additions	Collections and Credits	Uncollected Balance June 30, 2010
2009 - 2010	\$ --	27,309,634	26,606,340	703,294
2008 - 2009	807,178	--	525,663	281,515
2007 - 2008	258,139	--	134,862	123,277
2006 - 2007	106,008	--	14,559	91,449
2005 - 2006	74,713	--	7,899	66,814
2004 - 2005	54,506	--	6,088	48,418
2003 - 2004	49,310	--	3,954	45,356
2002 - 2003	45,809	--	3,096	42,713
2001 - 2002	41,884	--	1,649	40,235
2000 - 2001	35,980	--	1,060	34,920
1999 - 2000	30,814	--	30,814	--
	<u>\$ 1,504,341</u>	<u>27,309,634</u>	<u>27,335,984</u>	<u>1,477,991</u>
Plus: 2010 - 2011 receivable				5,967
Less: allowance for uncollectible accounts General Fund				<u>(499,128)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 984,830</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 27,431,505
Reconciling items:	
Advertising and interest collected	(167,353)
Taxes written off	30,560
Prior year releases	41,272
Total reconciling items	<u>(95,521)</u>
Total collections and credits	<u>\$ 27,335,984</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-Wide Levy
 For the Fiscal Year Ended June 30, 2010

	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	\$ 8,294,305,431	\$ 0.313	25,961,176	\$ 25,961,176	--
Motor vehicles	350,635,333	0.313	1,097,838	--	1,097,838
Penalties	--		5,777	5,777	--
Total	8,644,940,764		27,064,791	25,966,953	1,097,838
Discoveries:					
Current year taxes	84,490,569	0.313	257,870	257,870	--
Prior year taxes	--		26,047	26,047	--
Penalties	--		88	88	--
Total	84,490,569		284,005	284,005	--
Abatements:	(12,511,821)		(39,162)	(22,251)	16,911
Total property valuation	\$ 8,716,919,512				
Net levy			27,309,634	26,228,707	1,080,927
Uncollected taxes at June 30, 2009			703,294	605,271	98,023
Current year's taxes collected			\$ 26,606,340	25,623,436	982,904
Current levy collection percentage			97.42%	97.69%	90.93%

WATAUGA COUNTY, NORTH CAROLINA
Analysis of Current Tax Levy
County-wide Levy
For the Fiscal Year Ended June 30, 2010

Statement 18-A

Secondary Market Disclosures:

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 8,111,236,265
Personal Property	570,484,501
Public Service Companies	<u>77,714,513</u>
Total Assessed Valuation	8,759,435,279
Tax Rate per \$100	<u>0.313</u>
Levy (includes discoveries, releases and abatements)	\$ <u><u>27,309,634</u></u>

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

Fire Protection Districts	\$ <u><u>2,616,720</u></u>
---------------------------	----------------------------

WATAUGA COUNTY, NORTH CAROLINA
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2010

Statement 18-B

Taxpayer	Type of Business	2009 Assessed Valuation	Percentage of Total Assessed Valuation
BR Development Group LLC	Real Estate Development	\$ 122,985,800	1.41 %
Blue Ridge Electric	Electric Utility	58,659,433	0.67
Mountaineer Village LLC	Rental Properties	25,769,700	0.30
Lowe's Home Centers	Home Supply Center	21,559,300	0.25
Appalachian South	Rental Properties	20,002,600	0.23
Upper Blue Mountain Holdings, LLC	Resort/Real Estate	19,773,000	0.23
Village at Meadowview of Boone LTD	Rental Properties	18,906,800	0.22
Heavenly Mountain Resort Inc	Real Estate Development	15,396,900	0.18
CNL Blowing Rock I LLC	Real Estate Development	15,232,000	0.17
BellSouth	Telephone Utility	<u>15,157,995</u>	<u>0.17</u>
		<u>\$ 333,443,528</u>	<u>3.83 %</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Fiscal Year Ended June 30, 2010

	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	\$ 110,226	1,751	453,951	603,263	220,785	301	179,125	451,185
Uncollected taxes at June 30, 2010	<u>3,213</u>	<u>2</u>	<u>10,115</u>	<u>23,525</u>	<u>8,720</u>	<u>--</u>	<u>6,101</u>	<u>10,321</u>
Current year's taxes collected	\$ <u>107,013</u>	<u>1,749</u>	<u>443,836</u>	<u>579,738</u>	<u>212,065</u>	<u>301</u>	<u>173,024</u>	<u>440,864</u>
Current levy collection percentage	<u>97.09%</u>	<u>99.89%</u>	<u>97.77%</u>	<u>96.10%</u>	<u>96.05%</u>	<u>100.00%</u>	<u>96.59%</u>	<u>97.71%</u>
	Foscoe Rural Fire Service District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawneehehaw Fire District	Shawneehehaw Rural Fire Service District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 66,484	122,356	4,109	90,445	5,308	172,316	44,156	110,312
Uncollected taxes at June 30, 2010	<u>1,568</u>	<u>4,015</u>	<u>415</u>	<u>2,871</u>	<u>84</u>	<u>3,834</u>	<u>1,001</u>	<u>3,816</u>
Current year's taxes collected	\$ <u>64,916</u>	<u>118,341</u>	<u>3,694</u>	<u>87,574</u>	<u>5,224</u>	<u>168,482</u>	<u>43,155</u>	<u>106,496</u>
Current levy collection percentage	<u>97.64%</u>	<u>96.72%</u>	<u>89.90%</u>	<u>96.83%</u>	<u>98.42%</u>	<u>97.78%</u>	<u>97.73%</u>	<u>96.54%</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**

To the Board of County Commissioners
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated October 22, 2010. We did not audit the financial statements of AppalCART or the Watauga County District U Tourism Development Authority. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART and the Watauga County District U Tourism Development Authority is based solely on the report 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Watauga County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when designed or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than

inconsequential will not be prevented or detected by the County's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

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

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

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

Bryce Holder, CPA, P.A.

October 22, 2010

BRYCE HOLDER, CPA, P.A.

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

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2010. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

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

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

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

Bryce Holder, CPA, P.A.

October 22, 2010

BRYCE HOLDER, CPA, P.A.

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

To the Board of County Commissioners
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2010. Watauga County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

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

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

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

Bryce Holder, CPA, P.A.

October 22, 2010

WATAUGA COUNTY, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2010

I. **Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(s) identified that are not considered to be material weaknesses _____ Yes X None reported

Noncompliance material to financial Statements noted _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(s) identified that are not considered to be material weaknesses _____ Yes X None reported

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

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

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778
Food Stamp Program	10.551 10.561

Dollar threshold used to distinguish Between Type A and Type B Programs: \$ 821,883

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, 2010

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

II. Financial Statement Findings:

There were no findings.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs.

IV. State Award Findings and Questioned Costs

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2010

Finding 2006

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

Finding 2007

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

Finding 2008

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

Finding 2009

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

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2010

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					
ARRA - Supplemental Nutrition Assistance Program - Noncash	10.551		\$ 4,368,224	--	--
ARRA - State Administrative Matching Grants for the Food Stamp Program	10.561		296,220	--	244,336
Total Supplemental Nutrition Assistance Program			4,664,444	--	244,336
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		23,596	--	--
Total U.S. Dept. of Agriculture			4,688,040	--	244,336
U.S. Dept. of Housing and Urban Development					
Passed-through the N.C. Dept of Crime Control and Public Safety					
Community Development Block Grant	14.228	06-C-1541	48,393	--	--
Community Development Block Grant - Hospitality House	14.228	08-C-1881	165,995	--	--
Total U.S. Dept. of Housing and Urban Development			214,388	--	--
Environmental Protection Agency					
Passed-through the N.C. Dept of Environmental and Natural Resources Division of Water Quality					
Capitalization Grants for Clean Water State Revolving Funds	66.458		141,030	--	--
U.S. Dept of Homeland Security					
Passed-through the N.C. Dept of Crime Control					
ARRA - Assistance to Firefighters Grant					
Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	97.115		1,850	--	--
Emergency Management Performance Grant	97.048		47,339	--	15,780
Total U.S. Dept of Homeland Security	97.042		29,922	--	29,922
			79,111	--	45,702
U.S. Dept. of Justice					
State Criminal Alien Assistance Program	16.606		16,833	--	--
Bulletproof Vest Partnership Program	16.607		2,925	--	2,925
Public Safety Partnership and Community Policing Grants	16.710		3,560	--	1,187
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Domestic Violence Intervention Program	16.588		21,775	--	7,258
Total U.S. Dept of Justice			45,093	--	11,370
U.S. Dept. of Health & Human Services					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		2,399	153	284
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		28,937	67,519	10,717
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		84,171	30,367	12,726
ARRA - Aging Home Delivered Nutrition Services	93.705		3,702	236	438
ARRA - Aging Congregate Nutrition Services	93.707		6,578	420	778
Senior Center			--	16,871	--
Fan and Heat Program				400	
Family Caregiver Support Program	93.052		3,761	240	445
Social Services Block Grant (SSBG)					
In-home Services	93.667		8,643	20,169	3,201
Medicare and Medicaid Services Research	93.779		2,732	--	--
Total Aging Cluster			140,923	136,375	28,589
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Family Preservation					
Temporary Assistance for Needy Families	93.556		1,023	--	--
Administration					
Direct Benefit Payments	93.558		223,939	--	155,174
Low-Income Home Energy Assistance Block Grant:	93.558		81,859	--	--
Administration	93.568		169,291	--	--
Direct Benefit Payments	93.568		174,688	--	--

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2010

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
U.S. Dept. of Health & Human Services (cont.)					
Child Welfare Services	93.645		12,782	3,701	1,108
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	80,651	15,945
Title IV-E Foster Care	93.658		172,284	9,200	143,224
Foster Care - Direct Benefit Payments	93.658		141,199	31,475	32,792
ARRA - Foster Care	93.658		6,264	--	--
Adoption Assistance - Administration	93.659		--	--	--
Adoption Assistance - Direct Benefit Payments	93.659		197,226	42,443	42,443
ARRA - Adoption Assistance	93.659		8,864	--	--
Social Services Block Grant	93.667		146,087	14,926	49,466
DCD Smart Start			--	42,300	--
Adoption/Foster Care Special Provision			19,693	25,687	1,324
Subsidized Child Care					
<u>Child Care Development Cluster</u>					
Division of Social Services					
Child Care Development Fund - Administration	93.596		80,000	--	--
Child Care and Development					
Fund - - Discretionary	93.575		180,237	--	--
Child Care and Development					
Fund - - Mandatory	93.596		107,492	--	--
Child Care and Development					
Fund - - Match	93.596		176,525	94,785	--
ARRA - Child Care and Development Block Grant	93.713		136,015	--	--
Total Child Care Development Fund Cluster			<u>680,269</u>	<u>94,785</u>	<u>--</u>
Social Services Block Grant	93.667		9,783	--	--
Temporary Assistance for Needy Families	93.558		103,835	--	--
Smart Start			--	99,656	--
TANF - Maintenance of Effort			--	64,130	--
TANF - Contingency	93.575		19,210	--	--
Total Subsidized Child Care (Note 3)			<u>813,097</u>	<u>258,571</u>	<u>--</u>
Health Care Financing Administration					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		19,387,059	6,782,255	29,981
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		493,217	22,758	449,269
Health Choice	93.767		29,481	1,324	8,274
Links	93.674		2,993	748	--
Links- Direct Benefit Payments	93.674		6,397	--	--
Total U.S. Department of Health & Human Services			<u>22,213,238</u>	<u>7,452,414</u>	<u>957,589</u>
Total Federal Awards			<u>27,396,028</u>	<u>7,452,414</u>	<u>1,258,997</u>
State Awards:					
N.C. Dept. of Health and Human Services					
Division of Social Services					
State/County Special Assistance for Adults-					
Direct Benefit Payments			--	284,746	284,746
State Foster Care Benefits Program			--	103,207	103,207
Program Integrity			--	564	--
State Adult Protective Service			--	21,139	--
Total N.C. Dept. of Health and Human Services			<u>--</u>	<u>409,656</u>	<u>387,953</u>

WATAUGA COUNTY, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Fiscal Year Ended June 30, 2010

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
Office of the Governor					
Department of Juvenile Justice and Delinquency Prevention					
Juvenile Crime Prevention Council Programs-Gang grant			--	6,027	--
Juvenile Crime Prevention Council Programs			--	114,285	34,060
Total Office of the Governor			--	120,312	34,060
N.C. Dept. of Public Instruction					
Public School Capital Building Fund			--	679,422	129,572
Public School National Forest Service			--	572	--
Total N.C. Dept. of Public Instruction			--	679,994	129,572
N.C. Dept. of Transportation					
Workfirst/Employment Transportation					
Operating Assistance			--	9,262	--
Elderly and Disabled Transportation Assistance					
Program (E&DTAP)			--	71,690	--
Rural General Public Program			--	84,941	--
Governor's Highway Safety Program			--	19,519	--
Total N.C. Dept. of Transportation			--	185,412	--
N.C. Dept. of Environment, Health, and Natural Resources					
Soil Conservation Assistance			--	4,000	155,282
Soil Conservation Cost Sharing			--	23,708	23,708
Cove Creek Restoration Project			--	85,547	--
Drought Response Assistance			--	300	--
Division of Waste Management Trust Fund					
Glass Bunkers Grant			--	11,120	8,960
Total N.C. Dept. of Environment, Health, and Natural Resources			--	124,675	187,950
N.C. Dept. of Corrections					
Criminal Justice Partnership Program			--	63,191	--
N.C. Division of Veteran's Affairs					
Veteran's Service Program			--	2,000	106,415
N.C. Association of County Commissioners					
Wellness Grant			--	5,740	--
Total State awards			--	1,590,980	845,950
Total federal and State awards			\$ 27,396,028	9,043,394	2,104,947

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	\$ 4,368,224	--
Temporary Assistance for Needy Families	93.558	81,859	--
Medical Assistance Program	93.778	19,387,059	6,782,255
Low Income Home Energy Assistance Block Grant	93.568	174,688	--
Child Welfare - Adoption Subsidy	93.645	--	80,651
Foster Care	93.658	147,643	31,475
Adoption Assistance	93.659	206,090	42,443
Links	93.674	6,397	--
Adult Assistance	--	--	284,746

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