



WATAUGA COUNTY, NORTH CAROLINA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019



WATAUGA COUNTY, NORTH CAROLINA

BOARD OF COUNTY COMMISSIONERS

John Welch, Chairman

Billy Kennedy, Vice Chairman

Larry Turnbow

Charlie Wallin

Perry Yates

COUNTY OFFICIALS

Deron T. Geouque

County Manager

Misty Watson

Finance Director

Watauga County, North Carolina

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FINANCIAL SECTION



Independent Auditors' Report

Board of Commissioners
Watauga County, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of AppalCART. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of AppalCART were audited in accordance with *Government Auditing Standards*. The financial statements of the Watauga County District U Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-10, the Law Enforcement Officers' Special Separation Allowance Irrevocable Trust's Schedules of the Changes in the Net Pension Liability, Net Pension Liability, and County's Contributions, on pages 58 through 60, respectively, the Other Post Employment Benefits Schedules of Funding Progress, Changes in Net OPEB Liability and Related Ratios, County's Contributions, and Investment Returns on pages 61 through 63, respectively, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and County's Contributions, on pages 64 through 65, respectively, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of Net Pension Asset and County's Contributions, on pages 66 through 67, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by Title 2 *U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit

of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of Watauga County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Accordingly, we express no opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watauga County's internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
December 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Watauga County

Year Ended June 30, 2019

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, 2019. We encourage users to read the information presented here in conjunction with additional information we have furnished in the County's financial statements and notes which follow this narrative.

Financial Highlights

- The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the fiscal year by \$155,261,296.
- The County's total net position increased by \$10,495,380 primarily due to an increase in cash assets from revenues, particularly sales tax, exceeding budget coupled with operating expenditures below expected levels.
- The County's unassigned fund balance for the General Fund was \$20,497,998 at the end of the year, representing 39.6% of total General Fund expenditures. This is an increase of \$360,569 in unassigned fund balance over the previous year.
- Total County debt increased by \$14,607,639 in outstanding principal. The increase was a result of financing for a community recreation center.
- The County:
 - Completed paving of the Industrial Field
 - Received donated land for the Middlefork Greenway
 - Began a river access project at Guy Ford
 - Began a Tower project to enhance emergency communications
 - Continued a project to build a new recreation and community center that has been in the making for more than 3 decades
- S&P Global Ratings reaffirmed the County's credit rating at AA and the County's financial stability.
- For the fifth year, the County was able to allocate funds to the Capital Projects Fund as part of the original budget ordinance denoting a continued rebound from the recession.

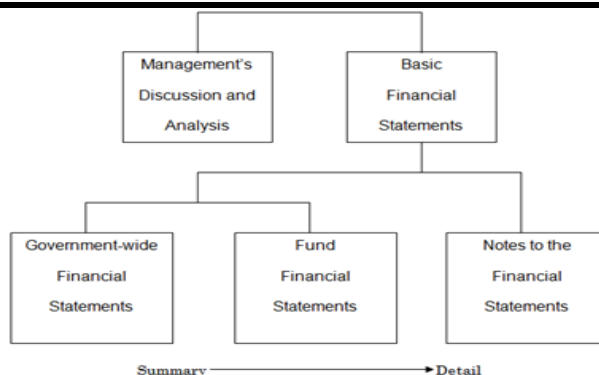
Overview of the Financial Statements

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

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next sections of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Directly following the notes is the **supplemental information**. This section first contains **required supplemental information** about the County's pension plans and the other postemployment benefits plan, followed by additional **supplemental information**. This **supplemental information** is provided to show details about the County's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

Government-wide financial statements may be divided into as many as three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes solid waste services offered by Watauga County. The final category is the component units. AppalCART is a separate governmental entity, which operates a transportation authority in Watauga County. Watauga County Board of Commissioners appoints the eight member governing body. Watauga County provides some financial support and AppalCART is financially accountable to the County. The Watauga County District U Tourism Development Authority (TDA) is a separate governmental entity created to administer occupancy tax funds collected to promote tourism in the County. The seven voting members of the Authority Board are appointed by the County Board of Commissioners.

Fund Financial Statements

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

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

The County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to

finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the final budget as amended by the board, 2) the actual resources, charges to appropriations, and ending balances in the General Fund, and 3) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has eight fiduciary funds, two of which are pension trust funds and the other six 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 23 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 59 of this report.

Government-Wide Financial Analysis

Watauga County's Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 83,302,688	\$ 67,193,251	\$ 7,759,834	\$ 7,422,214	\$ 91,062,522	\$ 74,615,465
Net capital assets	123,614,625	111,474,245	4,814,605	4,705,609	128,429,230	116,179,854
Total assets	206,917,313	178,667,496	12,574,439	12,127,823	219,491,752	190,795,319
Total deferred outflows of resources	4,158,089	2,483,358	374,287	237,049	4,532,376	2,720,407
Long-term liabilities outstanding	61,153,455	43,855,222	1,535,245	1,377,857	62,688,700	45,233,079
Other liabilities	4,686,052	2,296,133	333,029	287,341	5,019,081	2,583,474
Total liabilities	65,839,507	46,151,355	1,868,274	1,665,198	67,707,781	47,816,553
Total deferred inflows of resources	995,686	899,934	59,365	33,323	1,055,051	933,257
Net position:						
Net investment in capital assets	69,604,077	73,483,517	4,814,605	4,705,609	74,418,682	78,189,126
Restricted	18,911,192	6,439,806	-	-	18,911,192	6,439,806
Unrestricted	55,724,940	54,176,242	6,206,482	5,960,742	61,931,422	60,136,984
Total net position	\$ 144,240,209	\$ 134,099,565	\$ 11,021,087	\$ 10,666,351	\$ 155,261,296	\$ 144,765,916

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$155,261,296 at June 30, 2019. The County's net position increased by a total of \$10,495,380 for the fiscal year. Net position is reported in three categories: Net investment in capital assets of \$74,418,682 restricted net position of \$18,911,192; and unrestricted net position of \$61,931,422.

The net investment in capital assets is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2019, the increase in this category of net position correlates to reduced outstanding debt along with increased capital assets.

Another category of net position is restricted net position. This represents resources that are subject to external restrictions on how they may be used. The County has restricted assets due to statutory requirements for Register of Deeds Automation Enhancement Funds, Tax Revaluation, and Stabilization by State Statutes. Special revenues funds and Register of Deeds pension assets account for the balance of the restricted net position.

The final category of net position is unrestricted net position. This balance may be used to meet the government's ongoing obligations to citizens and creditors. Several particular aspects of the County's financial operations affected the reporting of total unrestricted net position:

- Higher current cash and cash equivalent assets;

Watauga County Changes in Net Position Figure 3

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 2,608,634	\$ 2,305,329	\$ 5,092,325	\$ 4,970,636	\$ 7,700,959	\$ 7,275,965
Operating grants and contributions	4,615,840	4,386,375	150,629	156,093	4,766,469	4,542,468
Capital grants	521,602	468,801	-	-	521,602	468,801
General revenues:						
Property taxes	36,029,382	35,747,188	-	-	36,029,382	35,747,188
Other taxes	15,600,007	14,749,663	-	-	15,600,007	14,749,663
Grant and contributions not restricted to specific programs	4,699,806	3,813,637	-	-	4,699,806	3,813,637
Other	1,370,455	549,545	126,841	82,688	1,497,296	632,233
Sale of capital assets	(453,952)	(215,248)	-	-	(453,952)	(215,248)
Total revenues	64,991,774	61,805,290	5,369,795	5,209,417	70,361,569	67,014,707
Expenses						
General government	9,016,992	10,229,602	-	-	9,016,992	10,229,602
Public safety	14,818,024	14,449,460	-	-	14,818,024	14,449,460
Transportation	224,792	225,389	-	-	224,792	225,389
Economic & physical development	2,544,199	630,501	-	-	2,544,199	630,501
Environment protection	383,857	368,964	-	-	383,857	368,964
Human services	7,776,908	7,033,720	-	-	7,776,908	7,033,720
Cultural and recreation	2,122,231	2,060,674	-	-	2,122,231	2,060,674
Education	16,245,320	15,497,221	-	-	16,245,320	15,497,221
Interest on long-term debt	1,718,807	1,408,358	-	-	1,718,807	1,408,358
Solid Waste	-	-	5,015,059	4,229,372	5,015,059	4,229,372
Total expenses	54,851,130	51,903,889	5,015,059	4,229,372	59,866,189	56,133,261
Increase in net position before special items	10,140,644	9,901,401	354,736	980,045	10,495,380	10,881,446
Special item – loss on sale of old Watauga High School	-	(7,698,452)	-	-	-	(7,698,452)
Increase in net position after special items	10,140,644	2,202,949	354,736	980,045	10,495,380	3,182,994
Net position, beginning, previously reported	134,099,565	133,407,476	10,666,351	10,965,072	144,765,916	144,372,548
Restatement	-	(1,510,860)	-	(1,278,766)	-	(2,789,626)
Net position, beginning, restated	134,099,565	131,896,616	10,666,351	9,686,306	144,765,916	136,284,553
Net position, ending	\$ 144,240,209	\$ 134,099,565	\$ 11,021,087	\$ 10,666,351	\$ 155,261,296	\$ 144,765,916

Governmental activities: Governmental activities increased the County's net position by \$10,140,644, thereby accounting for 96.6% of the total growth in the net position of Watauga County. Key elements of this increase are as follows:

- Sales tax increases due to the improved economic factors particularly in the tourism industry, resulted in revenues above projection;
- Continued high property tax collections at a rate of 99.01% for the current fiscal year;
- Close monitoring of expenditures throughout the year with actual expenditures below budget.

Business-type activities: Business-type activities increased Watauga County's net position by \$354,736, 3.3%. Key elements of this increase are as follows:

- Revenues in excess of projections for sale of recycled materials due to market pricing higher than expected;
- Revenues for investment earnings were above projections due to a strong market;
- Close monitoring of expenditures throughout the year with actual expenditures below budget.

Financial Analysis of the County's Funds

Watauga County uses fund accounting to ensure and demonstrate compliance with finance-related legal and accounting requirements.

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

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Fund increased to \$20,497,998 while total fund balance increased to \$26,892,370. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 39.6 percent of total General Fund expenditures, while total fund balance represents 51.9 percent of that same amount.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once more 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 \$8,788,735 with approximately \$5,944,300 of the amendments related to appropriations of fund balance. Of this amount, \$3.6 million was set aside for the recreation center project, \$267,133 for unused school lottery projects, \$1,094,929 for carried forward projects, \$752,000 for the purchase of the Water Street property, and \$230,000 for additional adoption and social services expenditures. Within the remaining fund balance amendments of \$2,844,435; \$220,793 was for school lottery projects, \$331,000 for the donation of land, \$732,394 for additional intergovernmental revenues recognized or awarded, and the remaining for various expenditures including completion of County and School projects. The actual operating revenues for the General Fund were \$2,879,198 more than the budgeted amount. Actual operating expenses were less than budgeted by \$3,924,657.

Proprietary Funds - Watauga County's proprietary fund is used to provide information on the solid waste enterprise. Unrestricted net position of the Solid Waste Fund at the end of the fiscal year amounted to \$6,206,482. The total increase in proprietary net position was \$354,736.

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, 2019, totals \$128,429,230 (net of depreciation). These assets include construction in progress, buildings, land, equipment, improvements, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles and numerous pieces of equipment for County governmental departments;
- Completed paving of the Industrial Field;
- Received donated land for the Middlefork Greenway;
- Began a river access project at Guy Ford;
- Began a Tower project to enhance emergency communications;
- Continued a project to build a new recreation and community center

Watauga County's Capital Assets, Net of Depreciation

Figure 4

	Governmental Activities	Business Activities	Total
	2019	2019	2019
Land	\$ 21,544,911	\$ 975,497	\$ 22,520,408
Buildings	76,491,354	2,778,592	79,269,946
Other improvements	1,714,637	72,200	1,786,837
Leasehold improvements	5,692,448	6,052	5,698,500
Equipment	939,089	242,819	1,181,908
Vehicles	1,027,129	739,446	1,766,575
Construction in progress	16,189,455	-	16,189,455
Intangible assets	15,600	-	15,600
Total	\$ 123,614,625	\$ 4,814,605	\$ 128,429,230

Additional information on the County's capital assets can be found in note 3.A.6 of this report.

Long-term Debt. As of June 30, 2019, Watauga County had no bonded debt outstanding or authorized.

Watauga County's Outstanding Debt

Figure 5

	Governmental Activities	
	2018	2019
Installment purchase	\$ 34,996,388	\$ 49,604,027

Watauga County's total debt increased by \$14,607,639 or (41%) during the past fiscal year due to scheduled debt service payments and the community recreation center loan for \$18,490,000. There is no debt associated with the business activities. The State of North Carolina limits the amount of 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 less outstanding debt principal. The legal debt margin for Watauga County as of June 30, 2019 is \$6,888,841,459. Additional information regarding Watauga County's long-term debt can be found in Note 3.B.6.b of this report.

Economic Factors

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

- The County continues to experience growth in tourism and has seen continued revenue increases for more than nine years related to tourism with revenues at just over \$1.8 million now;

- The County's unemployment rate remained low at 4.2% as of June 2019, which is consistent with the trends seen before the economic recession;
- Appalachian State University provides continued stability to the local economy as a major employer and source of overall positive economic impact from the student population;
- Construction and real estate sales have continued to show increases, consistent with state and national trends.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental activities – The County's property tax rate increased 5 cents per \$100 in property valuation to 40.3 cents per \$100 in property valuation. Sales tax revenue is projected with a 1.8 percent increase based on state projections. Other revenues are expected to maintain current levels with minor increases.

Budgeted expenditures in the General Fund have increased predominately due to an increase to debt service, increase in foster care, and transfers to the Capital Project Fund. Capital purchases are allocated mainly for vehicle and roof replacements with other projects still limited to primarily repairs and maintenance. Funds are allocated to be set aside this year for future capital school projects of \$4,700,000 including the \$4,200,000 generated from the tax increase and \$4,607,737 for county projects—mainly funding \$500,000 for emergency communications, \$1,000,000 for future maintenance and repairs, \$200,000 for renovations for juvenile court, \$907,737 for two (2) new roofs, \$400,000 for West Annex culvert replacement and \$1,000,000 for relocation of baseball fields, tennis, pickle ball and basketball courts.

Businesses-type activities – Budgeted revenues for solid waste service revenues are projected at a 25.6% increase due to an increase in solid waste tipping fees. Funds have been budgeted for capital additions of a motograder, eight (8) trailers, four (4) road tractors and a container truck totaling \$1,571,258.

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, Suite 216, Boone, NC 28607. The report can also be found on our website www.wataugacounty.org/main/App_Pages/Dept/Finance/countyAudits.aspx.

BASIC FINANCIAL STATEMENTS

Watauga County, North Carolina
Statement of Net Position
June 30, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
ASSETS					
Current assets					
Cash and cash equivalents	\$ 48,202,370	\$ 7,359,855	\$ 55,562,225	\$ 3,392,146	\$ 3,357,085
Restricted cash and cash equivalents	12,837,745	-	12,837,745	-	-
Receivables (net)	1,253,690	365,420	1,619,110	47,680	-
Due from other governments	5,431,833	34,559	5,466,392	170,342	298,156
Prepaid expenses	-	-	-	1,552	-
Inventory	-	-	-	205,576	-
Total current assets	<u>67,725,638</u>	<u>7,759,834</u>	<u>75,485,472</u>	<u>3,817,296</u>	<u>3,655,241</u>
Non-current assets					
Net pension asset - ROD	102,050	-	102,050	-	-
Note receivable	15,475,000	-	15,475,000	-	-
Capital assets:					
Land, intangible, and construction in progress	37,749,967	975,497	38,725,464	1,121,092	-
Other capital assets, net of depreciation	85,864,658	3,839,108	89,703,766	14,347,925	-
Total capital assets	<u>123,614,625</u>	<u>4,814,605</u>	<u>128,429,230</u>	<u>15,469,017</u>	<u>-</u>
Total non-current assets	<u>139,191,675</u>	<u>4,814,605</u>	<u>144,006,280</u>	<u>15,469,017</u>	<u>-</u>
Total assets	<u>206,917,313</u>	<u>12,574,439</u>	<u>219,491,752</u>	<u>19,286,313</u>	<u>3,655,241</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension deferrals	3,159,481	259,471	3,418,952	-	48,376
OPEB deferrals	998,608	114,816	1,113,424	-	-
Total deferred outflows of resources	<u>4,158,089</u>	<u>374,287</u>	<u>4,532,376</u>	<u>-</u>	<u>48,376</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	3,895,610	333,029	4,228,639	210,088	15,782
Accrued interest payable	188,640	-	188,640	38,195	-
Due to other governments	566,310	-	566,310	-	-
Liabilities payable from restricted assets	35,492	-	35,492	-	-
Debt service due within one year	5,435,536	142,067	5,577,603	-	-
Total current liabilities	<u>10,121,588</u>	<u>475,096</u>	<u>10,596,684</u>	<u>248,283</u>	<u>15,782</u>
Long-term liabilities					
Due in more than one year	55,717,919	1,393,178	57,111,097	81,675	62,155
Total liabilities	<u>65,839,507</u>	<u>1,868,274</u>	<u>67,707,781</u>	<u>329,958</u>	<u>77,937</u>
DEFERRED INFLOWS OF RESOURCES					
Pension deferrals	268,730	2,707	271,437	-	4,055
OPEB deferrals	655,132	56,658	711,790	-	-
Unearned revenue	68,136	-	-	2,000	-
Prepaid taxes	3,688	-	3,688	-	-
Total deferred inflows of resources	<u>995,686</u>	<u>59,365</u>	<u>1,055,051</u>	<u>2,000</u>	<u>4,055</u>
NET POSITION					
Net investment in capital assets	69,604,077	4,814,605	74,418,682	15,469,017	-
Restricted for:					
Stabilization by State Statute	6,079,449	-	6,079,449	-	298,156
Register of Deeds' pension plan	138,461	-	138,461	-	-
Public safety	392,826	-	392,826	-	-
Capital projects - recreation center project	11,958,319	-	11,958,319	-	-
Register of Deeds Automation/Enhancement	23,290	-	23,290	-	-
Revaluation	318,847	-	318,847	-	-
Transportation	-	-	-	-	-
Unrestricted	55,724,940	6,206,482	61,931,422	3,485,338	3,323,469
Total net position	<u>\$ 144,240,209</u>	<u>\$ 11,021,087</u>	<u>\$ 155,261,296</u>	<u>\$ 18,954,355</u>	<u>\$ 3,621,625</u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Activities
For the Year Ended June 30, 2019

		<u>Program Revenues</u>		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 9,016,992	\$ 1,486,829	\$ 477,066	\$ -
Public safety	14,818,024	765,436	40,453	63,774
Transportation	224,792	-	157,236	-
Economic and physical development	2,544,199	12,000	28,757	-
Environmental protection	383,857	-	114,285	-
Human services	7,776,908	61,345	3,798,043	-
Cultural and recreational	2,122,231	282,089	-	-
Education	16,245,320	935	-	457,828
Interest and fees on long-term debt	1,718,807	-	-	-
Total governmental activities	<u>54,851,130</u>	<u>2,608,634</u>	<u>4,615,840</u>	<u>521,602</u>
Business-type activities:				
Solid waste	<u>5,015,059</u>	<u>5,092,325</u>	<u>150,629</u>	<u>-</u>
Total	<u>\$ 59,866,189</u>	<u>\$ 7,700,959</u>	<u>\$ 4,766,469</u>	<u>\$ 521,602</u>
Component units:				
AppalCART	<u>\$ 5,427,291</u>	<u>\$ 2,099,996</u>	<u>\$ 2,052,207</u>	<u>\$ 2,038,607</u>
Watauga County District U Tourism Development Authority	<u>\$ 1,295,419</u>	<u>\$ -</u>	<u>\$ 285,655</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Local option sales tax				
Other taxes and licenses				
Grants and contributions not restricted to specific programs				
Investment earnings, unrestricted				
Gain (loss) sale of fixed assets				
Miscellaneous, unrestricted				
Total general revenues				
Change in net position				
Net position, beginning				
Net position, ending				

The accompanying notes are an integral part of this statement

Net (Expense) Revenues and Changes in Net Position					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority	
\$ (7,053,097)	\$ -	\$ (7,053,097)			
(13,948,361)	-	(13,948,361)			
(67,556)	-	(67,556)			
(2,503,442)	-	(2,503,442)			
(269,572)	-	(269,572)			
(3,917,520)	-	(3,917,520)			
(1,840,142)	-	(1,840,142)			
(15,786,557)	-	(15,786,557)			
(1,718,807)	-	(1,718,807)			
(47,105,054)	-	(47,105,054)			
-	227,895	227,895			
(47,105,054)	227,895	(46,877,159)			
			\$ 763,519		
				\$ (1,009,764)	
36,029,382	-	36,029,382	-	-	-
12,809,697	-	12,809,697	-	-	-
2,790,310	-	2,790,310	-	1,809,176	-
4,699,806	-	4,699,806	-	-	-
1,370,455	123,643	1,494,098	42,959	59,623	-
(453,952)	-	(453,952)	-	-	-
-	3,198	3,198	16,242	327	-
57,245,698	126,841	57,372,539	59,201	1,869,126	-
10,140,644	354,736	10,495,380	822,720	859,362	-
134,099,565	10,666,351	144,765,916	18,131,635	2,762,263	-
\$ 144,240,209	\$ 11,021,087	\$ 155,261,296	\$ 18,954,355	\$ 3,621,625	-

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
 Governmental Funds
 Balance Sheet
 June 30, 2019

	General	Capital Projects Fund	Recreation Center Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 23,207,917	\$ 9,977,291	\$ 15,017,162	\$ -	\$ 48,202,370
Restricted cash and cash equivalents	342,137	-	11,958,319	537,289	12,837,745
Taxes receivable, net	694,854	-	-	258,465	953,319
Due from other governments	5,163,055	-	224,492	44,286	5,431,833
Accounts receivable, net	162,218	-	-	-	162,218
Note receivable	15,475,000	-	-	-	15,475,000
Total assets	<u>\$ 45,045,181</u>	<u>\$ 9,977,291</u>	<u>\$ 27,199,973</u>	<u>\$ 840,040</u>	<u>\$ 83,062,485</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,645,377	\$ -	\$ 2,250,233	\$ -	\$ 3,895,610
Due to other governments	265,756	-	-	300,554	566,310
Liabilities to be paid from restricted assets	-	-	-	35,492	35,492
Total liabilities	<u>1,911,133</u>	<u>-</u>	<u>2,250,233</u>	<u>336,046</u>	<u>4,497,412</u>
DEFERRED INFLOWS OF RESOURCES					
Taxes receivable	694,854	-	-	83,954	778,808
Prepaid taxes	3,688	-	-	-	3,688
Unearned revenue	68,136	-	-	-	68,136
Note receivable	15,475,000	-	-	-	15,475,000
Total deferred inflows of resources	<u>16,241,678</u>	<u>-</u>	<u>-</u>	<u>83,954</u>	<u>16,325,632</u>
FUND BALANCES					
Restricted for:					
Stabilization by State Statute	6,052,235	-	-	27,214	6,079,449
Public safety	-	-	-	392,826	392,826
Register of Deeds	23,290	-	-	-	23,290
Unexpended bond proceeds	-	-	11,958,319	-	11,958,319
Revaluation	318,847	-	-	-	318,847
Committed for:					
Capital projects	-	9,977,291	12,991,421	-	22,968,712
Assigned for:					
Future years' appropriation	-	-	-	-	-
Unassigned	20,497,998	-	-	-	20,497,998
Total fund balances	<u>26,892,370</u>	<u>9,977,291</u>	<u>24,949,740</u>	<u>420,040</u>	<u>62,239,441</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 45,045,181</u>	<u>\$ 9,977,291</u>	<u>\$ 27,199,973</u>	<u>\$ 840,040</u>	<u>\$ 83,062,485</u>

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

Total Fund Balance, Governmental Funds	\$ 62,239,441
Net pension asset - ROD	102,050
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	123,614,625
Other long-term assets are not available to pay for current period expenditures and therefore are unavailable in the funds.	138,153
Deferred inflows for note receivable	15,475,000
Deferred inflows of resources for taxes receivable	778,808
Contributions to the pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position	1,007,711
Contributions and administration costs for OPEB are deferred outflows of resources on the Statement of Net Position	254,526
OPEB related deferrals, net	88,950
Pension related deferrals-all plans, net	1,883,040
Net OPEB liability	(2,065,069)
Net pension liability - LEOSSA	(281,508)
Net pension liability - LGERS	(3,611,821)
Some liabilities, including net pension liabilities, debt related payables and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(55,383,697)
Net position of governmental activities	<u>\$ 144,240,209</u>

The accompanying notes 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, 2019

	Major Funds			Non-Major Funds	
	General Fund	Capital Projects Fund	Recreation Center Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 32,786,204	\$ -	\$ -	\$ 3,358,762	\$ 36,144,966
Other taxes and licenses	13,762,455	-	-	1,837,552	15,600,007
Unrestricted intergovernmental	4,289,742	-	-	-	4,289,742
Restricted intergovernmental	4,881,639	-	-	396,025	5,277,664
Permits and fees	787,275	-	-	-	787,275
Sales and services	1,194,343	-	-	-	1,194,343
Investment earnings	462,514	145,631	756,209	6,101	1,370,455
Donations	380,812	-	-	-	380,812
Miscellaneous	516,146	-	-	-	516,146
Total revenues	<u>59,061,130</u>	<u>145,631</u>	<u>756,209</u>	<u>5,598,440</u>	<u>65,561,410</u>
EXPENDITURES					
Current:					
General government	8,332,577	-	-	-	8,332,577
Public safety	10,947,120	-	-	3,709,957	14,657,077
Transportation	224,792	-	-	-	224,792
Economic and physical development	673,905	-	-	1,837,552	2,511,457
Environmental protection	373,439	-	-	-	373,439
Human services	7,423,176	-	-	-	7,423,176
Cultural and recreational	1,615,722	-	14,313,345	-	15,929,067
Education	16,245,320	-	-	-	16,245,320
Debt service:					
Principal	3,882,361	-	-	-	3,882,361
Interest	2,101,148	-	-	-	2,101,148
Total expenditures	<u>51,819,560</u>	<u>-</u>	<u>14,313,345</u>	<u>5,547,509</u>	<u>71,680,414</u>
Revenues over (under) expenditures	<u>7,241,570</u>	<u>145,631</u>	<u>(13,557,136)</u>	<u>50,931</u>	<u>(6,119,004)</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	12,154	-	-	-	12,154
Proceeds from long-term debt	-	-	18,490,000	-	18,490,000
Premium long-term debt	-	-	1,723,277	-	1,723,277
Transfers from other funds	1,560,248	4,707,263	3,600,000	-	9,867,511
Transfers to other funds	(8,307,263)	(1,560,248)	-	-	(9,867,511)
Total other financing sources and uses	<u>(6,734,861)</u>	<u>3,147,015</u>	<u>23,813,277</u>	<u>-</u>	<u>20,225,431</u>
Net change in fund balance	506,709	3,292,646	10,256,141	50,931	14,106,427
Fund balance, beginning of year	<u>26,385,661</u>	<u>6,684,645</u>	<u>14,693,599</u>	<u>369,109</u>	<u>48,133,014</u>
Fund balance, end of year	<u>\$ 26,892,370</u>	<u>\$ 9,977,291</u>	<u>\$ 24,949,740</u>	<u>\$ 420,040</u>	<u>\$ 62,239,441</u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$	14,106,427
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$	16,134,072	
Sale of assets not fully depreciated		(466,106)	
Depreciation expense for governmental assets		<u>(3,527,585)</u>	
			12,140,381

Contributions to the pension plans in the current fiscal year are not included on the Statement of Activities.

868,100

OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities.

254,526

Benefit payments paid and administrative expense for the LEOSSA in the current fiscal year are not included on the Statement of Activities.

139,611

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

Change in unavailable revenue for tax revenues		<u>(115,585)</u>	(115,585)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

OPEB plan expense		(291,009)	
Pension expense-LGERS and ROD		(1,034,141)	
Compensated absences		98,079	
Pension expense-LEOSSA		(77,170)	
Amortization of bond premiums		<u>440,124</u>	
Combined adjustment			(864,117)

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 transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long term debt		3,882,361	
Issuance of long term debt		(18,490,000)	
Premium on LOBs		(1,723,277)	
Increase in accrued interest payable		<u>(57,783)</u>	
			<u>(16,388,699)</u>

Total changes in net position of governmental activities	\$	<u><u>10,140,644</u></u>
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The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2019

General Fund				
	Budget		Actual Amounts	Variance with Final Budget-
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 31,837,000	\$ 31,837,000	\$ 32,786,204	\$ 949,204
Other taxes and licenses	12,943,000	13,029,900	13,762,455	732,555
Unrestricted intergovernmental	3,360,000	3,360,000	4,289,742	929,742
Restricted intergovernmental	4,484,120	5,350,407	4,881,639	(468,768)
Permits and fees	678,455	678,455	787,275	108,820
Sales and services	1,072,610	1,072,610	1,194,343	121,733
Investment earnings	173,000	173,000	462,514	289,514
Donations	30,700	361,700	380,812	19,112
Miscellaneous	318,860	318,860	516,146	197,286
Total revenues	<u>54,897,745</u>	<u>56,181,932</u>	<u>59,061,130</u>	<u>2,879,198</u>
Expenditures:				
General government	8,093,265	10,299,551	8,332,577	1,966,974
Public safety	11,398,875	11,586,431	10,947,120	639,311
Transportation	67,495	224,792	224,792	-
Economic and physical development	536,605	719,244	673,905	45,339
Environmental protection	377,895	390,644	373,439	17,205
Human services	7,394,400	7,981,319	7,423,176	558,143
Cultural and recreation	1,712,865	1,733,443	1,615,722	117,721
Education	15,257,705	16,825,283	16,245,320	579,963
Debt service:				
Principal retirement	3,882,361	3,882,361	3,882,361	-
Interest and other charges	1,584,109	2,101,149	2,101,148	1
Total expenditures	<u>50,305,575</u>	<u>55,744,217</u>	<u>51,819,560</u>	<u>3,924,657</u>
Revenues over (under) expenditures	<u>4,592,170</u>	<u>437,715</u>	<u>7,241,570</u>	<u>6,803,855</u>
Other financing sources (uses):				
Sale of capital assets	40,000	40,000	12,154	(27,846)
Transfers from other funds	-	1,560,248	1,560,248	-
Transfers to other funds	(4,957,170)	(8,307,263)	(8,307,263)	-
Fund balance appropriated	325,000	6,269,300	-	(6,269,300)
Total other financing sources (uses)	<u>(4,592,170)</u>	<u>(437,715)</u>	<u>(6,734,861)</u>	<u>(6,297,146)</u>
Net change in fund balance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>506,709</u>	\$ <u>506,709</u>
Fund balance, beginning of year			26,385,661	
Fund balance, end of year			\$ <u>26,892,370</u>	

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Net Position
Proprietary Fund
June 30, 2019

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 7,359,855
Receivables, net	365,420
Due from other governments	34,559
Total current assets	<u>7,759,834</u>
Non-current assets:	
Capital assets:	
Land and construction in progress	975,497
Other capital assets, net of depreciation	3,839,108
Total capital assets	<u>4,814,605</u>
Total assets	<u>12,574,439</u>
DEFERRED OUTFLOWS OF RESOURCES	
OPEB deferrals	114,816
Pension deferrals	259,471
Total deferred outflows of resources	<u>374,287</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	333,029
Accrued compensated absences - current	20,322
Accrued landfill postclosure and closure costs - current	121,745
Total current liabilities	<u>475,096</u>
Non-current liabilities:	
Net pension liability	316,540
Net OPEB liability	178,596
Accrued landfill postclosure and closure costs - noncurrent	815,490
Accrued compensated absences	82,552
Total non-current liabilities	<u>1,393,178</u>
Total liabilities	<u>1,868,274</u>
DEFERRED INFLOWS OF RESOURCES	
OPEB deferrals	56,658
Pension deferrals	2,707
Total deferred inflows of resources	<u>59,365</u>
NET POSITION	
Net investment in capital assets	4,814,605
Unrestricted	6,206,482
Total net position	<u>\$ 11,021,087</u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 4,769,487
Sale of recycled materials	<u>322,838</u>
Total operating revenues	<u>5,092,325</u>
 OPERATING EXPENSES:	
Landfill operations	4,581,882
Recycling operations	96,059
Depreciation	<u>337,118</u>
Total operating expenses	<u>5,015,059</u>
Operating income	<u>77,266</u>
 NONOPERATING REVENUES:	
Interest and investment revenue	123,643
Miscellaneous revenues	3,198
Restricted intergovernmental revenues	<u>150,629</u>
Total nonoperating revenues	<u>277,470</u>
Change in net position	354,736
Total net position, beginning	<u>10,666,351</u>
Total net position, ending	<u><u>\$ 11,021,087</u></u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Enterprise Fund</u>
	<u>Solid Waste Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,057,339
Cash paid for goods and services	(3,183,473)
Cash paid to employees for services	(1,402,588)
Net cash provided by operating activities	<u>471,278</u>
Cash flows from noncapital financing activities:	
Restricted intergovernmental revenues	147,212
Miscellaneous revenues	3,198
Net cash provided by noncapital financing activities	<u>150,410</u>
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	-
Acquisition and construction of capital assets	(446,114)
Net cash used by capital and related financing activities	<u>(446,114)</u>
Cash flows from investing activities:	
Interest on investments	123,643
Net cash provided by investing activities	<u>123,643</u>
Net increase in cash and cash equivalents	299,217
Cash and cash equivalents, July 1	<u>7,060,638</u>
Cash and cash equivalents, June 30	\$ <u><u>7,359,855</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>77,266</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	337,118
Changes in assets, liabilities, deferred outflows and inflows of resources:	
Increase in deferred outflow of resources - pensions	(101,698)
Increase in deferred inflow of resources - OPEB	30,749
Increase in deferred outflows of resources - OPEB	(35,540)
Increase in net pension liability	114,474
Increase in net OPEB liability	24,651
Decrease in deferred inflow of resources - pensions	(4,707)
Increase in accrued landfill postclosure and closure costs	20,760
Increase in accounts receivable	(34,986)
Increase in accounts payable	45,688
Decrease in accrued compensated absences	(2,497)
Total adjustments	<u>394,012</u>
Net cash provided by operating activities	\$ <u><u>471,278</u></u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Irrevocable Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 2,465,795	\$ 62,540
Accounts receivable	13,007	20,510
	<u>\$ 2,478,802</u>	<u>\$ 83,050</u>
Liabilities and Net Position		
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ 83,050
	<u>-</u>	<u>83,050</u>
Net position:		
Assets held in trust for postemployment benefits other than pensions	\$ 1,911,459	\$ -
Assets held in trust for law enforcement officers' special separation allowance benefits	567,343	-
	<u>\$ 2,478,802</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement

Watauga County, North Carolina
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2019

	Irrevocable Trust Funds
	<hr/>
Additions:	
Employer contributions	\$ 394,091
Interest earned	<hr/> 44,139
Total additions	<hr/> 438,230
Deductions:	
Benefits	176,591
Administrative expense	<hr/> 22,057
Total deductions	<hr/> 198,648
Change in net position	239,582
Net position restricted for post employment benefits other than pensions and law enforcement officers' special separation allowance	
Beginning of year	<hr/> 2,239,220
End of year	\$ <hr/> <hr/> 2,478,802

The accompanying notes are an integral part of this statement

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1 - Summary of Significant Accounting Policies:

The accounting policies of Watauga County and its component units 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 Statue 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 separate columns in the County's combined financial statements in order to emphasize that they are legally separate from the County.

AppalCART

AppalCART operates mainly in Watauga County in the northwest part of North Carolina, providing transportation services to the various areas and residents within Watauga County. Watauga County's Board of Commissioners appoints the eight 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, 305 Hwy 105 Bypass, Boone, NC 28607.

Watauga County District U Tourism Development Authority

The North Carolina General Legislation enacted a law which authorized Watauga County to levy a room occupancy tax; and the Watauga County Commissioners adopted a resolution levying this tax and created the Watauga County District U Tourism Development Authority. The Authority operates within Watauga County's boundaries for the promotion and development of tourism, and the County provides room occupancy tax proceeds as their main source of revenue to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. The Watauga County's Board of Commissioners appoints the seven 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 Street, Suite 10, Boone, NC 28607.

B. Basis of Presentation – Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The Statements of Net Position and the Statements 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.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense 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 and 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 non-major 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 Projects Fund – This is a capital projects fund. It accounts for the County's reserves set aside for future capital needs.

Recreation Center Project Fund – This is a project fund to account for the County's community recreation center project.

The County reports the following major enterprise fund:

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

The County reports the following other fund types:

Pension Trust Funds – The County maintains two pension trust funds – the Other Post-Employment Benefits Fund and the Law Enforcement Officers' 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 Other Postemployment Benefit (OPEB) Irrevocable Trust Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees. The LEO Special Separation Allowance (LEOSSA) Irrevocable Trust Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The resources in the LEO Special Separation Allowance Fund have been set aside to pay future obligations of the LEO Special Separation Allowance.

Agency Funds – Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Trust Fund, which 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 collected by the County for various municipalities within the County but are not revenues to the County; the Inmate Commissary Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain individuals; the Fine 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 Deed of Trust Fee Fund, which accounts for fees collected by the Register of Deeds

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

which are remitted to the State Treasurer on a monthly basis, and the Town of Boone Taxes Fund, which accounts for property taxes billed and collected by the County on behalf of the Town of Boone.

Non-major Funds – The County maintains five legally budgeted non-major funds. The Federal Equitable Sharing Fund, the State Substance Abuse Tax Fund, the Emergency Telephone System Fund, the Fire Districts Funds, and the Occupancy Tax Fund are all reported as non-major special revenue funds.

Measurement Focus and Basis of Accounting

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

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

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

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

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

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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

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. All taxes, including those dedicated for specific purposes, are reported as general revenues rather than program revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions 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.

C. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Project Fund, the Federal Equitable Sharing, the State Substance Abuse Tax, the Emergency Telephone System, Fire Districts, Occupancy Tax Special Revenue Funds, and Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinance is adopted for the Recreation Center Project fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund not to exceed 10% of the total departmental appropriation of the department whose allocation is reduced; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, 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 of obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The County, AppalCART, and the Authority's investments are carried at fair value as determined by quoted market prices. The North Carolina Capital Management Trust (NCCMT) is a SEC registered money market mutual fund allowable by G.S. 159-30(c)(8). The NCCMT Government Portfolio is a 2a-7 fund maintaining an AAAM rating from S&P. The NCCMT Term Portfolio is a bond fund, has no rating and has a duration of .11 years. Both the NCCMT Government and Term Portfolios are reported at fair value.

Cash and Cash Equivalents

The County pools money from several funds, except the OPEB Irrevocable Trust Fund, the LEOSIA Irrevocable Trust Fund, the DSS Trust Fund, and the Inmate Commissary Fund, to facilitate

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

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 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 or cash equivalents.

2. Restricted Cash

Money for Tax Revaluation is classified as restricted assets because its use is restricted per NC General Statute 153A-150. Money for the Register of Deeds Automation Enhancement Fund is restricted by NC General Statute 161-50 to pay for computer equipment and technology needs for the Register of Deeds' office. Federal regulations require equitable sharing funds be used for approved law enforcement needs. State substance abuse tax receipts are restricted to law enforcement needs. Emergency Telephone Systems funds are restricted per NC General Statute 62A-46. Occupancy tax revenues are restricted for disbursement to the Watauga District U Tourism Development Authority. Taxes collected on behalf of the fire districts are restricted as payable to the districts.

Watauga County Restricted Cash

Governmental Activities		
General Fund	Tax revaluation	\$ 318,847
	Register of Deeds	23,290
Recreation Center Project Fund	Unexpended bond proceeds	11,958,319
Federal Equitable Sharing Fund	Law enforcement	93,026
State Substance Abuse Tax Fund	Law enforcement	34,012
Emergency Telephone Fund	911 eligible expenditures	273,279
Occupancy Tax Fund	Tourism	126,043
Fire District Funds	Unexpended collections	10,929
Total Governmental Activities		<u>\$12,837,745</u>

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, 2018.

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 last in first out (LIFO) basis. The cost of the inventory of AppalCart is recorded as an expense when consumed.

6. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to July 1, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received July 1, 2015, are recorded at their acquisition value. Minimum capitalization is \$5,000 for all governmental fund assets. On July 1, 1989, the County established the Solid Waste Fund to account for the operations of the landfill. At this time, all landfill assets were transferred to this fund at original cost less accumulated depreciation from date of purchase. Property, plant, and equipment acquired after July 1, 1989, are recorded at original cost at time of acquisition. After July 1, 2002, the Fund's minimum capitalization cost is \$5,000. Prior to July 1, 2002, the Fund did not have a minimum capitalization cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

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

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

	<u>Years</u>
Buildings	10 to 50
Leasehold improvements	10 to 50
Other improvements	8 to 99
Furniture and equipment	5 to 20
Vehicles and motorized equipment	5

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

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

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

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County has the following items that meet this criterion – pension related deferrals and OPEB deferrals. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County has the following items that meet the criterion for this category – prepaid taxes, taxes receivable, notes receivable, unearned revenue, OPEB deferrals and pension related deferrals.

8. 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 on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bond issuance costs are expensed in the reporting period in which they are incurred. In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs whether withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

9. Compensated Absences

The vacation policies of the County and AppalCART provide for the accumulation of up to thirty day earned vacation leave with such leave being fully vested when earned. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned in the County's government-wide, proprietary fund and AppalCART statements. The vacation policy of the Authority provides for the accumulation of up to fifteen days earned vacation leave with such leave being fully vested when earned. On the Authority's government-wide statement, an expense and liability for compensated absences and salary-related payments are recorded as the leave is earned.

The sick leave policies of the County, the Authority, and AppalCART provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement with the County and the Authority may be used in the determination of length of service for retirement benefit purposes. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made by the County or its component units.

10. Net Positions/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed or imposed by law. The County has the following restricted items:

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Revaluation – portion of fund balance restricted under State Statute [G.S. 153A-150].

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

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

Restricted for Community Recreation Center – portion of fund balance restricted for unspent bond proceeds.

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

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

Assigned Fund Balance – portion of fund balance the governing board decides to use for a specific purpose.

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

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

11. Defined Benefit Pension and OPEB Plans

The County participates in two cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State: the Local Governmental Employees' Retirement System (LGERS) and the Registers of Deeds' Supplemental Pension Fund (RODSPF) (collectively, the "state administered defined benefit pension plans"). For the purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net positions of the state-administered defined benefit pension plans and additions to/deductions from the state-administered defined pension plans' fiduciary net positions have been determined on the same basis as they are reported by the state-administered defined benefit pension plans. For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the HCB and additions to/deductions from the HCB's fiduciary net position have been determined on the same basis as they are reported by the HCB. For this purpose, the HCB recognizes benefit payments when due and payable in accordance with the benefit terms. Investments for all plans are reported at fair value. For this purpose, plan member contributions recognized in the period in which the contributions are due. The County's employer contributions are recognized when due and the County has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. Investments are reported at fair value.

Note 2 -

Detail Notes on All Funds

A. Assets

1. Deposits

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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

for the County, AppalCART, and the Authority, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, AppalCART, or the Authority. Because of the inability to measure the exact amount of collateral pledged for the County, AppalCART, or the Authority, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. 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 standards of minimum capitalization for all pooling method financial institutions. The County, AppalCART, and the Authority rely on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The County, AppalCART, and the Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2019, the County's deposits had a carrying amount of \$19,353,319 and a bank balance of \$19,680,840. Of the bank balance, \$815,873 was covered by federal depository insurance and the remainder is covered by collateral held under the Pooling Method. At June 30, 2019, Watauga County had \$3,000 cash on hand.

At June 30, 2019, AppalCART's deposits had a carrying amount of \$1,309,443 and a bank balance of \$1,424,724. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,174,724 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2019, the Authority's deposits had a carrying amount of \$1,063,410 and a bank balance of \$1,157,571. Of the balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The Authority had no cash on hand.

2. Investments

As of June 30, 2019, the County had the following investments and maturities:

Investments by Type	Valuation Measurement Method	Fair Value	Less Than 6 Months	6-12 Months	1-5 Years
Commercial Paper	Fair Value Level 2	26,306,399	19,429,206	6,877,193	-
Government Agencies	Fair Value Level 2	4,523,608	1,749,237	700,000	2,074,371
NC Capital Management Trust – Government Portfolio	Fair Value Level 1	2,524,077	N/A	N/A	N/A
NC Capital Management Trust – Term Portfolio*	Fair Value Level 1	18,217,898	18,217,898	-	-
Total:		<u>\$51,571,982</u>	<u>\$39,396,341</u>	<u>\$7,577,193</u>	<u>\$2,074,371</u>

*Because the NC Capital Management Trust Term Portfolio has a weighted average maturity of less than 90 days, it was presented as an investment with a maturity of less than 6 months.

All investments are measured using the market approach: using prices and other relevant information

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

generated by market transactions involving identical or comparable assets or a group of assets. Ratings are from Standard and Poor's scale.

Level of fair value hierarchy: Level 1: Debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

Interest Rate Risk. The County has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's internal investment procedure limits at least half of the County's investment portfolio to maturities of less than 12 months. Also, the County's internal management policy recommends purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than five years.

Credit Risk. The County has no formal policy regarding credit risk, but has internal management procedures that limits the County's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the County's investments in commercial paper were rated A1 by Standard & Poor's and P1 by Moody's Investors Service. The County's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies with Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank and Federal Home Loan Mortgage Corporation are rated AA+ by Standard & Poor's and AAA by Moody's Investors Service. The County does have an elevated credit risk due to safekeeping held in a third party arrangement.

At June 30, 2019, AppalCART's investment stated at fair value, consisted of \$2,082,703 in the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. AppalCART has no formal policy on interest rate risk or credit risk on its investments.

At June 30, 2019, the Authority's investments consisted of the following:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Government Portfolio	\$ 106,705	N/A	AAAm
NC Capital Management Trust – Term Portfolio	2,186,970	.11 years	Unrated
	<u>\$2,293,675</u>		

Interest Rate Risk. The Authority has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's internal investment policy limits at least half of the Authority's investment portfolio to maturities of less than 12 months. Also, the Authority's internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit risk. The Authority has no formal policy regarding credit risk, but has internal management procedures that limits the Authority's investments to the provisions of G.S. 159-30 and restricts the

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Authority's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The Authority's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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.

Tax Year Levied	Tax	Interest	Total
2015	\$ 676,442	\$ 191,095	\$ 867,537
2016	670,350	129,042	799,392
2017	762,996	78,207	841,203
2018	765,874	-	765,874
Total	\$ 2,875,662	\$ 398,344	\$ 3,274,006

4. Receivables

Receivables at the government-wide level at June 30, 2019, were as follows:

	Accounts	Taxes Receivable	Interest Receivable	Total
Governmental Activities:				
General	\$ 162,218	\$ 821,712	\$ 123,107	\$ 1,107,037
Other Governmental	-	279,265	15,046	294,311
Total receivables	162,218	1,100,977	138,153	1,401,348
Allowance for doubtful accounts	-	(147,658)	-	(147,658)
Total-governmental activities	\$ 162,218	\$ 953,319	\$ 138,153	\$ 1,253,690
Business-type Activities				
Solid Waste	\$ 436,313	\$ -	\$ -	\$ 436,313
Allowance for doubtful accounts	(70,893)	-	-	(70,893)
Total-business-type activities	\$ 365,420	\$ -	\$ -	\$ 365,420

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

Governmental activities:	
NC Dept of Natural and Cultural Resources	\$ 30,000
NC DOR	4,224,402
Watauga County Register of Deeds	15,265
NC Dept of Public Instruction	284,247
NC Dept of Public Safety	60,915
Town of Blowing Rock ABC	377
Town of Blowing Rock	143,487
Town of Beech Mountain	152,522
Town of Boone	526
Town of Seven Devils	24,268
Watauga County Clerk of Court	28,025
Watauga County District U TDA	1,260
NC DHHS	434,740
Emergency Telephone System	31,799

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Total-governmental activities	<u>\$ 5,431,833</u>
Business-type activities:	
NCDOR	<u>\$ 34,559</u>

5. Notes Receivable

The County entered into a promissory note with Appalachian State University on September 28, 2017 for the sale of the Old Watauga High School property located in Boone in the amount \$15,475,000. The terms of the note include interest at 0% and annual principal payments commencing July 1, 2022 in the amount \$800,000 continuing through July 1, 2040 with a final payment of \$1,075,000. The balance as of June 30, 2019 was \$15,475,000.

6. Capital Assets

Primary Government:

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 21,213,910	\$ 331,000	\$ -	\$ 21,544,911
Intangible	15,600	-	-	15,600
Construction in progress	960,526	15,228,930	-	16,189,455
Total capital assets not being depreciated	<u>22,190,036</u>	<u>15,559,930</u>	<u>-</u>	<u>37,749,967</u>
Capital assets being depreciated:				
Buildings	102,521,052	-	1,071,992	101,449,060
Other improvements	5,450,470	-	37,789	5,412,681
Leasehold improvements	7,425,384	121,431	-	7,546,816
Equipment	6,515,024	54,767	15,057	6,554,734
Vehicles and motorized equipment	2,357,532	397,943	129,874	2,625,601
Total capital assets being depreciated	<u>124,269,462</u>	<u>574,142</u>	<u>1,254,712</u>	<u>123,588,892</u>
Less accumulated depreciation for:				
Buildings	23,545,345	2,049,106	636,745	24,957,706
Other improvements	3,211,258	524,574	37,789	3,698,044
Leasehold improvements	1,598,697	255,671	-	1,854,368
Equipment	5,301,833	328,868	15,057	5,615,645
Vehicles and motorized equipment	1,328,120	369,367	99,015	1,598,472
Total accumulated depreciation	<u>34,985,253</u>	<u>3,527,585</u>	<u>788,606</u>	<u>37,724,234</u>
Total capital assets being depreciated, net	<u>89,284,209</u>			<u>85,864,658</u>
Governmental activity capital assets, net	<u>\$ 111,474,245</u>			<u>\$123,614,625</u>

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

General government	\$ 2,018,317
Public safety	551,234
Economic and physical development	32,742
Environmental protection	10,076
Human services	373,174
Cultural and recreational	542,043
Total depreciation expense	<u>\$ 3,527,585</u>

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Notes to the Financial Statements
For the Year Ended June 30, 2019

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 975,497	\$ -	\$ -	\$ 975,497
Total capital assets not being depreciated	975,497	-	-	975,497
Capital assets being depreciated:				
Improvements	445,921	-	-	445,921
Leasehold improvements	319,960	-	-	319,960
Buildings	4,152,793	-	-	4,152,793
Equipment	1,717,207	12,702	-	1,729,909
Vehicles	1,447,669	433,412	-	1,881,082
Total capital assets being depreciated	8,083,550	446,114	-	8,529,664
Less accumulated depreciation for:				
Improvements	350,197	23,523	-	373,721
Leasehold improvements	313,660	248	-	313,908
Building	1,288,303	85,898	-	1,374,201
Equipment	1,413,433	73,657	-	1,487,090
Vehicles	987,845	153,791	-	1,141,636
Total accumulated depreciation	4,353,438	337,118	-	4,690,556
Total capital assets being depreciated, net	3,730,112			3,839,108
Business-type capital assets, net	\$ 4,705,609			\$ 4,814,605

Construction commitments

The County has one active construction project as of June 30, 2019. The governmental project includes the Community Recreation Center. At June 30, 2019, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Community Recreation Center	\$ 13,269,565	\$ 21,472,103
Total	\$ 13,269,565	\$ 21,472,103

Discretely presented component units

Capital asset activity for the AppalCART for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,114,242	\$ -	\$ -	\$ 1,114,242
Construction in progress	25,500	-	18,650	6,850
Total capital assets not being depreciated	1,139,742	-	18,650	1,121,092
Capital assets being depreciated:				
Buildings	6,713,329	-	-	6,713,329
Land improvements	11,156	-	-	11,156
Office furniture and equipment	479,030	36,210	-	515,240
Shop equipment	347,384	47,049	-	394,433
Vehicles	10,979,618	1,948,551	172,412	12,755,757
Total capital assets being depreciated	18,530,517	2,031,810	172,412	20,389,915
Less accumulated depreciation for:				
Buildings	679,572	135,789	-	815,361

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2019

Land improvements	11,156	-	-	11,156
Office furniture and equipment	150,658	56,038	-	206,696
Shop equipment	300,822	33,484	-	334,306
Vehicles	3,862,273	905,020	164,044	4,603,249
Total accumulated depreciation	5,060,518	1,145,515	164,044	6,041,990
Total capital assets being depreciated, net	13,469,998			14,347,925
Business-type activities capital assets, net	\$14,609,740			\$15,469,017

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2019, were as follows:

	Vendors	Salaries and benefits	Due to other governments	Total
Governmental activities:				
General	\$ 954,704	\$ 690,673	\$ 265,756	\$ 1,911,133
Recreation center project fund	2,250,233	-	-	2,250,233
Other governmental funds	35,492	-	300,554	336,046
Total-governmental activities	\$ 3,240,429	\$ 690,673	\$ 566,310	\$ 4,497,412
Business-type activities:				
Solid Waste	\$ 269,301	\$ 63,728	\$ -	\$ 333,029

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The County is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the County to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454, or at www.osc.nc.org.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statue 128-30 and may be amended only by the North Carolina General Assembly. County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The County's contractually required contribution rate for the year ended June 30, 2019, was 8.5% of compensation for law enforcement officers and 7.84% for general employees and firefighters, actuarially determined as an amount that, when combined with employees contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$937,359 for the year ended June 30, 2019.

Refunds of Contributions. County employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the County reported a liability of \$3,928,361 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension liability was based on a projection of the County's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the County's proportion was 0.16559%, which was a decrease of 0.00226% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$1,093,855. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to the Financial Statements
For the Year Ended June 30, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 606,053	\$ 20,336
Changes of assumptions	1,042,435	-
Net difference between projected and actual earnings on pension plan investments	539,247	-
Changes in proportion and differences between County contributions and proportionate share of contributions	26,120	16,129
County contributions subsequent to the measurement date	937,359	-
Total	\$ <u>3,151,214</u>	\$ <u>36,465</u>

\$937,359 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 1,049,143
2021	683,818
2022	125,263
2023	319,166
2024	-
Thereafter	-
Total	\$ <u>2,177,390</u>

At June 30, 2019, the Authority reported a liability of \$62,155 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Authority's proportion was 0.00262%, which was a decrease of 0.00014% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Authority recognized pension expense of \$12,640. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,589	\$ 322
Changes of assumptions	16,494	-
Net difference between projected and actual earnings on pension plan investments	8,532	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	3,733
Authority contributions subsequent to the measurement date	13,761	-
Total	\$ <u>48,376</u>	\$ <u>4,055</u>

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

\$13,761 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	15,133
2021		9,718
2022		1,128
2023		4,581
2024		-
Thereafter		-
Total	\$	<u>30,560</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study as of December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates or arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

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Notes to the Financial Statements For the Year Ended June 30, 2019

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension asset to changes in the discount rate. The following presents the proportionate share of the net pension asset calculated using the discount rate of 7.0 percent, as well as what the proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
County's proportionate share of the net pension liability (asset)	\$ 9,436,264	\$ 3,928,361	\$ (674,128)
Authority's proportionate share of the net pension liability (asset)	\$ 149,303	\$ 62,155	\$ (10,666)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

Watauga County administers a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. In June of 2016, the County established an irrevocable trust, the Law Enforcement Officers' Special Separation Allowance (LEOSSA) Irrevocable Trust Fund, to account for the assets set aside for this purpose. For reporting purposes, the LEOSSA is presented as a pension trust fund as it meets the criteria for trust funds outlined in GASB Statement 68.

Benefits Provided. 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 data required regarding the membership of the Watauga County Law Enforcement Separation Allowance Plan was furnished by the County and the NC Local Governmental Employees' Retirement System. The following table summarizes the membership of the Plan as of June 30, 2018, the valuation date:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Retirees receiving benefits	3
Inactive members entitled to but not receiving benefits	0
Active plan members	42
Total	<u>45</u>

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 year ended June 30, 2019, the County contributed \$130,091, or 6.49% 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 financed through investment earnings.

Refunds of Contributions. Because all funds are contributed by the County, no refunds are available to members of the plan.

Actuarial Assumptions. The total pension liability (TPL) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Based on service, ranging from 3.50 to 7.35 percent, including inflation
Investment rate of return	3.87 percent, net of pension plan investment expense, including inflation
Mortality	Pre-retirement mortality rates bases on the RP-2014 Employee tables, projected forward generationally using Scale MP-2015 Post-retirement rate based on the RP-2014 Healthy Annuitant tables, projected forward generationally using Scale MP-2015; rates loaded by 4% for males

Discount rate. The discount rate used to measure the total pension liability was 3.87%. Since the assets are held in short term investments, a discount rate equal to the 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate was used. The index used for this purpose is the Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date of June 30, 2018.

Projected cash flows. The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution in the future.

Long term rate of return. The long-term expected rate of return on pension plan investments is assumed to be 3.87% annually. Since the Separation Allowance assets are held in short term investments a discount rate equal to the 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate was used. The index used for this purpose is the Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date of June 30, 2018.

Assumed Asset Allocation. The target asset allocation is 100% in governmental securities and best estimate of arithmetic real rates of return is 2.85%.

Sensitivity of the net pension asset to changes in the discount rate. The following presents the net pension liability calculated using the discount rate of 3.87 percent, as well as what the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.87 percent) or one percentage point higher (4.87 percent) than the current rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Net pension liability	\$357,759	\$281,508	\$212,169

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the chart below:

	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balance as of June 30, 2017; measurement date	\$ 690,594	\$ 399,608	\$ 290,986
Changes for the year:			
Service cost	57,398	-	57,398
Interest	26,308	-	26,308
Benefit changes	-	-	-
Difference between expected and actual experience	25,317	-	25,317
Changes of assumptions or other inputs	(21,390)	-	(21,390)
Contributions – employer	-	109,744	(109,744)
Contributions – employee	-	-	-
Net investment income	-	5,867	(5,867)
Benefits paid	(26,244)	(26,244)	-
Plan administrative expenses	-	(18,500)	18,500
Net changes	61,389	70,867	(9,478)
Balance as of June 30, 2018; measurement date	<u>\$ 751,983</u>	<u>\$ 470,475</u>	<u>\$ 281,508</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LEOSA Pension Plan

The assumed rate of return was increased from 3.58% to 3.87% to reflect the change in the Municipal Bond Rate. There were no changes between the measurement date of the net pension liability and the County's reporting date that are expected to have a significant effect on the net pension liability.

For the year ended June 30, 2019, the County recognized pension expense of \$77,170. Since certain expense items are amortized over closed periods each year, the deferred portion of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of the June 30, 2018 measurement date:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,082	\$ 168,923
Changes of assumptions	54,142	61,177
Net difference between projected and actual earnings on pension plan investments	17,296	-
County benefit payments and admin expenditures subsequent to the measurement date	139,610	-
Total	<u>\$ 234,130</u>	<u>\$ 230,100</u>

The County paid \$130,091 in benefit payments and \$9,519 in admin expenditures subsequent to the measurement date that are reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (9,569)
2021	(10,416)
2022	(12,153)
2023	(13,918)
2024	(15,838)
2025-2029	(74,478)
2030	792
Total	\$ <u>(135,580)</u>

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income Plan (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, 2019 were \$123,189, which consisted of \$118,069 from the County and \$5,120 from the law enforcement officers. No amounts were forfeited.

d. Supplemental Retirement Income Plans for General Employees

Employees, other than law enforcement, have the choice of participating in a 401(k) plan or a 457 deferred compensation plan. The County contributes five percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2019 to these plans were \$701,914 which consisted of \$488,492 from the County and \$213,422 from employees. No amounts were forfeited.

e. Register of Deeds' Supplemental Pension Fund

Plan Description. Watauga County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF 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. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 28699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least 10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year, and for the foreseeable future, is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the County were \$5,357 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2019, the County reported an asset of \$102,050 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2018, the County's proportion was .61613%, which was a decrease of .03449% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$22,038. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 900	\$ 4,658
Changes of assumptions	4,800	-
Net difference between projected and actual earnings on pension plan investments	16,266	-
Changes in proportion and differences between County contributions and proportionate share of contributions	6,284	214
County contributions subsequent to the measurement date	5,357	-
Total	<u>\$ 33,607</u>	<u>\$ 4,872</u>

\$5,357 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Year ended June 30:

2020	\$	12,344
2021		3,715
2022		4,793
2023		2,526
2024		-
Thereafter		-
Total	\$	<u>23,378</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	3.75 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study as of December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2019 is 1.4%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.0%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate. The following presents the County's proportionate share of the net pension asset calculated using the discount rate of 3.75 percent, as well as what the County's proportionate share of the net

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75 percent) or 1-percentage-point higher (4.75 percent) than the current rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
County's proportionate share of the net pension liability (asset)	\$(80,460)	\$(102,050)	\$(120,256)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

f. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability (asset) for LGERS and ROD was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017. The net pension liability (asset) for LEOSA was measured as of June 30, 2018, with an actuarial valuation date of that same date. The County's proportion of the net pension liability (asset) was based on the County's share of contributions to the pension plan relative to the contribution of all participating entities. Following is information related to the proportionate share and pension expense:

	LGERS	ROD	LEOSSA	Total
Proportionate Share of Net Pension Liability (Asset)	\$ 3,928,361	\$ (102,050)	\$ -	\$ 3,826,311
Proportion of the Net Pension Liability (Asset)	0.16559%	-0.61613%	n/a	n/a
Net Pension Liability	-	-	\$ 281,508	\$ 281,508
Pension Expense	\$ 1,093,855	\$ 22,038	\$ 77,170	\$ 1,193,063

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	LGERS	ROD	LEOSSA	Total
<u>Deferred Outflows of Resources</u>				
Differences between expected and actual experience	\$ 606,053	\$ 900	\$ 23,082	\$ 630,035
Changes of assumptions	1,042,435	4,800	54,142	1,101,377
Net difference between projected and actual earnings on pension plan investments	539,247	16,266	17,296	572,809
Changes in proportion and differences between County contributions and proportionate share of contributions	26,120	6,284	-	32,404
County contributions (LGERS,ROD)/benefit payments and administration costs (LEOSSA) subsequent to the measurement date	937,359	5,357	139,610	1,082,326
Total	<u>\$ 3,151,214</u>	<u>\$ 33,607</u>	<u>\$ 234,130</u>	<u>\$ 3,418,951</u>
<u>Deferred Inflows of Resources</u>				
Differences between expected and actual experience	\$ 20,336	\$ 4,658	\$ 168,923	\$ 193,917
Changes of assumptions	-	-	61,177	61,177
Changes in proportion and differences between County contributions and proportionate share of contributions	16,129	214	-	16,343
Total	<u>\$ 36,465</u>	<u>\$ 4,872</u>	<u>\$ 230,100</u>	<u>\$ 271,437</u>

g. Other Postemployment Benefit for Health Insurance

Plan Description

Plan Administration. Under a County resolution as of September 1, 2001, Watauga County administers the Healthcare Benefits Plan (HCB Plan) as a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all 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 up to 100%, with a \$400 monthly maximum paid toward premium, until the age of 65 or until Medicare eligible, whichever is sooner based on years of creditable service with the County. The Board of Commissioners may amend the benefit provisions. The HCB Plan is in the County's report as a pension trust fund with funds held in an irrevocable trust. A separate report was not issued for the Plan.

Management of the HCB Plan is vested in the Watauga County Board of Commissioners.

Plan Membership. At June 30, 2018 and June 30, 2019, the HCB Plan membership consisted of the following:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2019

	<u>2018</u>	<u>2019</u>
Inactive plan members or beneficiaries currently receiving benefit payments	24	24
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	<u>250</u>	<u>249</u>
Total	<u>274</u>	<u>273</u>

Benefits Provided. The HCB plan provides healthcare benefits for retirees. The County pays a percentage of the cost of coverage for employees' benefits through private insurers.

Contributions. The Board of Commissioners established the contribution requirements of plan members and these requirements may be amended by the Board. The Board establishes rates based on an actuarially determined rate. 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 County's contribution is dependent on the employee's number of years of creditable service with the County. Retirees pay the difference in the premium less their subsidy based on years of service in the chart below. For the current year, the County contributed \$276,538.

County contributions to HCB Plan based on creditable years of service

25 years or more with Watauga County	\$400 per month maximum or 100%, whichever is less
20 to 25 years with Watauga County	\$300 per month maximum or 75%, whichever is less
10 years in LGERS with last 5 years with Watauga County	\$0

Investments

Investment policy. The HCB Plan's policy in regards to the allocation of invested assets is established by the County Financial Policy used by management. It is the policy of the County to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio and staggered maturities. Investments are valued at fair value. The current asset allocation policy is in 100% fixed income investments with an expected long term rate of return of 3.87 percent.

Rate of return. For the year ended June 30, 2018, the annual money weighted rate of return on investments, net of investment expense, was 1.32 percent.

Net OPEB Liability of the County

The components of the net OPEB liability of the County at June 30, 2019 were as follows:

Total OPEB Liability	\$ 4,012,410
Plan fiduciary net position	<u>1,768,745</u>
County's net OPEB liability	<u>\$ 2,243,665</u>

Plan fiduciary net position as a percentage of Total OPEB Liability is 44.08%.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
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WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Salary increases	Based on service, ranging from 7.35 percent for Uniformed Employees grading down to 3.50 percent over 40 years, and 7.75% for General Employees grading down to 3.50 percent over 24 years, including inflation
Discount rate	3.87 percent
Healthcare cost trend rates	7.0 percent grading down to 4.5 percent over 10 years
Healthy mortality rates	
Pre-retirement	RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015
Post-retirement	RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 115 percent (male) and 79 percent (female) for general employees and by 104 percent (male) for sworn law enforcement officers.

Total OPEB liabilities were rolled forward to June 30, 2018 and June 30, 2019 for the employer and the plan, respectively, utilizing updated procedures incorporating the actuarial assumptions.

The actuarial assumptions used in the June 30, 2018 valuation were based on the NCLGERS assumption study for the five-year period ended December 31, 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the major target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin.

Discount rate. The discount rate used to measure the total OPEB liability was 3.87 percent. The discount rate incorporates a municipal bond rate which is 3.87 percent as reported in the Bond Buyer for the 20 Year general obligation bonds as of June 30, 2018.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

	1% Decrease (2.87 percent)	Discount Rate (3.87 percent)	1% Increase (4.87 percent)
Net OPEB liability (asset)	\$ 2,572,690	\$ 2,243,665	\$ 1,944,735

Sensitivity of the net OPEB liability to changes in the healthcare trend rate. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were to calculate healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare trend rate:

	1% Decrease in Trend Rates	Healthcare Cost Trend Rate (7.0 percent decreasing to 4.5 percent over 10 years)	1% Increase in Trend Rates
Net OPEB liability (asset)	\$ 1,991,193	\$ 2,243,665	\$ 2,542,796

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

Changes in Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2019, the County reported a net OPEB liability of \$2,243,665. The total OPEB liability used to calculate the net OPEB liability was measured by an actuarial valuation as of June 30, 2018.

At June 30, 2019, the components of the net OPEB liability of the County, as measured at June 30, 2018, were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balances at June 30, 2017	\$ 3,582,356	\$ 1,628,735	\$ 1,953,621
Changes for the Year:			-
Service Cost	204,963	-	204,963
Interest	133,400	-	133,400
Differences between Expected and Actual experience	705,179	-	705,179
Changes of assumptions	(491,388)	-	(491,388)
Contributions	-	264,800	(264,800)
Net Investment Income	-	22,310	(22,310)
Administrative expense	-	(25,000)	25,000
Benefit Payments	(122,100)	(122,100)	-
Net Changes	430,054	140,010	290,044
Balances at June 30, 2018	\$ 4,012,410	\$ 1,768,745	\$ 2,243,665

Changes of assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.58 percent in 2017 to 3.87 percent in 2018.

For the year ended June 30, 2019, the County recognized OPEB expense of \$332,878. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 617,032	\$ 124,926
Changes of assumptions	165,620	586,864
Net Difference between projected and actual earnings on plan investments	54,234	-
County contributions subsequent to the measurement date	276,538	-
Total	\$ 1,113,424	\$ 711,790

\$276,538 reported as deferred outflows of resources related to OPEB resulting from County contributions subsequent to the measurement date will be recognized as a decrease in the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2019

2020	\$	29,930
2021		29,930
2022		25,381
2023		20,497
2024		12,876
Thereafter		6,482
	\$	<u>125,096</u>

h. 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 will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers.

For the fiscal year ended June 30, 2019, the County made contributions to the State for death benefits of \$8,685 for general employees and \$2,978 for law enforcement employees. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represents 0.09% and 0.14% of covered payroll, respectively.

The County has elected to provide additional death benefits for all eligible employees through a commercial insurance carrier in the amounts equal to an employee's salary rounded up to the next \$1,000. Coverage is provided at a maximum of \$80,000 with no minimum value. Benefits in excess of \$50,000 are considered taxable to the employee as a fringe benefit.

i. Retirement Plan – AppalCART

Please see the separately issued financial report of AppalCART for a complete description of their single employer pension plan.

3. Closure and Postclosure Care Costs – Solid Waste Landfill and the Land Clearing Inert Debris (LCID)

Solid Waste Landfill - On April 8, 1994, the County stopped accepting municipal solid waste at the County's landfill, and closure procedures were initiated. State and federal laws and regulations required the County to place a final cover on its landfill facility and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Groundwater testing continues, as required by NCDENR. Due to a 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. The County has reported accrued landfill postclosure costs of \$608,725. The County will recognize the postclosure costs over the remaining 5 years.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

(LCID) - State and federal laws and regulations require the County to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting debris, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as each balance sheet date. The \$328,510 reported as landfill closure and postclosure care liability at June 30, 2019 represents a cumulative amount reported to date based on the use of 37% of the total estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$608,725 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2019.

4. Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources as of June 30, 2019 are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources Statement of Net Position	Governmental Funds Balance Sheet
Changes in assumptions, pensions and OPEB	\$ 1,266,997	\$ 648,041	\$ -
Pensions and OPEB – difference between expected and actual experience	1,223,985	295,761	-
Pensions and OPEB – difference between projected and actual investment earnings	627,043	-	-
Pensions and OPEB – change in proportion and difference between employer contributions and proportionate share of contributions	32,404	16,343	-
Contributions to pension and OPEB plans in	1,346,364	-	-
Note receivable	-	-	15,475,000
Prepaid taxes not yet earned (General)	-	3,688	3,688
Unearned revenue (General)	-	68,136	68,136
Taxes receivable, net (General)	-	-	694,854
Taxes Receivable, net (Special Revenue)	-	-	83,954
Total	<u>\$ 4,496,793</u>	<u>\$ 1,031,969</u>	<u>\$ 16,325,632</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 two self-funded risk-financing pools administrated 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 \$78,044,851 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2,000,000 per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence and workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. The pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. The County provides employee health, dental and life insurance benefits through commercial carriers.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is in 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. Under this program, the County has purchased commercial flood insurance for \$1,324,000 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are covered by a blanket bond for \$250,000. The Finance Officer, Tax Administrator, Register of Deeds, and County Manager (as Deputy Finance Director) 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; and natural disasters. AppalCART is insured with the NC Association of County Commissioners Liability and Property and Worker's Compensation Pools that provides coverage for general liability in the amount of \$2,000,000 with an additional \$3,000,000 in vehicle liability purchased per NC DOT requirements and worker's comp insurance at the statutory limits. The County is a member of these same pools.

The Watauga County District U Tourism Development Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is insured with the NC Association of County Commissioners Liability and Property that provide coverage for general liability in the amount of \$2,000,000 and worker's comp coverage with a commercial firm at the statutory limits. The County is a member of the same Liability and Property pool.

6. Long-term Obligations

a. Installment Purchase

As authorized by State law [G.S. 160A-20 and 153A-158.1], the County financed various transactions during previous years by direct placement 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 because the property is pledged as collateral for the debt. The County has four installment purchases serviced by the general fund.

The first direct placement installment purchase was executed in the amount of \$1,290,274 for Qualified School Construction Bonds on June 14, 2010 for school renovations. This installment purchase calls for 10 annual principal payments of \$129,028 plus interest at 5.8 percent with a federal interest credit giving an effective rate of zero percent prior to federal sequestration reductions affecting the annual reimbursement of interest. The outstanding balance of June 30, 2019 is \$129,027.

The second and third installment direct placement purchase agreements were executed on June 28, 2012 to refinance the construction of the new high school. These installment purchases were refinanced June 28, 2012 into limited obligation bonds. The limited obligations bonds were issued in two series, A and B. Series A is for a principal amount of \$45,045,000 with terms ranging from 2016 to 2028. The Series A bonds have an outstanding balance at June 30, 2019 of \$30,985,000. Series B was for \$10 million with a term of three years and a set rate of 1.81 percent and this series paid out in fiscal year 2014-15.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

The fourth direct placement installment purchase agreement was for limited obligations bonds and was executed in the amount \$18,490,000 for the construction of the community recreation center on October 25, 2018. The installment purchase calls for annual payments of principal and semi-annual payments of interest for a period of 15 years. The annual principal payments range from \$1,320,000 to \$1,325,000. The outstanding balance as of June 30, 2019 is \$18,490,000. Proceeds from the LOBs included a premium of \$1,723,277 which will be amortized and expensed in interest over the life of the installment purchase agreement.

For Watauga County, the future minimum payments as of June 30, 2019, including \$13,263,284 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2020	\$ 4,799,027	\$ 2,295,109	\$ -	\$ -
2021	4,690,000	2,063,775	-	-
2022	4,705,000	1,846,125	-	-
2023	4,740,000	1,580,875	-	-
2024	4,775,000	1,373,875	-	-
2025-2029	20,615,000	3,582,125	-	-
2030-2033	5,280,000	521,400	-	-
Total payments	\$ 49,604,027	\$ 13,263,284	\$ -	\$ -

b. General Obligation Indebtedness

The County has no general obligation debt outstanding or authorized as of June 30, 2019. At June 30, 2019, Watauga County had a legal debt margin of \$6,888,841,459.

c. Advance Refunding

In June 2012, the County issued \$55,045,000 in limited obligation bonds to refinance the installment purchase loans for the land and construction of the 2010 high school. These funds refinanced the original debt remaining of \$61,000,000 plus interest and expenses. This resulted in premiums totaling \$5,206,201 to be amortized over the remaining sixteen year life of the new debt. A liability for the balance of the premium of \$2,927,156 and the annual amortization of \$325,239 in interest expense are in the government-wide statements.

d. Debt Related to Capital Activities

Of the total Governmental Activities debt listed \$49,475,000 relates to assets the County holds title. There is no unspent restricted cash related to this debt. The Qualified School Construction Bond loan done in 2010 was for renovations to school property and the County does not report an asset balance for Mabel Elementary School, which is the collateral for this loan. The QSCB loan outstanding balance of \$129,027 is deducted from the total debt balance of \$49,604,027 leaving \$49,475,000 as debt related to capital activities.

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, 2019:

	Balance			Balance	Current
<u>Governmental activities:</u>	July 1, 2018	Increases	Decreases	June 30, 2019	Portion of
Net pension liability (LGERS)	\$ 2,362,217	\$1,249,604	\$ -	\$ 3,611,821	\$ -
Net pension liability (LEOSSA)	290,986	-	9,478	281,508	-
Net OPEB liability	1,799,676	265,393	-	2,065,069	-

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2019

Direct Placement Installment purchases	34,996,388	18,490,000	3,882,361	49,604,027	4,799,027
Premium on LOBS	-	1,723,277	114,885	1,608,392	114,885
Premium on advance refunding	3,252,395	-	325,239	2,927,156	325,239
Compensated absences	1,153,560	1,700,427	1,798,504	1,055,482	196,385
Total governmental activities	<u>\$43,855,222</u>	<u>\$ 23,428,701</u>	<u>\$6,130,467</u>	<u>\$ 61,153,455</u>	<u>\$5,435,536</u>

Business-type activities:

Net pension liability (LGERS)	\$ 202,066	\$ 114,474	\$ -	\$ 316,540	\$ -
Net OPEB liability	153,945	24,651	-	178,596	-
Accrued landfill closure and post closure costs	916,475	142,505	121,745	937,235	121,745
Compensated absences	105,371	148,595	151,092	102,874	20,322
Total business-type activities	<u>\$ 1,377,857</u>	<u>430,225</u>	<u>\$ 272,837</u>	<u>\$ 1,535,245</u>	<u>142,067</u>

Discretely presented component units:

AppalCART

Compensated absences	\$ 78,052	\$ 61,104	\$ 57,481	\$ 81,675	\$ -
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Watauga County TDA

Net pension liability (LGERS)	\$ 42,165	\$ 19,990	\$ -	\$ 62,155	\$ -
Compensated absences	10,637	14,066	14,420	10,283	-
Total Watauga County TDA	<u>\$ 52,802</u>	<u>\$ 34,056</u>	<u>\$ 14,420</u>	<u>\$ 72,438</u>	<u>\$ -</u>

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

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2019, consist of the following:

From the General Fund to the Capital Projects Fund to accumulate resources for future capital acquisitions	\$ 4,707,263
From the General Fund to the Recreation Center Project Fund for the Community Recreation Center	3,600,000
From the Capital Projects Fund to the General Fund for school capital projects	1,560,248
Total	<u>\$ 9,867,511</u>

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 123,614,625	\$ 4,814,605
Less long-term debt	49,475,000	-
Less LOBs premium	1,608,392	-
Less advance refunding premium	2,927,156	-
Net investment in capital assets	<u>\$ 69,604,077</u>	<u>\$ 4,814,605</u>

E. Fund Balance

Watauga County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-county funds, county funds. For the purposes fund

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

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

Total fund balance – General Fund	\$26,892,270
Less:	
Stabilization by State Statute	6,052,235
Register of Deeds Automation/Enhancement	23,290
Tax Revaluation	318,847
Remaining fund balance	<u>\$20,497,998</u>

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

Encumbrances:	General Fund - \$726,962
	Recreation Center Project Fund - \$21,472,103
	Enterprise Fund - \$65,056

Note 3 -

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 of 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, 2019. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$604,760 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from their offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board. None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2019. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$680,705 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.

Note 4 -

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 \$924,895 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.

The County, in conjunction with seven other counties and nineteen municipalities, established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Year Ended June 30, 2019

participating government appoints one member to the Council's governing board. The County paid membership fees of \$26,729 and purchased services in the amount of \$2,847 with the Council during the fiscal year ended June 30, 2019. The County was the sub recipient of three grants totaling \$332,478. The first grant is for \$291,918 in Home and Community Care Block Grant funds and the second is for \$26,303 in Nutrition Programs for the Elderly funds. Both are from the US Department of Health and Human Services and the Division of Aging of the North Carolina Department of Health and Human Services that was passed through the Council. The third grant is for \$14,257 from the Division of Aging of the North Carolina Department of Health and Human Services that was passed through the Council. Complete financial statements for the Council can be obtained at 468 New Market Blvd., Boone, NC 28607.

Note 5 -

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 6 -

Subsequent Events

For the year ended June 30, 2019, the County has evaluated subsequent events for potential recognition and disclosure through December 13, 2019 – the date the financial statements were available to be issued.

The County refinanced the 2012 limited obligation bonds to fund the high school in the amount \$19,240,000 on October 2, 2019. The bonds require semi-annual payments of interest and principal starting June 1, 2020 with the final payment on June 1, 2028.

Required Supplemental Financial Data

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

Schedule

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|----|------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Schedule of Changes in the Net Pension Liability-Law Enforcement Officers' Special Separation Allowance Irrevocable Trust (LEOSSA) |
| 2 | Schedule of the Net Pension Liability (LEOSSA) |
| 3 | Schedule of County's Contributions (LEOSSA) |
| 4 | Schedule of Changes in the OPEB Liability and Related Ratios |
| 5 | Schedule of County's Contributions (OPEB) |
| 6 | Schedule of Investment Returns (OPEB) |
| 7 | Schedule of County's Proportionate Share of Net Pension Liability (Asset) (LGERS) |
| 8 | Schedule of County's Contributions (LGERS) |
| 9 | Schedule of County's Proportionate Share of Net Pension Liability (Asset) (RODSPF) |
| 10 | Schedule of County's Contributions (RODSPF) |

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule of the Changes in the Net Pension Liability (Asset)
Last Four Fiscal Years

	<u>2019**</u>	<u>2018**</u>	<u>2017**</u>	<u>2016*</u>
Total pension liability				
Service cost	\$ 57,398	\$ 57,127	\$ 24,305	\$ 49,129
Interest	26,308	25,578	14,474	26,460
Benefit changes	-	-	-	-
Difference between expected and actual experience	25,317	(173,460)	(33,229)	-
Changes of assumptions and other inputs	(21,390)	(50,285)	60,466	11,037
Benefit payments, including refunds of member contributions	(26,244)	(17,399)	(7,101)	(23,302)
Net change in total pension liability	<u>61,389</u>	<u>(158,439)</u>	<u>58,915</u>	<u>63,324</u>
Total pension liability-beginning	690,594	849,033	790,118	726,794
Total pension liability-ending (a)	<u>\$ 751,983</u>	<u>\$ 690,594</u>	<u>\$ 849,033</u>	<u>\$ 790,118</u>
Plan net position				
Contributions-employer	\$ 109,744	\$ 143,399	\$ 7,101	\$ 71,302
Contributions-member	-	-	-	-
Net investment income	5,867	752	428	706
Benefit payments, including refunds of member contributions	(26,244)	(17,399)	(7,101)	(23,302)
Administrative expense	(18,500)	(457)	-	(236)
Refund of contributions	-	-	-	-
Other	-	-	-	-
Net change in plan net position	<u>70,867</u>	<u>126,295</u>	<u>428</u>	<u>48,470</u>
Plan net position-beginning	399,608	273,313	272,885	224,415
Plan net position-ending (b)	<u>\$ 470,475</u>	<u>\$ 399,608</u>	<u>\$ 273,313</u>	<u>\$ 272,885</u>
Net pension liability-ending (a) - (b)	<u>\$ 281,508</u>	<u>\$ 290,986</u>	<u>\$ 575,720</u>	<u>\$ 517,233</u>

*Information is as of the Measurement date of December 31, 2015.

**Information is presented as of the measurement date of June 30 one year prior to the reporting year noted.

Notes to schedule:

Benefit changes None

Assumption changes The assumed rate of return was decreased from 3.58% to 3.87% to reflect a change in the Municipal Bond Rate.

There were no changes between the measurement date and the County's reporting date that are expected to have a significant effect on the net pension liability.

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule of the Net Pension Liability (Asset)
Last Four Fiscal Years

	<u>2019**</u>	<u>2018**</u>	<u>2017**</u>	<u>2016*</u>
Total pension liability (TPL)	\$ 751,983	\$ 690,594	\$ 849,033	\$ 790,118
Plan net position	<u>470,475</u>	<u>399,608</u>	<u>273,313</u>	<u>272,885</u>
Net pension liability	<u>\$ 281,508</u>	<u>\$ 290,986</u>	<u>\$ 575,720</u>	<u>\$ 517,233</u>
Ratio of plan net position to total pension liability	62.56%	57.86%	32.19%	34.54%
Covered payroll	2,005,514	1,837,013	1,883,580	1,837,735
Net pension liability as a percentage of covered payroll	14.04%	15.84%	30.57%	28.15%

**Information is as of the Measurement date of December 31, 2015.*

***Information is as of the Measurement date of June 30 of the prior fiscal year.*

Notes to schedule:

The TPL was measured based on data as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Based on service, ranging from 3.50 - 7.35%, including inflation
Investment Rate of Return	3.58%, net of pension plan investment expense, including inflation
Mortality	
Pre-retirement	RP-2014 Employee tables, projected forward generationally with Scale MP-2015
Post-retirement	RP-2014 Healthy Annuitant tables, projected forward generationally with Scale MP-2015. Rates loaded by 4% for males.

Watauga County, North Carolina
Law Enforcement Officers' Special Separation Allowance Irrevocable Trust

Schedule 3

Schedule of County Contributions
Last Four Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined employer contribution	\$ 88,544	\$ 109,308	\$ 95,479	\$ 60,285
Contributions in relation to the contractually required contribution	130,091	109,744	143,399	39,727
Contribution deficiency (excess)	\$ <u>(41,547)</u>	\$ <u>(436)</u>	\$ <u>(47,920)</u>	\$ <u>20,558</u>
County's covered payroll	\$ 2,005,514	\$ 1,837,013	\$ 1,823,288	\$ 1,883,580
Contributions as a percentage of covered payroll	6.49%	5.97%	7.86%	2.11%

Notes to schedule:

Valuation date: Actuarially determined employer contribution is determined on an annual basis

Methods and assumptions used to determine contribution rates for the year ended June 30, 2019:

Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Remaining amortization period	13.5 years
Asset valuation method	Market value of assets
Investment Rate of Return	3.58%, including inflation, net of pension plan investment expense
Inflation	3.00%
Salary increases	Based on service, ranging from 3.50% to 7.35%, including inflation
Mortality	
Pre-retirement	RP-2014 Employee tables, projected forward generationally with Scale MP-2015
Post-retirement	RP-2014 Healthy Annuitant tables, projected forward generationally with Scale MP-2015. Rates loaded by 4% for males.

Watauga County, North Carolina
Other Post Employment Benefits Irrevocable Trust

Schedule of the Changes in the Net OPEB Liability (Asset) and Related Ratios*
Last Three Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 204,963	\$ 245,616	\$ 196,127
Interest	133,400	104,379	128,565
Benefit changes	-	-	-
Difference between expected and actual experience	705,179	(166,570)	-
Changes of assumptions and other inputs	(491,388)	(209,201)	264,995
Benefit payments, including refunds of member contributions	<u>(122,100)</u>	<u>(107,800)</u>	<u>(120,700)</u>
Net change in total OPEB liability	<u>430,054</u>	<u>(133,576)</u>	<u>468,987</u>
Total OPEB liability-beginning	<u>3,582,356</u>	<u>3,715,932</u>	<u>3,246,945</u>
Total OPEB liability-ending (a)	<u>4,012,410</u>	<u>3,582,356</u>	<u>3,715,932</u>
Plan fiduciary net position			
Contributions-employer	\$ 264,800	\$ 872,800	\$ 207,436
Contributions-member	-	-	-
Net investment income	22,310	10,714	7,889
Benefit payments, including refunds of member contributions	(122,100)	(107,800)	(120,700)
Administrative expense	<u>(25,000)</u>	<u>-</u>	<u>(4,800)</u>
Net change in plan fiduciary net position	<u>140,010</u>	<u>775,714</u>	<u>89,825</u>
Plan fiduciary net position-beginning	<u>1,628,735</u>	<u>853,021</u>	<u>763,196</u>
Plan fiduciary net position-ending (b)	<u>1,768,745</u>	<u>1,628,735</u>	<u>853,021</u>
Net OPEB liability-ending (a) - (b)	<u><u>\$ 2,243,665</u></u>	<u><u>\$ 1,953,621</u></u>	<u><u>\$ 2,862,911</u></u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	44.08%	45.47%	22.96%
Covered employee payroll	\$ 11,480,834	\$ 10,715,512	\$ 10,160,128
Plan Net OPEB Liability as percentage of covered employee payroll	19.54%	18.23%	28.18%

*Information is presented as of the measurement date of June 30 one year prior to the reporting year noted.

Notes to Schedule

Benefit changes No change.

Changes of assumptions For 2019 the discount rate changed from 3.58 to 3.87. The medical trend was changed to better reflect future expectations. New claims and contribution assumptions were developed based on the updated premium information.

Watauga County, North Carolina
Other Post Employment Benefits Irrevocable Trust

Schedule 5

Schedule of County Contributions
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 227,672	\$ 253,925	\$ 179,656	\$ 171,685	\$ 171,685	\$ 177,098	\$ 177,098	\$ 189,788	\$ 160,959	\$ 112,776
Contributions in relation to the actuarially determined contribution	264,000	256,000	872,800	207,436	230,450	205,575	211,783	169,359	160,959	112,776
Contribution deficiency (excess)	\$ <u>(36,328)</u>	\$ <u>(2,075)</u>	\$ <u>(693,144)</u>	\$ <u>(35,751)</u>	\$ <u>(58,765)</u>	\$ <u>(28,477)</u>	\$ <u>(34,685)</u>	\$ <u>20,429</u>	\$ <u>-</u>	\$ <u>-</u>
Covered payroll	\$ 11,480,834	\$ 10,745,512	\$ 10,160,128	\$ 10,512,790	\$ 10,028,405	\$ 10,387,368	\$ 10,011,037	\$ 10,526,058	\$ 10,666,529	\$ 10,936,838
Contributions as a percentage of covered payroll	2.30%	2.38%	8.59%	1.97%	2.30%	1.98%	2.12%	1.61%	1.51%	1.03%

Notes to Schedule

Methods and assumptions used to establish "actuarially determined contribution" rates:

Valuation date: Actuarially determined contribution rates are calculated biannually as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Measurement date: June 30, 2018

Discount rate	4%
Actuarial cost method	Projected Unit Credit
Amortization method	Open 30-year level percent of pay as of June 30, 2018
Remaining amortization period	30-years
Asset valuation method	Market Value
Inflation rate	3%
Retirement age	2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 115% (male) and 79% (female) for General Employees and by 104% (male) for Uniformed Employees
Salary increases	Based on service, 7.35% for Uniformed Employees grading down to 3.50% over 40 years, and 7.75% for General Employees grading down to 3.50% over 24 years, including inflation
Investment rate of return	The assets are invested in cash, so the 20-year, general obligation, municipal bond index rate as of the Measurement Date is used as the discount rate.
Mortality	2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 115% (male) and 79% (female) for General Employees and by 104% (male) for Uniformed Employees
Healthcare trend costs	7.00% grading down to 4.50% over 10 years

**Watauga County, North Carolina
Other Post Employment Benefits Irrevocable Trust**

Schedule 6

**Schedule of Investment Returns
Last Three Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	1.32%	0.87%	0.98%

Watauga County, North Carolina
Schedule of the County's Proportionate Share of the Net Pension Liability (Asset)

Local Government Employees' Retirement System (LERS)
 Last Six Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.16559%	0.16785%	0.17390%	0.17404%	(0.17777)%	0.18070%
County's proportionate share of the net pension liability (asset) \$	\$ 3,928,361	2,564,283	\$ 3,690,741	\$ 781,083	\$ (1,048,391)	\$ 2,178,129
County's covered employee payroll	\$ 11,330,399	10,813,081	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368	10,367,190
County's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	34.67%	23.71%	34.55%	7.41%	-10.09%	21.01%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**Watauga County, North Carolina
County's Contributions**

Local Governmental Employees' Retirement System
Last Six Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 937,359	\$ 861,878	\$ 798,115	\$ 732,167	\$ 761,648	\$ 738,196
Contributions in relation to the contractually required contribution	937,359	861,878	798,115	732,167	761,648	738,196
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
County's covered payroll	\$ 11,777,037	\$ 11,330,399	\$ 10,813,081	\$ 10,682,801	\$ 10,536,590	\$ 10,387,368
Contributions as a percentage of covered payroll	7.96%	7.61%	7.38%	6.85%	7.23%	7.11%

Watauga County, North Carolina
Schedule of the County's Proportionate Share of the Net Pension Liability (Asset)

Register of Deeds' Supplemental Pension Fund (RODSPF)
 Last Six Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	(0.61613%)	(0.65062%)	(0.66734%)	(0.65929%)	(0.6297%)	(0.6609%)
County's proportionate share of the net pension liability (asset) \$	\$ (102,050)	\$ (111,054)	\$ (124,766)	\$ (152,800)	\$ (142,737)	\$ (141,158)
Plan fiduciary net position as a percentage of the total pension liability	153.31%	153.77%	160.17%	197.29%	193.88%	190.50%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**Watauga County, North Carolina
County's Contributions**

Register of Deeds' Supplemental Pension Fund (RODSPF)
Last Six Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,357	\$ 5,273	\$ 5,653	\$ 5,452	\$ 5,276	\$ 5,142
Contributions in relation to the contractually required contribution	5,357	5,273	5,653	5,452	5,276	5,142
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

COMBINING AND INDIVIDUAL FUND SCHEDULES

Watauga County, North Carolina

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Taxes - ad valorem:			
Current year		\$ 32,260,607	
Prior years		361,466	
Advertising and interest		164,131	
Total Taxes - ad valorem	\$ <u>31,837,000</u>	<u>32,786,204</u>	\$ <u>949,204</u>
Taxes - other:			
Local option sales taxes		12,809,697	
Real estate transfer tax		542,922	
ABC Bottle tax		22,868	
Heavy equipment rental tax		8,491	
Gross receipts tax		62,821	
Video programming tax		315,656	
Total Taxes - other	<u>13,029,900</u>	<u>13,762,455</u>	<u>732,555</u>
Unrestricted Intergovernmental:			
Miscellaneous revenues from Towns		1,894,091	
Medicaid hold harmless		2,220,185	
Tax collection fees		119,688	
Occupancy tax administrative fee		28,128	
Payments in lieu of taxes		27,650	
Total Unrestricted Intergovernmental	<u>3,360,000</u>	<u>4,289,742</u>	<u>929,742</u>
Restricted Intergovernmental:			
Grants-Federal and State		4,299,737	
Public School Building Capital Fund - Lottery		457,828	
Federal Interest Credit		14,039	
Court facilities fees		110,035	
Total Restricted Intergovernmental	<u>5,350,407</u>	<u>4,881,639</u>	<u>(468,768)</u>
Permits and Fees:			
Sheriff's office permits and fees		128,499	
Planning and inspection fees		315,889	
Register of deeds fees		289,907	
Fire inspection fees		3,132	
Child Support fees		49,848	
Total Permits and Fees	<u>678,455</u>	<u>787,275</u>	<u>108,820</u>
Sales and Services:			
POA services		11,497	
TDA Financial and other services		12,000	
Recreation fees		282,089	
Reimbursement for Inmates		55,204	
Rent		477,465	
DMV notary/passport processing fees		177,894	
Blowing Rock communication services		178,100	
Election revenues		94	
Total Sales and Service	<u>1,072,610</u>	<u>1,194,343</u>	<u>121,733</u>
Investment earnings:	<u>173,000</u>	<u>462,514</u>	<u>289,514</u>
Miscellaneous:			
Other		516,146	
Donations		380,812	
Total Miscellaneous	<u>680,560</u>	<u>896,958</u>	<u>216,398</u>
TOTAL REVENUES	<u>56,181,932</u>	<u>59,061,130</u>	<u>2,879,198</u>

Watauga County, North Carolina

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government			
Governing Body:			
Salaries and benefits		\$ 55,011	
Operating expenses		5,105	
Total Governing Body	\$ <u>62,085</u>	<u>60,116</u>	\$ <u>1,969</u>
Administration:			
Salaries and benefits		410,143	
Operating expenses		7,178	
Total Administration	<u>431,795</u>	<u>417,321</u>	<u>14,474</u>
Finance:			
Salaries and benefits		320,545	
Operating expenses		66,310	
Total Finance	<u>448,305</u>	<u>386,855</u>	<u>61,450</u>
Tax Administration:			
Salaries and benefits		887,401	
Operating expenses		167,049	
Total Tax Administration	<u>1,123,350</u>	<u>1,054,450</u>	<u>68,900</u>
Tax Revaluation:			
Operating expenses		168	
Total Tax Revaluation	<u>50,000</u>	<u>168</u>	<u>49,832</u>
Tag Office:			
Salaries and benefits		196,390	
Operating expenses		3,741	
Total Tag Office	<u>203,395</u>	<u>200,131</u>	<u>3,264</u>
Legal Services:			
Operating expenses	<u>85,000</u>	<u>57,749</u>	<u>27,251</u>
Court facilities:			
Operating expenses	<u>2,000</u>	<u>1,361</u>	<u>639</u>
Board of Elections:			
Salaries and benefits		232,329	
Operating expenses		103,304	
Total Board of Elections	<u>353,220</u>	<u>335,633</u>	<u>17,587</u>
Register of Deeds:			
Salaries and benefits		450,856	
Operating expenses		68,672	
Capital outlay		1,198	
Total Register of Deeds	<u>535,765</u>	<u>520,726</u>	<u>15,039</u>
General Administration:			
Operating expenses		519,519	
Capital outlay		1,110,216	
Total General Administration	<u>2,496,122</u>	<u>1,629,735</u>	<u>866,387</u>
Information Technologies:			
Salaries and benefits		459,542	
Operating expenses		346,488	
Capital outlay		38,614	
Total Information Technologies	<u>997,886</u>	<u>844,644</u>	<u>153,242</u>

Watauga County, North Carolina

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Maintenance:			
Salaries and benefits		\$ 1,152,780	
Operating expenses		37,022	
Capital outlay		48,511	
Total Maintenance	\$ <u>1,311,121</u>	<u>1,238,313</u>	\$ <u>72,808</u>
Public Buildings:			
Operating expenses		1,210,859	
Capital outlay		374,516	
Total Public Buildings	<u>2,199,507</u>	<u>1,585,375</u>	<u>614,132</u>
Total General Government	<u>10,299,551</u>	<u>8,332,577</u>	<u>1,966,974</u>
Public Safety			
Sheriff's Office:			
Salaries and benefits		3,352,977	
Operating expenses		432,579	
Capital outlay		236,713	
Total Sheriff's Office	<u>4,314,320</u>	<u>4,022,269</u>	<u>292,051</u>
Detention Center:			
Salaries and benefits		1,551,408	
Operating expenses		612,909	
Total Detention Center	<u>2,291,060</u>	<u>2,164,317</u>	<u>126,743</u>
Emergency Services:			
Salaries and benefits		796,844	
Operating expenses		29,476	
Capital outlay		31,834	
Total Emergency Services	<u>908,681</u>	<u>858,154</u>	<u>50,527</u>
Emergency Management:			
Salaries and benefits		281,870	
Operating expenses		1,283,221	
Operating expenses		97,411	
Total Emergency Management	<u>1,749,100</u>	<u>1,662,502</u>	<u>86,598</u>
Planning and Inspections:			
Salaries and benefits		632,039	
Operating expenses		19,306	
Total Planning and Inspections	<u>667,500</u>	<u>651,345</u>	<u>16,155</u>
Other Emergency Services:	<u>1,519,710</u>	<u>1,457,499</u>	<u>62,211</u>
Animal Control:			
Salaries and benefits		122,596	
Operating expenses		8,438	
Total Animal Control	<u>136,060</u>	<u>131,034</u>	<u>5,026</u>
Total Public Safety	<u>11,586,431</u>	<u>10,947,120</u>	<u>639,311</u>
Transportation			
Transportation:	<u>224,792</u>	<u>224,792</u>	<u>-</u>
Economic and Physical Development			
Special Appropriations:	<u>469,105</u>	<u>468,469</u>	<u>636</u>
Economic Development:	<u>250,139</u>	<u>205,436</u>	<u>44,703</u>
Total Economic and Physical Development	<u>719,244</u>	<u>673,905</u>	<u>45,339</u>

Watauga County, North Carolina

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance
Environmental Protection			
Cooperative Extension:			
Salaries and benefits		\$ 239,914	
Operating expenses		15,090	
Total Cooperative Extension	\$ 254,280	255,004	\$ (724)
Soil and Water Conservation:			
Salaries and benefits		110,918	
Operating expenses		7,517	
Total Soil and Water Conservation	136,364	118,435	17,929
Total Environmental Protection	390,644	373,439	17,205
Human Services			
Public Health:	680,705	680,705	-
Mental Health:	171,195	171,195	-
Social Services:			
Salaries and benefits		3,029,810	
Operating expenses		335,594	
Capital outlay		28,103	
Beneficiary payments		1,777,923	
Total Social Services	5,589,291	5,171,430	417,861
Project on Aging:			
Salaries and benefits		1,078,373	
Operating expenses		202,923	
Total Project on Aging	1,417,618	1,281,296	136,322
Veterans Services:			
Salaries and benefits		116,442	
Operating expenses		2,108	
Total Veterans Services	122,510	118,550	3,960
Total Human Services	7,981,319	7,423,176	558,143
Education			
Public Schools - current		13,557,815	
Public Schools - capital outlay		1,435,180	
Community College - current		900,250	
Community College - capital outlay		352,075	
Total Education	16,825,283	16,245,320	579,963
Cultural and Recreational			
Library:	604,760	604,760	-
Recreation:			
Salaries and benefits		853,886	
Operating expenses		134,976	
Capital outlay		22,100	
Total Recreation	1,128,683	1,010,962	117,721
Total Cultural and Recreational	1,733,443	1,615,722	117,721
Debt Service			
Principal retirement		3,882,361	
Interest and fees		2,101,148	
Total Debt Service	5,983,510	5,983,509	1
TOTAL EXPENDITURES	55,744,217	51,819,560	3,924,657
Revenues over (under) expenditures	437,715	7,241,570	6,803,855

Watauga County, North Carolina

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	\$ 40,000	\$ 12,154	\$ (27,846)
Transfers to Recreation Center Project Fund	(3,600,000)	(3,600,000)	-
Transfers to Capital Projects Fund	(4,707,263)	(4,707,263)	-
Transfers from Capital Projects Fund	1,560,248	1,560,248	-
Fund balance appropriated	<u>6,269,300</u>	<u>-</u>	<u>(6,269,300)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(437,715)</u>	<u>(6,734,861)</u>	<u>(6,297,146)</u>
Net change in fund balance	\$ <u>-</u>	<u>506,709</u>	\$ <u>506,709</u>
Fund balance, beginning of year, restated		<u>26,385,661</u>	
Fund balance, end of year		\$ <u>26,892,370</u>	

Watauga County, North Carolina
 Capital Projects Fund
 Schedule of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Investment earnings	\$ <u>-</u>	\$ <u>145,631</u>	\$ <u>145,631</u>
Expenditures:			
General government	<u>5,219,303</u>	<u>-</u>	<u>5,219,303</u>
Revenues over (under) expenditures	<u>(5,219,303)</u>	<u>145,631</u>	<u>5,364,934</u>
Other financing sources (uses):			
Transfer from other funds	5,224,303	4,707,263	(517,040)
Transfer to other funds	(1,560,248)	(1,560,248)	-
Appropriated fund balance	<u>1,555,248</u>	<u>-</u>	<u>(1,555,248)</u>
Total other financing sources (uses)	<u>5,219,303</u>	<u>3,147,015</u>	<u>(2,072,288)</u>
Net change in fund balance	\$ <u><u>-</u></u>	3,292,646	\$ <u><u>3,292,646</u></u>
Fund balance, beginning of year		<u>6,684,645</u>	
Fund balance, end of year		\$ <u><u>9,977,291</u></u>	

Watauga County, North Carolina
Recreation Center Project Fund
Schedule of Revenues and Expenditures and Changes in
Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
Revenues:					
Investment earnings	\$ -	152,983	\$ 756,209	\$ 909,192	\$ 909,192
Expenditures:					
Land Improvements	15,445	11,200	4,245	15,445	-
Building and furniture, fixtures and equipment	34,904,447	81,282	12,669,390	12,750,672	22,153,775
Professional services/architect	4,390,000	863,517	1,639,710	2,503,227	1,886,773
Total expenditures	39,309,892	955,999	14,313,345	15,269,344	(24,040,548)
Revenues over (under) expenditures	-	(803,016)	(13,557,136)	(14,360,152)	24,949,740
Other financing sources:					
Proceeds from installment obligations issued	18,490,000	-	18,490,000	18,490,000	-
Premium on installment obligations	1,723,277	-	1,723,277	1,723,277	-
Transfer from other Funds	19,096,615	15,496,615	3,600,000	19,096,615	-
Total other financing sources	39,309,892	15,496,615	23,813,277	39,309,892	-
Net change in fund balance	\$ -	14,693,599	10,256,141	\$ 24,949,740	\$ 24,949,740
Fund balance at beginning of year			14,693,599		
Fund balance at end of year			\$ 24,949,740		

Watauga County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

Nonmajor Special Revenue Funds						
	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Funds	Occupancy Tax Fund	Total Nonmajor Special Revenue Funds
ASSETS:						
Restricted cash and cash equivalents	\$ 93,026	\$ 34,012	\$ 273,279	\$ 10,929	\$ 126,043	\$ 537,289
Due from other governments	-	-	27,214	17,072	-	44,286
Taxes receivable, net	-	-	-	83,954	174,511	258,465
Total assets	<u>\$ 93,026</u>	<u>\$ 34,012</u>	<u>\$ 300,493</u>	<u>\$ 111,955</u>	<u>\$ 300,554</u>	<u>\$ 840,040</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	-	932	6,559	28,001	-	35,492
Due to other governments	-	-	-	-	300,554	300,554
Total Liabilities	<u>-</u>	<u>932</u>	<u>6,559</u>	<u>28,001</u>	<u>300,554</u>	<u>336,046</u>
Deferred Inflows of Resources:						
Taxes paid in advance	-	-	-	-	-	-
Taxes receivable	-	-	-	83,954	-	83,954
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,954</u>	<u>-</u>	<u>83,954</u>
Fund Balances:						
Restricted for:						
Stabilization by State Statute	-	-	27,214	-	-	27,214
Public Safety	93,026	33,080	266,720	-	-	392,826
Total fund balances	<u>93,026</u>	<u>33,080</u>	<u>293,934</u>	<u>-</u>	<u>-</u>	<u>420,040</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 93,026</u>	<u>\$ 34,012</u>	<u>\$ 300,493</u>	<u>\$ 111,955</u>	<u>\$ 300,554</u>	<u>\$ 840,040</u>

Watauga County, North Carolina
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Nonmajor Special Revenue Funds					
	Federal Equitable Sharing Fund	State Substance Abuse Tax Fund	Emergency Telephone System Fund	Fire Districts Fund	Occupancy Tax Fund	Total Nonmajor Special Revenue Funds
REVENUES						
Ad valorem taxes	\$ -	\$ -	\$ -	\$ 3,358,762	\$ -	\$ 3,358,762
Other taxes and licenses	-	-	-	-	1,837,552	1,837,552
Restricted intergovernmental	45,814	23,646	326,565	-	-	396,025
Investment earnings	1,135	625	4,341	-	-	6,101
Total revenues	<u>46,949</u>	<u>24,271</u>	<u>330,906</u>	<u>3,358,762</u>	<u>1,837,552</u>	<u>5,598,440</u>
EXPENDITURES						
General government	-	-	-	-	-	-
Economic development	-	-	-	-	1,837,552	1,837,552
Public safety	3,250	41,969	305,976	3,358,762	-	3,709,957
Total expenditures	<u>3,250</u>	<u>41,969</u>	<u>305,976</u>	<u>3,358,762</u>	<u>1,837,552</u>	<u>5,547,509</u>
Net change in fund balances	43,699	(17,698)	24,930	-	-	50,931
Fund balances, beginning of year	<u>49,327</u>	<u>50,778</u>	<u>269,004</u>	<u>-</u>	<u>-</u>	<u>369,109</u>
Fund balances, end of year	<u>\$ 93,026</u>	<u>\$ 33,080</u>	<u>\$ 293,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 420,040</u>

Watauga County, North Carolina
Federal Equitable Sharing Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental - Federal	\$ -	\$ 45,814	\$ 45,814
Investment earnings	<u>-</u>	<u>1,135</u>	<u>1,135</u>
Total revenues	<u>-</u>	<u>46,949</u>	<u>46,949</u>
Expenditures:			
Public safety	<u>3,320</u>	<u>3,250</u>	<u>70</u>
Revenues over (under) expenditures	<u>(3,320)</u>	<u>43,699</u>	<u>47,019</u>
Other financing sources (uses):			
Appropriated fund balance	<u>3,320</u>	<u>-</u>	<u>(3,320)</u>
Net change in fund balance	<u>\$ -</u>	<u>43,699</u>	<u>\$ 43,699</u>
Fund balance, beginning of year		<u>49,327</u>	
Fund balance, end of year		<u>\$ 93,026</u>	

Watauga County, North Carolina
State Substance Abuse Tax Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Restricted intergovernmental - State	\$ 32,000	\$ 23,646	\$ (8,354)
Investment earnings	<u>-</u>	<u>625</u>	<u>625</u>
Total revenues	<u>32,000</u>	<u>24,271</u>	<u>(7,729)</u>
Expenditures:			
Public safety	46,500	41,969	4,531
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>46,500</u>	<u>41,969</u>	<u>4,531</u>
Revenues over (under) expenditures	<u>(14,500)</u>	<u>(17,698)</u>	<u>(3,198)</u>
Other financing sources (uses):			
Appropriated fund balance	<u>14,500</u>	<u>-</u>	<u>(14,500)</u>
Net change in fund balance	<u>\$ -</u>	<u>(17,698)</u>	<u>\$ (17,698)</u>
Fund balance, beginning of year		<u>50,778</u>	
Fund balance, end of year		<u>\$ 33,080</u>	

Watauga County, North Carolina
Emergency Telephone System Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Restricted intergovernmental:			
Emergency Telephone Surcharge funds	\$ 326,565	\$ 326,565	\$ -
Investment earnings	<u>-</u>	<u>4,341</u>	<u>4,341</u>
Total revenues	<u>326,565</u>	<u>330,906</u>	<u>4,341</u>
Expenditures:			
Public safety:			
Implementation services	77,100	63,713	13,387
Software	72,800	64,167	8,633
Training	6,045	3,233	2,812
Telephones	99,620	104,654	(5,034)
Hardware	71,000	70,129	871
Furniture	<u>-</u>	<u>80</u>	<u>(80)</u>
Total expenditures	<u>326,565</u>	<u>305,976</u>	<u>20,589</u>
Net change in fund balance	\$ <u>-</u>	24,930	\$ <u>24,930</u>
Fund balance, beginning of year		<u>269,004</u>	
Fund balance, end of year		\$ <u>293,934</u>	

Watauga County, North Carolina
 Fire Districts Funds
 Schedule of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
 For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Ad valorem taxes	\$ 3,385,100	\$ 3,358,762	\$ (26,338)
Total revenues	<u>3,385,100</u>	<u>3,358,762</u>	<u>(26,338)</u>
Expenditures:			
Public safety:			
Beaver Dam Fire Department	115,000	109,934	
Beech Mountain Fire Department	1,800	1,601	
Blowing Rock Fire Department	501,000	496,293	
Boone Fire Department	960,500	958,033	
Cove Creek Fire Department	260,700	255,799	
Creston Fire Department	6,900	6,051	
Deep Gap Fire Department	205,500	205,458	
Fall Creek Fire Department	11,000	9,300	
Foscoe Fire Department	560,400	558,655	
Meat Camp Fire Department	226,000	223,918	
Shawneehaw Fire Department	112,300	109,283	
Stewart Simmons Fire Department	232,000	235,079	
Todd Fire Department	67,000	65,027	
Zionville Fire Department	<u>125,000</u>	<u>124,331</u>	
Total expenditures	<u>3,385,100</u>	<u>3,358,762</u>	<u>26,338</u>
Net change in fund balance	\$ <u>-</u>	-	\$ <u>-</u>
Fund balance, beginning of year		-	
Fund balance, end of year		\$ <u>-</u>	

Watauga County, North Carolina
Occupancy Tax Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Occupancy tax	\$ <u>1,890,000</u>	\$ <u>1,837,552</u>	\$ <u>(52,448)</u>
Total revenues	<u>1,890,000</u>	<u>1,837,552</u>	<u>(52,448)</u>
Expenditures:			
Tourism development	1,861,100	1,809,176	51,924
Administrative fee	<u>28,900</u>	<u>28,376</u>	<u>524</u>
Total expenditures	<u>1,890,000</u>	<u>1,837,552</u>	<u>52,448</u>
Net change in fund balance	\$ <u><u>-</u></u>	-	\$ <u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

Watauga County, North Carolina

Solid Waste Fund

Schedule of Revenues and Expenditures Budget and Actual (NON-GAAP)

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Charges for services	\$ 4,739,845	\$ 4,769,487	\$ 29,642
Sale of recycled materials	375,000	322,838	(52,162)
Total	<u>5,114,845</u>	<u>5,092,325</u>	<u>(22,520)</u>
Non-operating revenues:			
Miscellaneous revenue	3,700	3,198	(502)
Investment earnings	35,000	123,643	88,643
Restricted intergovernmental revenues	133,000	150,629	17,629
Total	<u>171,700</u>	<u>277,470</u>	<u>105,770</u>
Total revenues	<u>5,286,545</u>	<u>5,369,795</u>	<u>83,250</u>
Expenditures:			
Landfill operations:			
Salaries and employee benefits		1,356,508	
Other operating expenditures		3,179,182	
Total landfill operations	<u>4,977,728</u>	<u>4,535,690</u>	<u>442,038</u>
Recycling operations:			
Salaries and employee benefits		48,576	
Other operating expenses		37,655	
Total recycling operations	<u>106,525</u>	<u>86,231</u>	<u>20,294</u>
Capital outlay:			
Capital outlay	<u>457,812</u>	<u>455,942</u>	<u>1,870</u>
Total expenditures	<u>5,542,065</u>	<u>5,077,863</u>	<u>464,202</u>
Revenues under/(over) expenditures	<u>(255,520)</u>	<u>291,932</u>	<u>547,452</u>
Other financing sources:			
Sale of fixed assets	35,000	-	(35,000)
Appropriated fund balance	220,520	-	(220,520)
Total other financing sources	<u>255,520</u>	<u>-</u>	<u>(255,520)</u>
Revenues over expenditures and other sources	<u>\$ -</u>	<u>291,932</u>	<u>\$ 291,932</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

Increase in deferred outflow of resources - pensions	101,698
Increase in net pension liability	(114,474)
Decrease in deferred inflow of resources - pensions	4,707
Increase in deferred outflow of resources - OPEB	35,540
Increase in deferred inflow of resources - OPEB	(30,749)
Increase in net OPEB liability	(24,651)
Increase in accrued landfill postclosure and closure costs	(20,760)
Capital outlay	446,114
Depreciation	(337,118)
Decrease in accrued compensated absences	2,497
Total reconciling items	<u>62,804</u>

Change in net position \$ 354,736

Watauga County, North Carolina
Combining Schedule of Fiduciary Net Position
Irrevocable Trust Funds
For the Year Ended June 30, 2019

	LEO Special Separation Allowance	Other Post Employment Benefits	Totals
Assets			
Cash and cash equivalents	\$ 565,353	\$ 1,900,442	\$ 2,465,795
Accounts receivable	1,990	11,017	13,007
	<u>\$ 567,343</u>	<u>\$ 1,911,459</u>	<u>\$ 2,478,802</u>
Net position:			
Assets held in trust for retirement benefits	<u>\$ 567,343</u>	<u>\$ 1,911,459</u>	<u>\$ 2,478,802</u>

Watauga County, North Carolina
Combining Schedule of Changes in Fiduciary Net Position
Irrevocable Trust Funds
For the Year Ended June 30, 2019

	LEO Special Separation Allowance	Other Post Employment Benefits	Totals
Additions:			
Employer contributions	\$ 130,091	\$ 264,000	\$ 394,091
Interest	<u>11,387</u>	<u>32,752</u>	<u>44,139</u>
Total additions	<u>141,478</u>	<u>296,752</u>	<u>438,230</u>
Deductions:			
Benefits	35,091	141,500	176,591
Administrative expense	<u>9,519</u>	<u>12,538</u>	<u>22,057</u>
Total deductions	<u>44,610</u>	<u>154,038</u>	<u>198,648</u>
Change in net position	96,868	142,714	239,582
Net position, beginning	470,475	1,768,745	2,239,220
Net position, ending	<u>\$ 567,343</u>	<u>\$ 1,911,459</u>	<u>\$ 2,478,802</u>

Watauga County, North Carolina
 Agency Funds
 Combining Schedule of Changes in Assets and Liabilities
 For the Year Ended June 30, 2019

	Balance July 1, 2018	Additions	Deletions	Balance July 1, 2019
Social Services Trust:				
Assets:	\$ <u>45,972</u>	\$ <u>191,596</u>	\$ <u>196,770</u>	\$ <u>40,798</u>
Liabilities:	\$ <u>45,972</u>	\$ <u>191,596</u>	\$ <u>196,770</u>	\$ <u>40,798</u>
Vehicle Tax-Towns:				
Assets:	\$ <u>11</u>	\$ <u>178,324</u>	<u>178,324</u>	\$ <u>11</u>
Liabilities:	\$ <u>11</u>	\$ <u>178,324</u>	\$ <u>178,324</u>	\$ <u>11</u>
Town of Boone Taxes:				
Assets:	\$ <u>8,341</u>	\$ <u>6,292,245</u>	\$ <u>6,298,328</u>	\$ <u>2,258</u>
Liabilities:	\$ <u>8,341</u>	\$ <u>6,292,245</u>	\$ <u>6,298,328</u>	\$ <u>2,258</u>
Inmate Commissary:				
Assets:	\$ <u>15,170</u>	\$ <u>206,902</u>	\$ <u>206,437</u>	\$ <u>15,635</u>
Liabilities:	\$ <u>15,170</u>	\$ <u>206,902</u>	\$ <u>206,437</u>	\$ <u>15,635</u>
Fines and Forfeitures:				
Assets:	\$ <u>12,213</u>	\$ <u>198,821</u>	\$ <u>190,524</u>	\$ <u>20,510</u>
Liabilities:	\$ <u>12,213</u>	\$ <u>198,821</u>	\$ <u>190,524</u>	\$ <u>20,510</u>
Deed of Trust Fee:				
Assets:	\$ <u>3,931</u>	\$ <u>46,884</u>	\$ <u>46,977</u>	\$ <u>3,838</u>
Liabilities:	\$ <u>3,931</u>	\$ <u>46,884</u>	\$ <u>46,977</u>	\$ <u>3,838</u>
Total - All Agency Funds				
Assets:	\$ <u>85,638</u>	\$ <u>7,114,772</u>	\$ <u>7,117,360</u>	\$ <u>83,050</u>
Liabilities:	\$ <u>85,638</u>	\$ <u>7,114,772</u>	\$ <u>7,117,360</u>	\$ <u>83,050</u>

Watauga County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
For the Year Ended June 30, 2019

		Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
Fiscal year:					
2018	- 2019	\$ -	\$ 32,592,547	\$ 32,271,275	\$ 321,272
2017	- 2018	378,029	-	207,798	170,231
2016	- 2017	141,217	-	53,589	87,628
2015	- 2016	86,261	-	29,255	57,006
2014	- 2015	89,142	-	36,524	52,618
2013	- 2014	57,619	-	20,048	37,571
2012	- 2013	45,469	-	12,969	32,500
2011	- 2012	33,788	-	10,995	22,793
2010	- 2011	28,313	-	7,867	20,446
2009	- 2010	16,614	-	3,457	13,157
2008	- 2009	15,655	-	15,655	-
		<u>\$ 892,107</u>	<u>\$ 32,592,547</u>	<u>\$ 32,669,432</u>	<u>815,222</u>
Plus: 2019 - 2020 receivable					13,547
Less: Allowance for uncollectible accounts General Fund					<u>(133,915)</u>
Ad valorem taxes receivable - net General Fund					<u>\$ 694,854</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund		\$ 32,786,204
Reconciling items:		
Advertising and interest collected	(164,131)	
Taxes written off	14,495	
Penalties payable to WCS	3,920	
Prior year releases and refunds	28,944	
Total reconciling items		<u>(116,772)</u>
Total collections and credits		<u>\$ 32,669,432</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2019

				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	\$ 8,668,321,958	\$ 0.00353	\$ 30,597,450	\$ 30,597,450	\$ -
Motor vehicles	468,103,399	0.00353	1,652,405	-	1,652,405
Penalties	-		8,040	8,040	-
Total	9,136,425,357		32,257,895	30,605,490	1,652,405
Discoveries:					
Property taxed at current year's rate	125,774,940	0.00353	441,832	441,832	-
Penalties	-		4,480	4,480	-
Total	125,774,940		446,312	446,312	-
Abatements:	(31,631,728)		(111,660)	(111,660)	-
Total property valuation	\$ 9,230,568,569				
	Net levy		32,592,547	30,940,142	1,652,405
Uncollected taxes at June 30, 2019			321,272	313,142	8,130
Current year's taxes collected			\$ 32,271,275	\$ 30,627,000	\$ 1,644,275
Current levy collection percentage			99.01%	98.99%	99.51%

Watauga County, North Carolina
 Analysis of Current Tax Levy
 County-wide Levy
 For the Year Ended June 30, 2019

Secondary Market Disclosures:

Assessed Valuation:

Assessment Ratio	100%
Real Property	\$ 8,952,122,949
Personal Property	173,329,860
Public Service Companies	105,115,760
Total Assessed Valuation	\$ 9,230,568,569
Tax Rate per \$100	0.353
Net Levy (Includes penalties, discoveries, releases and abatements)	\$ <u>32,592,547</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, 2019:

Fire Protection District	Tax Rate per \$100	Net Levy
Beech Mountain Rural	\$ 0.05	\$ 1,588
Blowing Rock	0.05	494,989
Boone Rural	0.06	947,176
Cove Creek	0.05	253,675
Cove Creek Rural	0.05	324
Deep Gap	0.05	201,961
Foscoe	0.05	479,151
Foscoe Rural	0.05	74,574
Meat Camp	0.05	227,353
Northwest Watauga	0.05	118,372
Shawneehaw	0.05	101,296
Shawneehaw Rural	0.05	6,334
Stewart Simmons	0.085	232,844
Todd	0.07	64,821
Zionville	0.05	123,391
Total Net Fire Protection District Levies		\$ <u>3,327,849</u>

Watauga County, North Carolina
 Ten Largest Taxpayers
 For the Year Ended June 30, 2019

Taxpayer	Type of Business	2018 Assessed Valuation	Percentage of Total Assessed Valuation	
Blue Ridge Electric Membership Coop	Electric Utility	\$ 78,538,760	0.85	%
Wallace Loft LLC	Rental Properties	46,504,000	0.50	
BR Development Group LLC	Real Estate Development	24,757,100	0.27	
WM Land Boone Ltd Ptnrp	Real Estate Development	13,689,900	0.15	
MV of Boone LLC	Rental Properties	23,480,200	0.25	
Dugger Valley Inv Group LLC	Real Estate Development	23,317,700	0.25	
Meadowview at Boone LLC	Rental Properties	17,906,700	0.19	
Paul Brown Enterprises	Commercial Rental Properties	13,021,960	0.14	
Templeton Properties LP	Commercial Rental Properties	15,709,890	0.17	
Highland Crossing-B, LLC	Real Estate Development	15,743,220	0.17	
		<u>\$ 272,669,430</u>	<u>2.96</u>	<u>%</u>

Watauga County, North Carolina
 Analysis of Current Tax Levy
 Fire Districts
 For the Year Ended June 30, 2019

	Northwest Watauga Fire District	Beech Mtn. Rural Fire Service District	Blowing Rock Rural Fire District	Boone Rural Fire District	Cove Creek Fire District
Tax rate per \$100	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.06</u>	\$ <u>0.05</u>
Net levy	\$ 118,372	\$ 1,588	\$ 494,989	\$ 947,176	\$ 253,675
Uncollected taxes at June 30, 2019	<u>2,351</u>	<u>8</u>	<u>5,669</u>	<u>8,503</u>	<u>3,564</u>
Current year's taxes collected	\$ <u>116,021</u>	\$ <u>1,580</u>	\$ <u>489,320</u>	\$ <u>938,673</u>	\$ <u>250,111</u>
Current levy collection percentage	<u>98.01%</u>	<u>99.49%</u>	<u>98.85%</u>	<u>99.10%</u>	<u>98.60%</u>

	Cove Creek Rural Fire Service District	Deep Gap Fire District	Foscoe Fire District	Foscoe Rural Fire Service District	Meat Camp Fire District
Tax rate per \$100	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.05</u>
Net levy	\$ 324	\$ 201,961	\$ 479,151	\$ 74,574	\$ 227,353
Uncollected taxes at June 30, 2019	<u>-</u>	<u>2,845</u>	<u>3,697</u>	<u>529</u>	<u>4,604</u>
Current year's taxes collected	\$ <u>324</u>	\$ <u>199,116</u>	\$ <u>475,454</u>	\$ <u>74,045</u>	\$ <u>222,749</u>
Current levy collection percentage	<u>100.00%</u>	<u>98.59%</u>	<u>99.23%</u>	<u>99.29%</u>	<u>97.97%</u>

	Shawnheehaw Fire District	Shawnheehaw Rural Fire Service District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate per \$100	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>0.085</u>	\$ <u>0.07</u>	\$ <u>0.05</u>
Net levy	\$ 101,296	\$ 6,334	\$ 232,844	\$ 64,821	\$ 123,391
Uncollected taxes at June 30, 2019	<u>528</u>	<u>126</u>	<u>1,570</u>	<u>591</u>	<u>2,579</u>
Current year's taxes collected	\$ <u>100,768</u>	\$ <u>6,208</u>	\$ <u>231,274</u>	\$ <u>64,230</u>	\$ <u>120,812</u>
Current levy collection percentage	<u>99.48%</u>	<u>98.01%</u>	<u>99.33%</u>	<u>99.09%</u>	<u>97.91%</u>

COMPLIANCE SECTION



**Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Watauga County, North Carolina's basic financial statements, and have issued our report thereon dated December 13, 2019. Our report includes a reference to other auditors who audited the financial statements of AppalCART, as described in our report on the County's financial statements. This report does not include the results of other auditors' testing of internal control over financial or compliance and other matters that are reported separately by those auditors. The financial statements of the Watauga County District U Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
December 13, 2019



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report On Compliance With Requirements Applicable to Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Uniform Guidance And The State Single Audit Implementation Act

To the Board of Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Watauga County, North Carolina's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County, North Carolina's major federal programs for the year ended June 30, 2019. Watauga County, North Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Watauga County, North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, 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, North Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Watauga County, North Carolina, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

Watauga County, North Carolina's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Watauga County, North Carolina's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

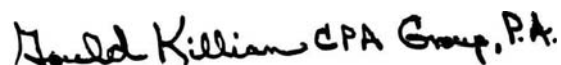
Management of Watauga County, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Watauga County, North Carolina's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, significant deficiencies or material weaknesses may exist that were not identified. We identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency, and items 2019-002, and 2019-003, that we consider to be material weaknesses.

Watauga County, North Carolina's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Watauga County, North Carolina's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

 David Killian CPA Group, P.A.

Asheville, North Carolina
December 13, 2019



GOULD KILLIAN
CPA GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report On Compliance With Requirements Applicable to Each Major State Program And Internal Control Over Compliance In Accordance With OMB Uniform Guidance And The State Single Audit Implementation Act

To the Board of Commissioners
Watauga County, North Carolina

Report on Compliance for Each Major State Program

We have audited Watauga County, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Watauga County, North Carolina's major state programs for the year ended June 30, 2019. Watauga County, North Carolina's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Watauga County, North Carolina's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, 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, North Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, Watauga County, North Carolina, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section the Uniform Guidance as described in the *Audit Manual for Governmental Auditors in North Carolina*, and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major state program is not modified with respect to these matters.

Watauga County, North Carolina's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Watauga County, North Carolina's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Watauga County, North Carolina, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Watauga County, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Watauga County, North Carolina's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency, and items 2019-002, and 2019-003, that we consider to be material weaknesses.

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

David Killian CPA Group, P.A.

Asheville, North Carolina
December 13, 2019

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

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? ___X___yes _____no
- Significant deficiency(s) identified that are not considered to be material weaknesses? ___X___yes _____none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

___X___yes _____no

The following were audited as major federal program for Watauga County for the fiscal year ended June 30, 2019:

<u>Program Name or Cluster</u>	<u>CFDA #</u>
Medicaid Cluster	93.778, 93.777, 93.775
Foster Care – Title IV-E	93.658

The threshold for determining Federal Type A programs for Watauga County is \$750,000.

Watauga County did not qualify as a low risk auditee.

WATAUGA COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

State Awards

Internal control over major state programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(s) identified
that are not considered to be
material weaknesses? X yes none reported

Type of auditor's report issued on compliance for major state programs: Unmodified.

Any audit findings disclosed that are
required to be reported in accordance with
the State Single Audit Implementation Act yes X no

Major State programs (over \$500,000) for Watauga County for the fiscal year ended June 30, 2019 are:

State Program

State Foster Care

Public School Building Capital Fund

Federal Program – State Match

Medicaid Cluster

Foster Care – Title IV-E

WATAUGA COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

II. Financial Statement Findings

None reported

III. Federal Award Findings and Questioned Costs

US Department of Health and Human Services

Passed through the NC Dept. of Health and Human Services

Program Name: Medical Assistance Program (Medicaid; Title XIX) Crosscutting requirements

CFDA # 93.778

Finding: **2019-001 Day Sheet Accountability**
SIGNIFICANT DEFICIENCY– REPORTING
NONMATERIAL NONCOMPLIANCE

Criteria: Each county's department of social services in North Carolina must comply with the NC Social Services Fiscal Control Manual Section III A, which requires County DSS employees who provide direct client services during the month to maintain day sheets in accordance with the Service Information System (SIS) Policy. According to the SIS User's Manual, day sheet entries must be supported by documentation in case record files. For auditing and monitoring purposes, entries made by caseworkers providing direct client services must either include the client information on the time entry to include description of what work was performed, or have another reliable method such as a log, journal, or calendar available so that time entries can be supported by evidence of the work that was performed. This evidence should indicate what was performed for the client during the time indicated by the day sheet or log. This requirement effects multiple programs.

Condition: The County did not have a policy requiring either client identification on the time entry with applicable description or an alternative record to support the direct client service time reported on the DSS 1571 form for administration of the Medicaid program during the period of time our review covered. All caseworker time indicates the client, but this time cannot be supported by activity reports generated from NC FAST or a written narrative in the document manager system. Audit procedures applied to 60 time entries of DSS workers revealed 4 instances where support could not be provided as to the specific client, or no activity was found in the client's casefile to support the related time records. All of these instances were related to time charged to administer the Medicaid program.

Questioned Costs: None; noncompliance relates to reporting and recordkeeping requirements.

Context: Costs reimbursed to the County for administering the Medicaid program were approximately \$1,019,000 for the year ended June 30, 2019, the majority of which are salaries and benefits of DSS workers. From 60 time entries tested representing 3,840 minutes, 155 minutes (4.04%) could not be verified by examining the casefiles for evidence of time spent. Overall, payroll and benefits reported on the DSS 1571 were supported by payroll records which were authorized and reconciled to the County's general ledger. However, caseworker time records should be detailed enough to allow audit procedures to be performed to verify evidence of time worked in individual case files.

Effect: The County is not in compliance with the day sheet reporting requirement; caseworker direct program service time cannot be supported. Without proper accountability and monitoring, caseworkers may not spend their time most efficiently for the benefit of the program. For caseworkers who direct charge multiple programs, the allocation of their time to those programs may not be accurate.

WATAUGA COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

Identification of a repeat finding: This is a repeat finding (2018-002). The County has made progress towards implementing an effective policy to record time as the number of instances of noncompliance have decreased compared to the prior year.

Cause: The County misunderstood the requirements in the SIS User Manual regarding client identification and does not have a policy requiring caseworkers to include client identification in their time records, or any other reliable method for tracking direct client time by client. In addition, the County's casefiles are a mix of paper files and NC FAST, making electronic monitoring using NC FAST activity logs ineffective.

Recommendation: We have recommended to management that caseworkers document the PDC case number for the client they worked on and to make sure that every day sheet entry has the name of the client. Caseworkers should document every client phone call or other case work in the NC FAST narrative, rather than documenting it in paper files or caseworker paper time journals. Supervisors should review this information when approving caseworker time reports.

Views of responsible officials and planned corrective actions: The County agrees with the finding and is taking steps to revise their internal procedures for day sheets. Please refer to the County's corrective action plan starts on page 103.

US Department of Health and Human Services

Passed through the NC Dept. of Health and Human Services

Program Name: Medical Assistance Program (Medicaid; Title XIX) Crosscutting requirements

CFDA # 93.778

Finding : **2019-002 Medicaid Second Party Reviews**
 MATERIAL WEAKNESS – REPORTING
 MATERIAL NONCOMPLIANCE

Criteria: The Division of Medical Assistance (DMA) requires second party reviews for Medicaid cases of all counties in North Carolina. The reviews are not only a requirement, but are a necessary component in the County's system of internal control to train case workers, and detect and correct errors in eligibility determinations or documentation.

Condition: Watauga County's second party review process is not detecting and correcting errors in a timely manner, nor is there evidence of a second party review being performed in certain circumstances. We reviewed twenty-five case files that were listed as being reviewed by a second party (supervisor). Seven out of the twenty-five second party review forms could not be located by management. Thereby, there was no indication of such review being completed.

Questioned Costs: None; noncompliance relates to reporting and recordkeeping requirements.

Effect: The County does not have a formal system of internal control to ensure that the recipient's casefile contains the necessary second party review forms to substantiate that the recipient's file has been reviewed. Errors can occur in determining or documenting Medicaid eligibility and not be detected or corrected in a timely manner. Potential errors not detected in second party review process could impact an individual's eligibility determination and potential medical expenses could be inappropriately paid. The County could be responsible to pay back these claims.

Identification of a repeat finding: This is not a repeat finding.

WATAUGA COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

Cause: The County does not have a formal process to track and monitor the second party reviews.

Recommendation: The program should establish a policy for supervisory review of the casefiles in the Medicaid program that is based on the risks of determining eligibility and the level of performance each County staff demonstrates. The responsible party should execute a formal review of certain casefiles based on this established policy. Documentation of these formal and periodic reviews should be retained either in the recipient's casefile or in the responsible party's records including the nature, scope, and timing of the procedures and the results or findings of the review along with the corrective or follow up action to be performed by the staff member who determined the recipient's eligibility. Follow-up also should occur by the second party reviewer to verify corrections (when applicable) are made appropriately and timely.

Views of responsible officials and planned corrective actions: The county agrees with the finding. Please refer to the County's corrective action plan starts on page 103.

US Department of Health and Human Services

Passed through the NC Dept. of Health and Human Services

Program Name: Foster Care – Title IV-E

CFDA # 93.658

Finding : 2019-003 Foster Care Monitoring

MATERIAL WEAKNESS – ELIGIBILITY, ALLOWABLE COST & ACTIVITIES

Criteria: County DSS caseworkers are responsible for filling the eligibility form provided (DSS Form 5120) upon determination or redetermination of Foster Care Assistance Benefits. Completing the form requires the social worker to determine and document a recipient's eligibility according to federal and state guidelines. Once the caseworker fills out the eligibility form, the supervisor should review and approve the recipients eligibility which includes the supervisor's approval. There is space on the form for the caseworker and supervisor signature.

Condition: Of the eight cases selected for testing, two cases did not contain the Supervisors' signature on DSS form 5120. We were unable to verify if a review was performed by the Supervisor since there was no signature.

Questioned Costs: None; the errors noted were technical in nature. It did not impact the determination of the two recipient's eligibility in question.

Effect: The two casefiles did not contain a supervisor's approval noted by signing off on the DSS Form 5120. It is assumed a proper supervisor review did not occur if no supervisor approval is noted. Since no supervisor review occurred, an individual's eligibility determination could have an unidentified error. There is the potential of unallowed expenditures being requested for reimbursement.

Identification of a repeat finding: This is not a repeat finding.

Cause: The supervisor did not sign off on DSS Form 5120, which would indicate that the supervisor reviewed the recipients eligibility determination. Internal processes were not present to check and ensure each form completed was properly reviewed and signed off by the supervisor.

WATAUGA COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

Recommendation: The County should have policies and procedures in place to ensure that the supervisor is appropriately reviewing and signing off on eligibility review documents. In additional check in the procedures would exist to review all completed forms to ensure each completed form has the appropriate signatures.

Views of responsible officials and planned corrective actions: The county agrees with the finding. Please refer to the County's corrective action plan starts on page 104.

IV. State Award Findings and Questioned Costs

US Department of Health and Human Services

Passed through the NC Dept. of Health and Human Services

Program Name: Medical Assistance Program (Medicaid; Title XIX) Crosscutting requirements

CFDA # 93.778

Finding: **2019-001 Day Sheet Accountability**
MATERIAL WEAKNESS – REPORTING
NONMATERIAL NONCOMPLIANCE

This finding also applies to State requirements and State awards.

Finding : **2019-002 Medicaid Second Party Reviews**
MATERIAL WEAKNESS – ELIGIBILITY
MATERIAL NONCOMPLIANCE

This finding also applies to State requirements and State awards.

US Department of Health and Human Services

Passed through the NC Dept. of Health and Human Services

Program Name: Foster Care – Title IV-E

CFDA # 93.658

Finding : **2019-003 Foster Care Monitoring**
MATERIAL WEAKNESS – ELIGIBILITY, ALLOWABLE COST & ACTIVITIES

This finding also applies to State requirements and State awards.



Watauga County
Department of Social Services

SOCIAL SERVICES BOARD
Lynn Patterson , Chair
Sharon Breitenstein, Vice Chair
Charlie Wallin
Dawn Ward
Mary Smalling

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Fax 828-265-7638

Tom Hughes
Director

Financial Statement Findings:

Finding 2019-001: Day Sheet Accountability

Name of Contact person: Tom Hughes, Director of Social Services

Corrective Action Plan: The County DSS Department continues to improve procedures to ensure the time entries reported on the day sheets for program coded activities are backed up by records to ensure re-performance and accountability.

Finding 2019-002: Controls over second-party Medicaid reviews

Corrective Action Plan: The County DSS Department will ensure second-party reviews are correctly certified and the minimum number of Medicaid files are being reviewed on a monthly basis. The DSS Director will revisit the issue with the responsible supervisor and develop a one on one plan to improve future performance.

Finding 2019-003: Controls over supervisor signing off on eligibility form 5120.

Corrective Action Plan: The County DSS Department will ensure form 5120 is signed by a supervisor by continuing to improve procedures.



WATAUGA COUNTY FINANCE OFFICE

814 West King St., Suite 216 - Boone, NC 28607 - Phone (828) 265-8007
Fax (828) 265-8006

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2019

Finding 2018-001

Status: This finding has not been repeated.

Finding 2018-002

Status: This finding has been repeated as discussed in finding 2019-001.

Finding 2018-003

Status: This finding has not been repeated.

Finding 2018-004

Status: This finding has not been repeated.

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2019

Grantor/Pass-Through Grantor/Program/Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Passed-through to Subrecipients	Local Expenditures
Federal Awards:						
<u>U.S. Department of Agriculture</u>						
Passed-through the N.C. Department of Health and Human Services:						
<u>Division of Social Services:</u>						
<u>SNAP Cluster</u>						
Administration:						
Supplemental Nutrition Assistance Program	10.561	195NC406S2514	\$ 220,341	-	-	\$ 220,341
Total SNAP Cluster			220,341	-	-	220,341
Total U.S. Department of Agriculture			220,341	-	-	220,341
<u>U.S. Department of Homeland Security</u>						
Passed-through the N.C. Department of Public Safety:						
Emergency Management Performance Grant	97.042	AM-2018-EP-00002-S01	38,524	-	-	38,524
Total U.S. Department of Homeland Security			38,524	-	-	38,524
<u>U.S. Department of Justice</u>						
Bulletproof Vest Partnership Program	16.607	1121-0235	2,859	-	-	2,859
State Criminal Alien Assistance Program	16.606	2019-AP-BX-0395	1,021	-	-	1,021
Total U.S. Department of Justice			3,880	-	-	2,859
<u>U.S. Department of Health & Human Services</u>						
<u>Administration on Aging</u>						
Passed-through High Country Council of Governments:						
<u>Aging Cluster:</u>						
Home and Community Care Block Grant (HCCBG)						
Special Programs for the Aging - Title III B - Access Services	93.044	17/18 AANCT3SS	14,920	139,015	-	17,104
Special Programs for the Aging - Title III C - Congregate Meals	93.045	17/18 AANCT3CM	48,690	2,864	-	5,728
Special Programs for the Aging - Title III C - Home Delivered Meals	93.045	17/18 AANCT3HD	81,631	4,802	-	9,604
Nutrition Services Incentive Program (NSIP)	93.053	17/18 AANCNSIP	26,203	-	-	-
Total Aging Cluster			171,444	146,681	-	32,436
Passed-through N.C. Department of Insurance:						
Seniors Health Insurance Information Program	93.779	16001636g6	7,613	-	-	-
<u>Administration for Children and Families:</u>						
Passed-through the N.C. Department of Health and Human Services:						
<u>Division of Social Services:</u>						
Family Preservation	93.556	G1901NCFPSS	18,727	-	-	-
<u>Temporary Assistance for Needy Families Cluster:</u>						
Workfirst administrative	93.558	G1901NCTANF	37,607	-	-	49,437
WorkFirst services	93.558	G1901NCTANF	115,224	-	-	184,710
Total Temporary Assistance for Needy Families Cluster			152,831	-	-	234,147
Child Support Enforcement	93.563	1904NC4005	232,548	-	-	119,796
<u>Low-Income Home Energy Assistance Block Grant:</u>						
Administration	93.568	G19B1NCLIEA	167,345	-	-	-
Crisis Intervention Payments	93.568	G19B1NCLIEA	214,853	-	-	-
Permanency Planning	93.645	G1901NCCWSS	14,718	-	-	4,906
Social Services Block Grant	93.667	G1901NCSOSR	173,437	-	-	55,895
Total Low-Income Home Energy Assistance Block Grant:			570,353	-	-	60,801
Total Division of Social Services			974,459	-	-	414,744
<u>Medicaid Cluster:</u>						
Medical Assistance Program:						
Administration	93.778	XIX-MAP19	1,019,151	1,467	-	390,404
Total Medicaid Cluster			1,019,151	1,467	-	390,404
<u>Division of Social Services:</u>						
Administration:						
State Children's Insurance Program:	93.767	CHIP19	59,107	-	-	-
N.C. Health Choice						
Foster Care and Adoption Cluster (Note 3)						
Title IV-E Foster Care	93.658	1901NCFOST	166,856	10,410	-	141,091
Foster Care - Direct Benefit Payments	93.658	1901NCFOST	352,339	93,095	-	81,104
Adoption/Foster Care Special Provision	93.658	1901NCFOST	30,311	-	-	13,243
Total Foster Care and Adoption Cluster (Note 3)			549,506	103,505	-	235,438
Subsidized Child Care (Note 3)						
Child Care Development Fund Cluster						
Division of Social Services						
Child Care Development Fund - Administration	93.596	G1901NCCCDF	82,143	-	-	-
Total Child Care Development Fund Cluster			82,143	-	-	-
Total Subsidized Child Care (Note 3)			82,143	-	-	-

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2019

Grantor/Pass-Through Grantor/Program/Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	(Direct & Pass- Through) Expenditures	State Expenditures	Passed-through to Subrecipients	Local Expenditures
<u>Health Care Financing Administration</u>						
Passed-through the N.C. Department of Health and Human Services:						
Medical Assistance Program						
Chafee Foster Care Independence - Direct Benefit Payment	93.674	1791NC1420	23,110	2,072	-	-
Total Division of Medical Assistance			23,110	2,072	-	-
Total U.S. Department of Health & Human Services			2,886,533	253,725	-	1,073,022
Total Federal Awards			3,149,278	253,725	-	1,334,746
<u>State Awards:</u>						
<u>N.C. Department of Health and Human Services:</u>						
Passed-through Region D Council of Governments:						
Senior center general purchases		17/18 AANCT3GP	-	14,257	-	-
<u>Division of Social Services</u>						
State Foster Care Benefits Program		State Foster Care 19	-	279,366	-	194,812
Total N.C. Department of Health and Human Services			-	293,623	-	194,812
<u>N.C. Department of Public Safety:</u>						
Division of Administration, Community Programs						
Juvenile Crime Prevention Council Programs		295-XXXX	-	114,285	114,285	33,838
Tier II grant - 2017		T2-2017-MOA1791	-	61,822	-	-
Total N.C. Department of Public Safety			-	176,107	114,285	33,838
<u>N.C. Department of Public Instruction:</u>						
NC Public School Building Capital-Lottery Proceeds		94-Watauga	-	457,828	457,828	-
Public School National Forest Service		FY 2016 SRS	-	935	935	-
Total N.C. Department of Public Instruction			-	458,763	458,763	-
<u>N.C. Department of Transportation:</u>						
Employment Transportation Operating Assistance		DOT-16CL	-	13,500	-	-
Elderly and Disabled Transportation Assistance		DOT-16CL	-	61,125	-	-
Rural General Public Program		DOT-16CL	-	82,611	-	-
Total N.C. Department of Transportation			-	157,236	-	-
<u>N.C. Department of Agriculture and Consumer Services:</u>						
Soil Conservation Assistance		G40100296015SWC	-	3,600	-	93,278
Soil Conservation Technician Cost Sharing		G40100296015SWC	-	25,157	-	25,157
Total N.C. Department of Agriculture			-	28,757	-	118,435
<u>N.C. Department of Natural and Cultural Resources:</u>						
Greenway Connector		Greenway Connector	-	16,066	-	-
Western Watauga Community		DNCR-8	-	30,000	-	-
<u>Division of Environmental Assistance and Customer Service:</u>						
Community Waste Reduction and Recycling - Schools		Contract #6875	-	10,000	-	2,702
Total N.C. Department of Natural and Cultural Resources			-	56,066	-	2,702
<u>N.C. Division of Veteran's Affairs</u>						
Veteran's Service Program		143B-1211C4	-	2,216	-	118,550
Total N.C. Division of Veteran's Affairs			-	2,216	-	118,550
<u>N.C. Office of State Budget and Management</u>						
Guy Ford Grant		Grant #2572	-	50,000	-	-
Total N.C. Office of State Budget and Management			-	50,000	-	-
Total State Awards			-	1,222,768	573,048	468,337
Total Federal and State Awards			\$ 3,149,278	\$ 1,476,493	\$ 573,048	\$ 1,803,083

WATAUGA COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2019

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 (SEFSA) includes the federal and State award activity of Watauga County under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Watauga County, it is not intended to and does not present the financial position, changes in net position or cash flows of Watauga County.

2. Summary of Significant Account Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic 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 in this schedule.

3. Cluster of Programs:

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
- Foster Care and Adoption

4. 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.

Program Title	CFDA No.	Federal	State
Special Supplemental Nutrition Program for Women Infant and Children	10.557	\$ -	\$ 409,595
Temporary Assistance for Needy Families	93.558	38,650	-
Adoption Assistance	93.659	180,330	44,196
Foster Care - Title IV-E	93.658	-	93,095
Medical Assistance Program	93.778	22,639,715	11,849,484
Children's Health Insurance Program	93.767	1,222,462	-
Child Welfare Services Adoption	N/A	-	175,636
State / County Special Assistance program	N/A	-	174,325
		<u>\$ 24,081,157</u>	<u>\$ 12,746,331</u>