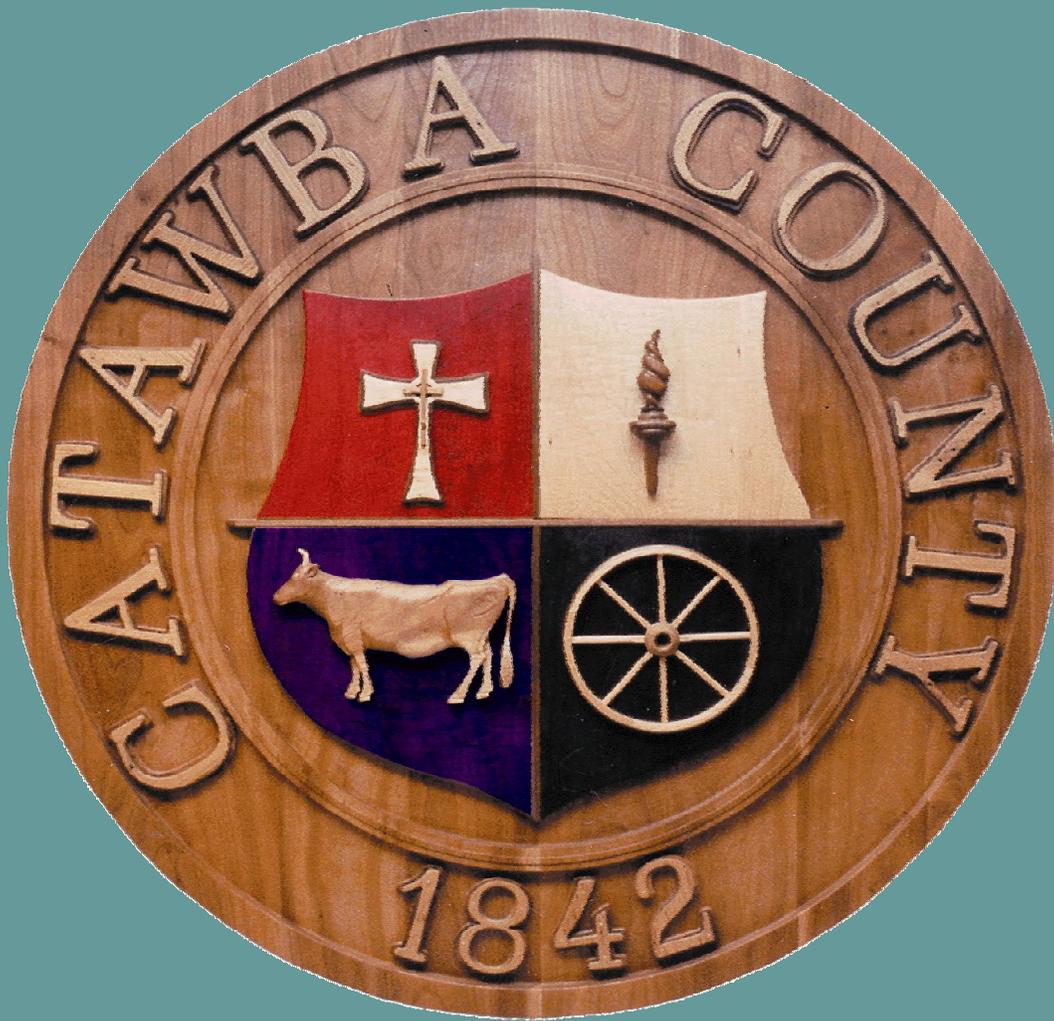


BOARD OF COUNTY COMMISSIONERS



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CATAWBA COUNTY

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Catawba County Board of Commissioners
and Citizens of Catawba County, North Carolina

October 5, 2006

State law requires that all local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of Catawba County for the fiscal year ended June 30, 2006.

THE REPORT

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Martin, Starnes & Associates, CPAs, P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federal and state mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports, along with the schedule of expenditures of Federal and State awards, findings and recommendations, if any, are published in a separate report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

COUNTY PROFILE

Located in a peaceful valley just east of the Blue Ridge Mountains, Catawba



"Keeping the Spirit Alive Since 1842!"

County is a land of scenic beauty, diverse cultures, and thriving industry. Three beautiful lakes are located within its 414 square miles, and the Catawba River winds along its northern and eastern border. The County is named for the river and the Catawba Indians who foraged in the valley and were friendly and helpful to the first settlers who arrived in 1747.

Catawba County was officially established on December 12, 1842 when Lincoln County was divided by an act of the North Carolina General Assembly. The North Carolina General Assembly passed legislation to the effect that "the present Town of Newton as selected and laid out shall be the site and location of the courthouse and jail of Catawba County." The County has eight cities and towns and a population of 149,416, ranking 14th out of 100 counties in North Carolina.

In 1937, Catawba County became the third county in the State to adopt the Council-Manager form of government. The Board of Commissioners is comprised of a five-member board elected at large on staggered terms in a countywide election. The Board of Commissioners is the policy-making and legislative authority for the County. It is responsible for adopting the annual budget, approving zoning and planning issues and other matters related to the health and welfare of the County. The Board makes appointments to various boards and commissions and appoints the County Manager. The County Manager is the Chief Executive Officer and is responsible for enforcement of laws and ordinances, preparation and administration of the annual budget, delivery of services, implementing policies, managing daily operations and appointment of department heads. The County is fortunate to have stability in its management structure with the County Manager affording the County 34 years of continuous service and the average tenure of seventeen department heads in top management is 14 years.

Catawba County provides its citizens with a broad range of services that include public safety, environmental protection, health and human services,

cultural and recreational programs, community and economic development, and education. This report encompasses the County's activities in maintaining these services and includes its financial support to certain separate agencies, boards and commissions to assist their efforts in serving citizens. Among these are the Catawba County, Hickory City and Newton-Conover City Schools, Catawba Valley Community College (CVCC), Catawba County Economic Development Corporation and the Hickory Metro Convention and Visitors Bureau.

The annual budget serves as the foundation for the County's financial planning and control. Each year all County departments are required to submit requests for appropriation to the County Manager, who then compiles a proposed budget and presents it to the Board of Commissioners for review. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the County's fiscal year.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment with which the County operates.

LOCAL ECONOMY Catawba County is home to a large industrial base, heavily concentrated in manufacturing and twice the state average. The region is renowned as a furniture-manufacturing and distribution center, with sixty percent of the nation's furniture produced within a 200-mile radius of Hickory, the County's largest municipality. The County has over 150 retail showrooms and outlets as well as two internationally known furniture malls totaling 1.3 million square feet of exhibit space.

Economic activity in the region continues to improve as evidenced by the Western North Carolina Economic Index, which tracks the level of economic activity in 25 counties, including Catawba. The Index has reported an increase in regional economic activity





ABOVE:
*Catawba Valley
Boulevard
retail
shopping.*

LEFT:
*Union Square
in Downtown
Hickory.*

for 17 consecutive months. In October 2005, the Economic Index showed a net gain of 3,000 jobs in the region. The index increased to 119.6 in October, up from 116.2 in March 2005, correlating to an annual rate of 3.8 percent from October 2004 to October 2005. This increased economic activity has continued to reduce Catawba County's unemployment rate from 6.6% in June 2005 to 5.4% in June 2006, its lowest level in five years.

With heavy job losses occurring in the County's traditional industries of furniture and textiles over the past few years, some businesses were forced to vacate industrial buildings, which resulted in opportunities for new and existing industries to relocate to the area. In July 2005, Idea Italia, an importer and distributor of Italian furniture, bought a former Hickory Chair furniture plant and is adding 140 jobs to the County. In August, Fill-Pac, a contract packaging company, began operations in a former Regal Manufacturing facility, with plans to add 150

jobs over the next three years. In October, Georgia-based Flowers Foods purchased a vacant Harvest States plant with a \$40 million investment and plans to add 150 jobs. Ameritex, a manufacturer of boating accessories, opened a plant last summer with plans to employ 200 people within two years. Due to unexpected growth, in April 2006, they moved from a 40,000 square foot facility to a 139,000 square foot facility formerly owned by J. Royale Furniture expanding their production and adding 100 additional jobs. Finally, in July 2006, Baker Furniture moved its headquarters from Michigan to Catawba County and opened a distribution center in the former Corning Cable Systems manufacturing plant, a 344,000 square foot building, adding 76 new jobs and a \$12 million investment over the next three years.

To address the changing economic conditions, the Board of Commissioners has focused its economic development efforts on diversification within the County and to tout an eager and skilled manufacturing workforce to other industries. As a result of these efforts and a positive economic climate, several new and existing manufacturing industries have announced economic initiatives over the past year. Shurtape Technologies completed a new \$6 million, 130,000 square foot distribution facility increasing their workforce by 30 jobs and insuring their place as the second largest producer of duct tape in the nation. CommScope expanded their operations creating 89 new jobs and a \$28 million investment. Draka Comteq, formerly Alcatel, which has struggled over the last few years as a result of the recession, restarted their fiber-manufacturing operation. Pallet One Inc., the nation's largest pallet manufacturer, announced its plans for a \$2.5 million facility and 35 new jobs adjacent to the County's landfill. This project is the second investment by the private sector in a Regional Biosolids Processing Facility. Now called the Eco-Complex, it is designed to improve the ecology of Catawba County and promote economic development by attracting jobs in the green energy, agricultural and environmental sectors. Finally, Target Corporation consummated one of the largest economic projects for the County in recent years with a \$90 million project for a 1.5 million square foot distribution center and the creation of at

“In less than two years, new investment in Catawba County has totaled \$800 million and will provide over 2,900 new jobs in the coming years.”

least 650 jobs over the next five years, with the potential for total employment of 800-1200 people

based on similar projects. In less than two years, new investment in Catawba County has totaled \$800 million and will provide over 2,900 new jobs in the coming years.

In addition to a large manufacturing base, the County is supported by a strong service-sector, accounting for more than half of the economic engine in Catawba County. The County is a major medical hub, with two large medical centers, one county-owned and both profitable; a prospering medical and health care community; and many nursing home/retirement facilities. Also, the County is a retail magnet for the region, capturing 61% of the retail sales in the four-county Metropolitan Statistical Area (MSA). Retail sales for the County increased 5.7% from the previous year and are poised to increase further with the expansion of Wal-Mart from a 115,000 square foot store to a 200,000 square foot Super Center and the addition of a new store in the eastern part of the County. Though Catawba County's population ranks 14th in the state, its retail sales per capita ranks 9th in North Carolina. Finally, Catawba County boasts of a thriving tourism industry, with more than one million visitors and \$318 million in tourism-related sales this past year, accounting for fifteen percent of the County's economy. Hotel occupancy rates have increased by 10% from the year before, just under peak levels recorded in 1999 and 2000.

The local economy has also been given a potential lift with some recent national exposure. In August 2005, Golf Digest Magazine ranked the Hickory Metro area as the 55th best place to golf out of 330 metropolitan statistical areas across the country. The rankings were based on four criteria: access to golf, weather, value and quality of golf. The only other North Carolina area to rank higher was the Wilmington area. In May 2006, Forbes Magazine ranked the Hickory Metro among the top three metro areas in the nation to start a business behind Albuquerque, New Mexico and Lexington, Kentucky.

LONG-TERM FINANCIAL PLANNING The County prepares a five-year Capital Improvement Plan (CIP) each year and as of June 30, 2006 estimates \$83 million in capital needs over the next five years. This includes over \$50 million in school construction needs, with four new elementary schools planned for

the three school systems in the County.

To help pay for these needs, the Catawba County Board of Commissioners in fiscal year 2003-04 dedicated two cents of the property tax rate, approximately \$2.6 million, along with debt retired each year towards new school construction. Over the last three fiscal years, the two cents have provided funding for over \$58 million in school projects: a new Maiden High School, the conversion of Tuttle Middle School to an elementary school, a new Hickory Middle School, a new Catawba Elementary School and a learning library and technology center at Catawba Valley Community College (CVCC).

In addition, as the county continues to grow, planning for infrastructure is essential to encouraging orderly economic development and preventing urban sprawl. The Board of Commissioners has continued a policy established in fiscal year 1994-95 by setting aside one and a half cents of the property tax rate, almost \$2 million, in fiscal year 2005-06 for future water and sewer projects throughout the County. Those needs equate to approximately \$17 million over the next five years.

Another long-term initiative was the implementation of a strategic planning process called FORESIGHT that originally began in 1985 to bring business, cultural, education and government leaders together to develop long range strategic planning goals for the County. The Board of Commissioners established a new edition or generation of FORESIGHT in 2001 and formed four task forces to study economic opportunities in the areas of business and job creation, education, the environment, and increasing the County's exposure in Raleigh and citizen leadership at home. One recommendation from the education task force was to increase local teacher supplements to rank in the top 5% of NC schools within five years, which would help attract and retain the best and brightest teachers in the County. The first step was implemented in FY 2005-06 by increasing the property tax rate by one cent to increase teacher supplements by 2% for



approximately 70% of the teachers based on either individual or school performance.

Finally, the County has invested in its future by committing funds towards a new Engineering Technology Center and continuing to support the Hickory Metro Higher Education Center. The North Carolina Center for Engineering Technologies is scheduled to open next spring as part of the University of North Carolina system. This effort began as a regional economic development initiative in 2003 and has become reality with public and private contributions of more than \$1.9 million. The center will provide workforce development and specialized technical training in engineering and related fields. The Higher Education Center opened in 2003 through a partnership with Catawba County, the City of Hickory, Catawba Valley Community College, Lenoir-Rhyne College and Appalachian State University. The partnership provides a unique collaborative learning experience to the area that will serve the needs for graduate, undergraduate, non-credit certificate courses, research and specialized workforce training. Since opening, State and Federal funding has been secured in addition to ongoing local support and the first class of 62 students graduated in 2005 along with projections of more than 140 graduates in 2006. Both of these efforts will help the County remain viable economically by giving its citizens additional higher education opportunities.

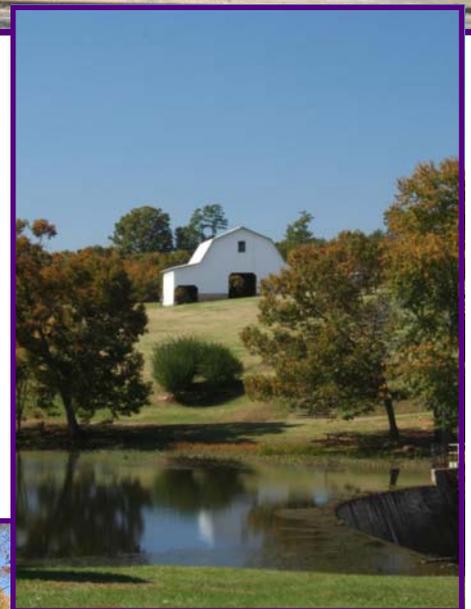
CASH MANAGEMENT POLICIES AND PRACTICES

Under the authority of North Carolina General Statute 159-30, the County invests in obligations of the United States Treasury and several of its agencies and instrumentalities; high-grade commercial paper, certificates of deposit and participating shares in a Local Government Commission certified mutual fund for local government investment. The objectives of the County's investment program are safety, liquidity and yield, in that order. Investment vehicles are chosen with the greatest emphasis placed on credit quality and maturity. The cash and investment portfolio balance for the fiscal year ended June 30, 2006 for all funds is \$127 million. Investment income includes appreciation or depreciation in the fair value of investments at June 30, 2006. Increases/decreases in fair value during the current year; however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the County intends to hold to maturity.

PENSION PLANS Permanent County employees regularly scheduled to work 20 hours or more each workweek are required to participate in the North



ABOVE:
Construction of Jail Expansion.



RIGHT: *Catawba County countryside.*

BELOW: *Bunker Hill Covered Bridge.*



Carolina Local Governmental Employees' Retirement System. This system, as well as optional supplemental retirement plans available to employees and the required supplemental retirement plan for law enforcement officers, are discussed in more detail beginning on page 44 in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Catawba County for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Catawba County has received a Certificate of Achievement for the last 24 consecutive years. We believe this current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

In addition, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2005. This is the seventeenth consecutive year that the County has received this award. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was

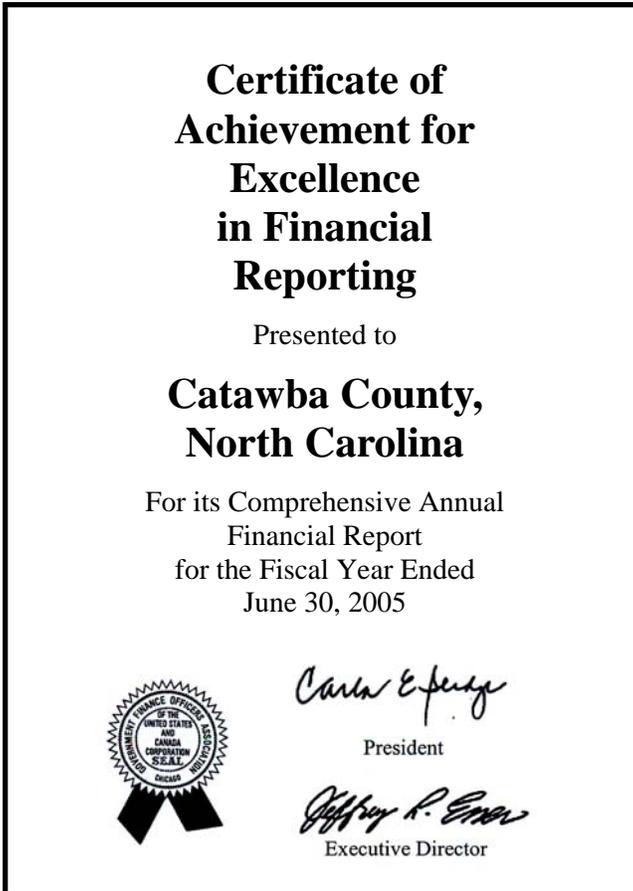
judged to be proficient in several categories including policy documentation, financial planning, and organization.

ACKNOWLEDGEMENTS

Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Catawba County. We appreciate the cooperation of all the County departments in carrying out the financial activities encompassed in this report. The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. Special recognition is extended to Martin, Starnes & Associates, CPAs for their assistance with the report.

In closing, we thank the Catawba County Board of Commissioners for its leadership and support in making Catawba County a fiscally sound, well-governed community.

Respectfully submitted,



J. Thomas Lundy

J. Thomas Lundy
County Manager

Rodney N. Miller

Rodney N. Miller
Finance Director

