

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Catawba County, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Catawba County for the fiscal year ended June 30, 2006. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

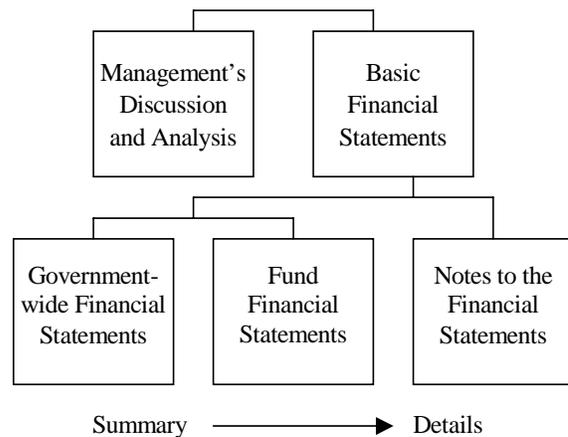
- 7 The assets of Catawba County exceeded its liabilities at the close of the fiscal year by \$115,862,422 (*net assets*).
- 7 The government's total net assets decreased by (\$9,824,871), primarily due to decreases in the governmental type activities net assets.
- 7 As of the close of the current fiscal year, Catawba County's governmental funds reported combined ending fund balances of \$115,871,624, a decrease of (\$18,405,221) in comparison with the prior year. Approximately 86 percent of this total amount, or \$99,616,065, is available for spending at the government's discretion (*unreserved fund balance*).
- 7 At the end of the current fiscal year, unreserved fund balance for the General Fund was \$23,688,338, or 15.3 percent of total general fund expenditures for the fiscal year.
- 7 Catawba County's total debt decreased by (\$775,000) (.6%) during the current fiscal year. The County used installment purchase financing to borrow \$9.2 million for the construction and equipping of a new elementary school. Debt payments of \$10 million contributed to the net decrease in overall debt.
- 7 For the second consecutive year, Catawba County maintained its AA bond rating with Standard & Poor's and maintained its Aa2 bond rating with Moody's Investors Service for the 25th consecutive year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Catawba 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 (see Figure A). The basic financial statements present two different views of the County 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 Catawba County.

Figure A - Required Components of Annual Financial Report



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The first two statements 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 government-wide financial statements are:

- 7 **Statement of Net Assets** - presents information about the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- 7 **Statement of Activities** - presents information showing how the County's net assets changed during the most recent fiscal year.

Both of the government-wide financial statements

distinguish between services provided by the County that are primarily funded by property taxes and state and federal grants (*governmental activities*) and other services that the County charges user fees to recover all of the costs (*business-type activities*). The government activities include most of the County's basic services such as human services, education, public safety, parks, planning, and general administration. The business-type activities include the solid waste services offered by Catawba County.

The government-wide financial statements include not only the County itself (known as the *primary government*) but also two legally separate entities (known as *component units*). Catawba Valley Medical Center (CVMC) is a public healthcare facility that is an entity of Catawba County. The County appoints the board of trustees for CVMC and has issued debt on its behalf. Although legally separate from the County, the ABC Board is important to the County because the County exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements begin on page 14 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Catawba County, like all other 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. There are three parts to the Fund Financial Statements: (1) governmental funds, (2) budgetary comparison statements, and (3) proprietary fund statements.

7 **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 basic services 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed

short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Catawba 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 four columns: (1) the original budget as adopted by the board; (2) the final budget as amended by the board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements can be found on pages 18-24 of the report.

7 **Proprietary Funds** - Services for which the County charges customers a fee are generally reported in proprietary funds. Catawba County maintains one type of proprietary fund called an enterprise fund.

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its solid-waste operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

The proprietary funds financial statements can be found on pages 27-29 of this report.

7 **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Catawba County has three fiduciary funds, all of which are agency funds.

The fiduciary funds financial statements can be found on page 30 of this report.

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 can be found beginning on page 31 of this report.

SUPPLEMENTARY INFORMATION

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Catawba County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found beginning on page 60 of this report.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Government-Wide Financial Analysis)

Net Assets - As noted earlier, net assets may serve

over time as one useful indicator of a government's financial condition. The assets of Catawba County exceeded liabilities by \$115,862,422, as of June 30, 2006. The County's net assets decreased by (\$9,824,871) for the fiscal year ended June 30, 2006. The key factor for the decrease in net assets was an increase in education funding related to school construction capital projects.

The largest portion of net assets (78.5%) reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Catawba County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Catawba County's investment in its capital assets is reported net of the outstanding related debt, the resources to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

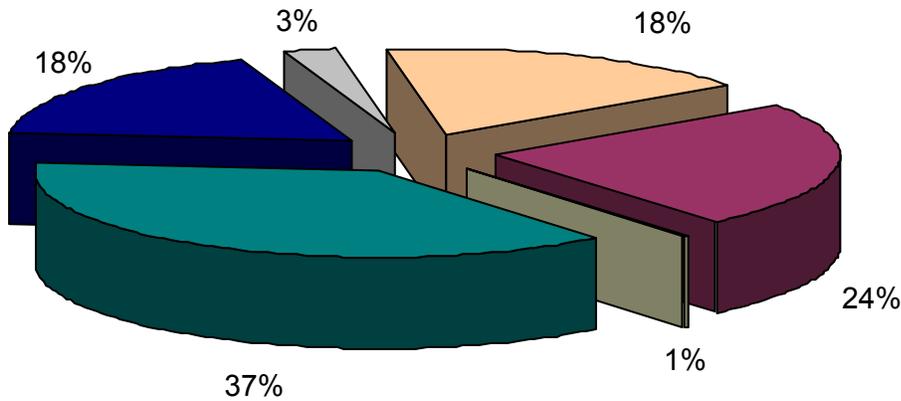
Another portion of Catawba County's net assets (.5%) represents resources that are subject to external restrictions on how they may be used. The increase in restricted net assets was due to North Carolina restrictions of governmental funds.

The remaining balance (21%) of \$24.4 million is unrestricted, a decrease of \$10.7 million from the prior year.

	Governmental Activities		Business-type Activities		Total		Total	
	2006	2005	2006	2005	2006	2005	Dollar Change	Percent Change
	Current and other assets	\$ 135,547,075	\$ 153,501,517	\$ 14,891,144	\$ 14,809,317	\$ 150,438,219	\$ 168,310,834	\$ (17,872,615)
Capital assets	83,164,487	75,827,029	17,159,517	15,639,246	100,324,004	91,466,275	8,857,729	9.68%
Total assets	218,711,562	229,328,546	32,050,661	30,448,563	250,762,223	259,777,109	(9,014,886)	-3.47%
Long-term liabilities	115,596,092	116,268,668	3,956,426	3,847,140	119,552,518	120,115,808	(563,290)	-0.47%
Other liabilities	5,197,260	13,558,991	50,023	415,017	5,347,283	13,974,008	1373,275	9.83%
Total liabilities	130,793,352	129,827,659	4,106,449	4,262,157	134,899,801	134,089,816	809,985	0.60%
Net assets:								
Invested in capital assets, net of related debt	73,647,141	74,327,245	17,159,517	15,639,246	90,806,658	89,966,491	840,167	0.93%
Restricted	655,333	650,382	-	-	655,333	650,382	4,951	0.76%
Unrestricted	13,615,736	24,523,260	10,784,695	10,547,160	24,400,431	35,070,420	(10,669,989)	-30.42%
Total net assets	\$ 87,918,210	\$ 99,500,887	\$ 27,944,212	\$ 26,186,406	\$ 115,862,422	\$ 125,687,293	\$ (9,824,871)	-7.82%

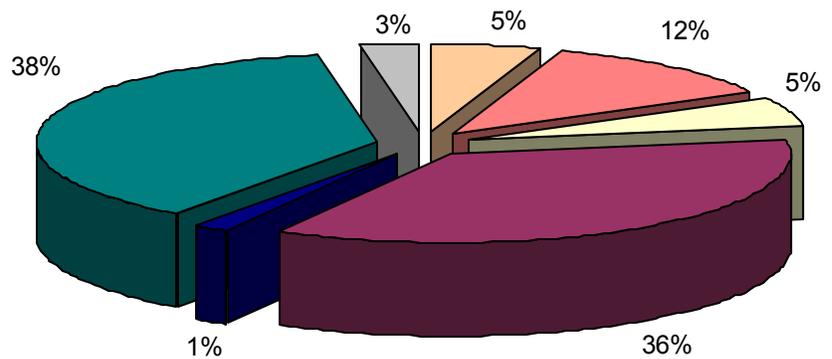
The following graphs summarize the sources of the County's total revenues and total program expenses. These graphs combine governmental and business-type information.

County Wide Sources of Revenues



- Charges for services
- Operating grants
- Capital grants
- Property taxes
- Other taxes
- Investment Earnings

County Wide Expenses



- General Government
- Public Safety
- Economic Development & Environmental Protection
- Human Services
- Culture and Recreation
- Education
- Solid Waste

In order to provide a complete picture of the changes in net assets of the County, information is provided separately for the net assets of governmental and business-type activities. See the table on the following page.

Catawba County Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 25,606,337	\$ 25,128,258	\$ 6,046,872	\$ 6,154,906	\$ 31,653,209	\$ 31,283,164
Operating grants and contributions	41,299,324	39,488,016	129,482	145,601	41,428,806	39,633,617
Capital grants and contributions	496,774	416,096	-	-	496,774	416,096
General revenues:						
Property taxes	65,459,626	64,264,969	-	-	65,459,626	64,264,969
Other taxes	32,000,594	30,498,024	178,691	243,796	32,179,285	30,741,820
Investment earnings, unrestricted	4,099,093	2,876,185	437,053	317,721	4,536,146	3,193,906
Total revenues	168,961,748	162,671,548	6,792,098	6,862,024	175,753,846	169,533,572
Expenses:						
General government	9,593,037	8,383,352	-	-	9,593,037	8,383,352
Public safety	20,926,787	19,900,883	-	-	20,926,787	19,900,883
Environmental protection	481,844	447,428	-	-	481,844	447,428
Economic and physical development	9,383,320	9,567,712	-	-	9,383,320	9,567,712
Human services	67,310,514	66,858,370	-	-	67,310,514	66,858,370
Cultural and recreation	2,687,546	2,543,170	-	-	2,687,546	2,543,170
Education	65,203,410	57,377,775	-	-	65,203,410	57,377,775
Interest on long-term debt	4,956,696	4,223,199	-	-	4,956,696	4,223,199
Solid waste management	-	-	5,035,563	5,755,205	5,035,563	5,755,205
Total expenses	180,543,154	169,301,889	5,035,563	5,755,205	185,578,717	175,057,094
Increase(decrease) in net assets before transfers	(11,581,406)	(6,630,341)	1,756,535	1,106,819	(9,824,871)	(5,523,522)
Transfers	(1271)	(692)	1271	692	-	-
Increase(decrease) in net assets	(11,582,677)	(6,631,033)	1,757,806	1,107,511	(9,824,871)	(5,523,522)
Net assets - beginning of year	99,500,887	106,131,920	26,186,406	25,078,895	125,687,293	131,210,815
Net assets - end of year	\$ 87,918,210	\$ 99,500,887	\$ 27,944,212	\$ 26,186,406	\$ 115,862,422	\$ 125,687,293

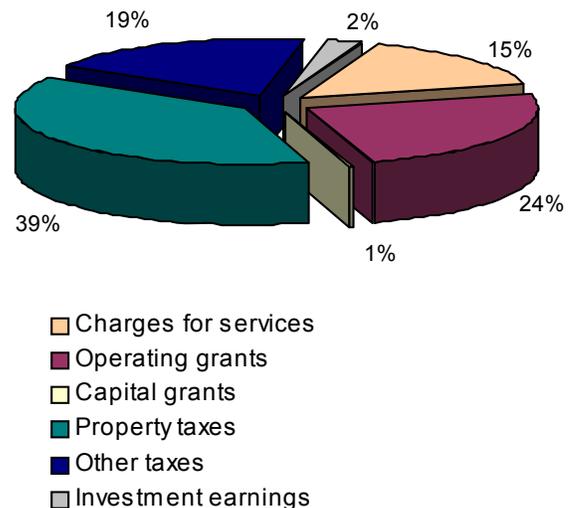
The following will consider the operations of governmental and business-type activities separately and in greater detail.

Governmental Activities - Governmental activities decreased the County's net assets by (\$11,582,677). Key elements of this decrease are as follows:

- 7 Increase in capital expenditures for schools in the School Construction Projects Fund.
- 7 Increase in human services expenditures as a result of additional federal and state grant funding.
- 7 Increase in interest expense as a result of increase in debt financing.

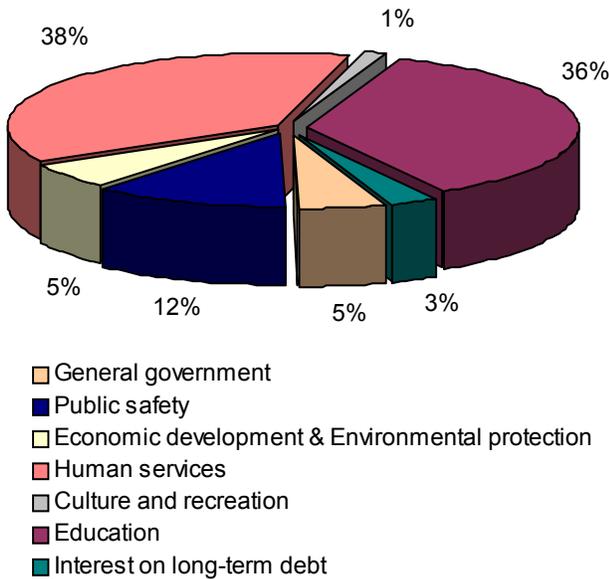
The following graph presents the major sources of revenues for governmental activities.

Revenues by Source – Governmental Activities



The following graph presents the major functions of expenditures for governmental activities.

Expenditures by Function – Governmental Activities



Business-type Activities - Business-type activities increased Catawba County's net assets by \$1,757,806. Key elements of this increase are as follows:

- 7 Fees charged for services continue to exceed operational expenses in the Solid Waste Fund.
- 7 Increase in investment earnings due to rising interest rates.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Information is presented separately in the governmental funds balance sheets and statement of revenues, expenditures and changes in fund balance for the General Fund, General Capital Projects Fund, Water and Sewer

Construction Fund and School Construction Projects Fund, all of which are considered major funds. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules elsewhere in the report.

At June 30, 2006, the governmental funds of the County reported a combined fund balance of \$115,871,624, a 13.7 percent decrease over last year. Included in this change in fund balance are increases in two of the major funds; General Fund, and Water and Sewer Construction Fund, and decreases in the other major funds; General Capital Projects Fund, and School Construction Projects Fund.

General Fund - The General Fund is the chief operating fund of Catawba County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$23,688,338, while total fund balance reached \$39,583,950. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15.6% of total General Fund expenditures while total fund balance represents 26.1% of that same amount.

The overall fund balance increased by \$3.7 million due to increases in certain revenues such as sales tax revenue and ad valorem tax revenue. Additional information is provided in the discussion on General Fund budgetary highlights.

Other Major Funds - The **General Capital Projects Fund** is a major governmental fund. This fund accounts for various multi-year capital improvement projects. Its fund balance decreased by (\$8.7 million) to \$16.3 million. The largest financing source came from investment earnings of \$.8 million. Expenditures of \$9 million, up from \$3.8 million in the prior year, were due to the increase in capital outlay for construction in progress. Net transfers to other funds were (\$.6 million).

The **Water and Sewer Construction Fund** is another County major governmental fund. This fund accounts for the financing and construction of all major water and sewer capital projects in the unincorporated sections of the County. Its fund balance increased by \$6 million to \$18.5 million. The largest financing source came from investment earnings of \$.4 million. Expenditures were \$.8 million, down from \$2.6 million in the prior year. Net transfers from other funds were \$6.1 million.

The [School Construction Project Fund](#) is the other major governmental fund. This fund accounts for various multi-year construction projects for the three school systems and community college in the County. Its fund balance decreased by (\$16.4 million) to \$13.8 million. The largest financing source came from installment purchase obligations issued of \$9.2 million. Expenditures were \$26.6 million, up from \$19.1 million in the prior year, due to increases in capital outlay for construction in progress. Net transfers from other funds were \$.1 million.

Non-Major Funds - Fund balances for non-major funds decreased by (\$2.9 million) to \$27.5 million overall. The [Water and Sewer Reserve Fund](#) had a significant decrease in fund balance of (\$3.5 million). This decrease was mainly from transfers to other funds of (\$4.2 million) to supplement funds for water and sewer projects. The [School Capital Fund](#) had an increase in fund balance of \$.7 million. This was mainly from an increase in other tax revenue from \$4.3 million to \$5.1 million. Other non-major capital funds had decreases in fund balances: [School Bond Fund 1997](#) (\$.3 million).

Proprietary Funds - The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Management Fund at the end of the fiscal year amounted to \$10,784,695. The total growth in net assets in this fund was \$1,757,806. Other factors concerning the finances of this fund have already been addressed in the discussion of the County's business-type activities.

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:

- 7 Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available.
- 7 Amendments made to recognize new funding amounts from external sources, such as Federal and State grants.
- 7 Increases in appropriations that become necessary to maintain services.

Total amendments to the General Fund increased revenues by \$1,733,409 or 1.1 percent. Budgeted revenues increased due to anticipation of additional federal and state grants available for County services.

Actual revenues were less than final budgeted amounts by (\$971,318). The primary factor for this included delay in receiving funds from federal and state grants available for County services.

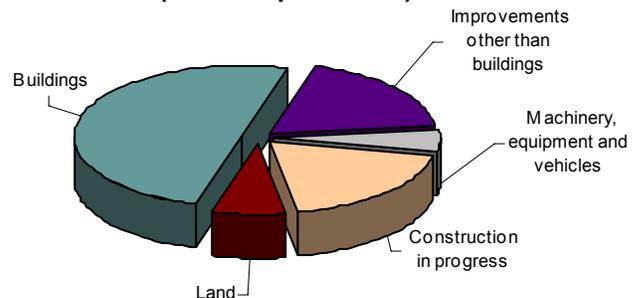
Total amendments to budgeted appropriations were \$5,311,423 or 3.2%. The majority of amendments were for human services mainly for expected expenditures of additional federal and state grants. However, actual expenditures were less than final budgeted amounts by \$18,083,654. These cost savings resulted mainly from unspent appropriations of a) \$12.1 million in services and supplies of human resources departments and b) \$2 million in salaries and benefits due to temporary vacancies in various departments. Based on certain outcomes, the County allows several departments to retain its surplus funds from the prior year. The amount of these budgeted but unused funds was \$5.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Catawba County's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$100,324,004 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- 7 Purchase of land for additional landfill needs of \$.3 million.
- 7 Increase in construction in progress of approximately \$8.1 million primarily for new jail expansion and school construction and renovations.

Catawba County's Total Capital Assets (net of depreciation)



Additional information on the County's capital assets can be found in note 3.A. of the Basic Financial Statements.

Catawba County's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	Land	\$ 6,120,798	\$ 6,092,870	\$ 6,307,006	\$ 5,954,738	\$ 12,427,804
Buildings	41,412,001	42,541,573	807,964	738,189	42,219,965	43,279,762
Improvements other than buildings	15,648,995	14,614,262	6,216,651	5,483,844	21,865,646	20,098,106
Machinery, equipment and vehicles	3,939,673	4,697,407	2,643,928	2,589,269	6,583,601	7,286,676
Construction in progress	16,043,020	7,880,917	1,183,968	873,206	17,226,988	8,754,123
Total	83,164,487	75,827,029	17,159,517	15,639,246	100,324,004	91,466,275

Long-term Debt - As of June 30, 2006, Catawba County had total bonded debt outstanding of \$42,815,000, all of which is debt backed by the full faith and credit of the County. In addition, the County had installment purchase debt of \$17,780,000 and certificates of participation debt of \$51,015,000 collateralized by the property under construction.

Catawba County's total debt decreased by (\$775,000) (.6%) during the past fiscal year. The County increased its debt by borrowing \$9.2 million through installment purchase financing to construct and equip a new elementary school. Repayment of existing debt was approximately \$10 million, resulting in a net decrease in overall debt.

As mentioned in the financial highlights section of this document, Catawba County maintained for the 25th consecutive year, its Aa2 bond rating from Moody's

Investor Service and for the 2nd consecutive year, its AA rating from the Standard and Poor's Corporation. This stable bond rating is a clear indication of the sound financial condition of the County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Catawba County is \$930,251,984. The County has \$6,970,000 in bonds authorized but un-issued at June 30, 2006.

Additional information regarding Catawba County's long-term debt can be found in note 3.B beginning on page 49 of this report.

Catawba County's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	bonds	\$ 42,815,000	\$ 49,340,000	\$ -	\$ -	\$ 42,815,000
Installment purchase	17,780,000	9,240,000	-	-	17,780,000	9,240,000
participation	51,015,000	53,805,000	-	-	51,015,000	53,805,000
Total	\$111,610,000	\$112,385,000	\$ -	\$ -	\$111,610,000	\$112,385,000

County.

- 7 Increase in sales tax revenue. Fiscal year 2006 sales tax revenues are \$1.6 million in excess of prior year, a good indication that the local economy is improving.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following key economic indicators reflect the growth and prosperity of the County.

- 7 Declining unemployment. The County's unemployment rate is 5.4% as compared to the State average of 4.6%. Although this rate is currently higher than the State average, it has been steadily declining from 7.2% in 2004 and 6.6% in 2005.
- 7 Low debt burden and stable property tax rate. The County's existing debt obligations are only 11% of its statutory limit. The property tax rate has fluctuated within one cent over the last seven years. In addition, at .49/\$100, it is below the State average of .66/\$100 and among the lowest of all 100 counties in North Carolina.
- 7 Creation of new jobs. Economic Development Corporation successfully assisted with 16 business developments, creating 1,465 new jobs and \$670 million in new investment. The largest investment was Target, a national retail corporation, which announced creation of 650 jobs and a \$90,000,000 investment for a regional distribution center in Catawba

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities - The property tax rate remains at \$.49/100 assessed value. This provides for continued funding for a 2% teacher supplement, based on performance, as well as to finance programs currently in place. Employee compensation includes a 1% cost of living increase and additional increases based on performance. The budget for FY 2006-07 will be \$192,023,193, a 3.5% increase from the prior year mainly due to the addition of operating costs for the Newton Jail expansion.

Business – type Activities - The \$7,339,109 budget, a 19% decrease over the prior year, includes funds for the preliminary design and development of the Eco-Complex Project. The complex will promote economic development by bringing jobs in the green energy, agricultural, and environmental sectors.

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 Director of Finance, Catawba County, PO Box 389, Newton, NC 28658. Online information may be found at the County's website <http://www.catawbacountync.gov>.



