



# CATAWBA COUNTY

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

November 19, 2007

State law requires that all local governments have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant using generally accepted auditing standards and publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP). Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) for Catawba County for the fiscal year ended June 30, 2007.

## 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.

Beginning with the 2006-07 fiscal year, auditors

are required to follow a new standard for reporting their findings that relate to the internal control structure of the entity being audited. The Auditing Standards Board of the American Institute of Certified Public Accountants issued the Statement on Auditing Standards (SAS) No. 112. This changes the way the auditor reports any findings that he or she may have regarding the internal control structure in a unit of government. As a result, units of government may have more findings cited in their audits than in previous years, despite the fact that those units have not changed their methods of operations. The way those findings are reported have also changed. Previously, auditors noted findings as being "reportable conditions" while more serious issues were noted as "material weaknesses." SAS 112 changes the terminology, with any findings of control deficiency now reported as "significant deficiencies" or "material weaknesses".

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, 2007, 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



"Keeping the Spirit Alive Since 1842!"

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, 2007, are fairly presented in conformity with GAAP. Issuance of an unqualified opinion means an auditor, upon review of a county's financial statements and accompanying notes, certifies that the financial statements are reliable and represent the true financial condition of the county. 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 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 153,784, ranking 14<sup>th</sup> 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





**ABOVE:**  
*Catawba Valley  
Boulevard  
retail  
shopping.*

**LEFT:**  
*Union Square  
in Downtown  
Hickory.*



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 35 years of continuous service and the average tenure of seventeen department heads in top management is 15 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**

Economic activity in the region continues to improve in 2007, 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 a 1.7% increase in regional economic activity through August 2007, slightly below the national average of 2.1%.

Earlier this year, Forbes Magazine listed the Hickory Metro region as being among the 10 worst metros for job growth in the nation with an unemployment rate of 6.6%. However, that is likely to improve with the announcement by Google Inc. of a data storage farm and the addition of more than 200 new jobs in the region. For Catawba County, one of four counties in the Hickory Metro region, job growth has occurred allowing Catawba County's unemployment rate to stabilize at 5.4% in August, matching the annual average for 2006, its lowest level in five years.

Catawba County is home to a large industrial base, heavily concentrated in manufacturing and more than twice the state average. The county and region are renowned as a furniture-manufacturing and distribution center, with over fifty percent of the nation's furniture produced within a 200-mile radius of Hickory, the County's largest municipality.

With an economic recession in 2002, significant job losses occurred in the County's traditional industries of furniture and textiles over the past several years. However, the amount of available skilled workers have provided opportunities for new and existing manufacturing companies to relocate to the area and/or expand their current facilities. Over the last year, various businesses have announced plans for expansion and/or begun construction in new facilities. Baker Furniture, which manufactures high-end wood and upholstered furniture, opened a distribution center in a former Corning Cable Systems manufacturing plant in Hickory, a 344,000 square foot building, adding 76 new jobs and a \$12 million investment. Baker had moved its headquarters from Michigan to Catawba County in the previous year. CommScope, a global telecommunications company headquartered in Hickory, announced a \$3.8 billion acquisition of Andrew Corp., which will quadruple their workforce and double their sales. The von Drehle Corporation, a national supplier of towel and tissue products, announced a 60,000 square foot addition to their existing Maiden plant, allowing them 210,000 square feet of manufacturing space. This expansion will help offset the closing of a Carolina Mills textile manufacturing plant, with nearly 50 employees, which had been a fixture in that community for many years. Fiber Line, a Hickory yarn manufacturer finalized a \$4.5 million investment towards a 60,000 square foot addition, adding 25 employees. Newton-based Moretz Inc. merged with Gold Toe Investment Corp. to form the largest U.S. sock manufacturer, with combined sales of \$350 million and almost 600 employees.

In addition, with the changing economic conditions, the County has gained some much needed diversification to its economic base with the addition of ADEVCO Corporation, which has announced plans for a \$10 million call center with

600 new jobs to the area. Cargo Transporters, a truckload carrier with more than 450 trucks in its fleet is more than doubling their existing facility with a \$2.5 million investment, which will enable them to add 600 employees over the next six to eight years. Flowers Baking Company began operations at their \$40 million renovated facility in Newton, capable of producing 1,000 buns per minute, while employing over 200 employees. Poppelmann Plastics USA began production of thermoformed horticultural pots at their \$12 million plant in Claremont, which is expected to grow to a workforce of 50 employees. Pallet One Inc., the nation's largest pallet manufacturer, began construction of a \$2.5 million facility and the hiring of 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 EcoComplex, 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. Appalachian State University recently received a grant from the Golden LEAF Foundation for a biodiesel research facility to be located in the EcoComplex using the electricity and heat generated at the facility. Finally, Target Corporation has broken ground on one of the largest economic projects for the County in recent years with a \$90 million investment towards a 1.5 million square foot distribution center and the creation of at least 650 jobs over the next five years, with the potential for total employment of 800-1200 people based on similar projects.

In addition to a large manufacturing and industrial 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; and a prospering medical and health care community. This was reinforced in the spring with the announcement of McDonald Crossing, a 75-acre medical, office and commercial development project in Hickory in an area well known for its many medical and health care facilities. This project has yielded two buyers to date, with an investment of \$18 million to the local tax base and others planned for the future.

Over the last three years, new investment in Catawba County has totaled more than \$900 million and expected to provide over 3,500 new jobs in the coming years.

The County is also a retail magnet for the region, capturing 64.2% of the retail spending in the four-county Metropolitan Statistical Area (MSA), compared to only 42.5% of the population. 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. Retail sales for the County increased 8.8% from the previous year and are expected to continue with the opening of a 200,000 square foot Wal-Mart in Conover as well as a 168,000 square foot Lowe's Home Improvement store in Hickory earlier this year. Though Catawba County's population ranks 14th in the state, its retail sales per capita ranks 9th in North Carolina out of 100 counties. Furthermore, Catawba County boasts of a thriving tourism industry, with more than one million visitors each year and worth \$2.8 billion, accounting for fifteen percent of the County's economy. Hotel tax dollars as a percentage of hotel stays have increased by 10% from the year before, comparable to peak levels recorded in 1999 and 2000.

Along with commercial, industrial and retail growth, the County has begun to experience some significant residential growth with the culmination of the largest residential development project in the County's history. The project includes four residential developments in Sherrills Ford, with the addition of up to 1,950

homes in this rural community in the southeastern part of the county. This area of the County is expected to develop rapidly over the coming years as more and more people settle into North Carolina and in Catawba County. Indications of this growth are evident in the fact that Catawba County grew to 150,000 residents as well as the City of Hickory passed 40,000 residents within the past year according to North Carolina's demographics unit. Part of this increase is due to a significant older population in the County, triggering the addition and expansion of many nursing home/retirement facilities, most recently at Abernathy Laurels in Newton and Abingdon Glen in Hickory.

The local economy received a potential boost with some national and state exposure over the last year. Fortune Magazine named CommScope to its Fortune 1000 list as

*“Over the last three years, new investment in Catawba County has totaled \$900 million and expected to provide over 3,500 new jobs in the coming years.”*

976<sup>th</sup> overall and 11<sup>th</sup> in the Network and Other Communications Equipment industry for 2006. CommScope, with headquarters in Catawba County, was one of only 25 companies from North Carolina to make the list. Also, North Carolina Magazine, a subsidiary of the NC Chamber of Commerce, named Rock Barn Golf & Spa as the state's top golf course for business outings and took top honors as having NC's Best Golf Professional on staff. Rock Barn is home to the Greater Hickory Classic, Catawba County's largest sporting event and one stop on the Champions Tour, part of the Professional Golfers Association (PGA) of America. The golf event, held here since 2003 and under contract through 2009, generated an estimated \$30 million to the local economy this year. In June, the City of Hickory received the prestigious All-America City Award from the National Civic League, which recognizes exemplary grassroots community problem solving. Hickory's application and presentation focused on the resurgence from the economic woes of recent years, highlighting three grassroots programs involving a diverse population that improved the quality of life in the city. Finally, the County's EcoComplex project, which was referred to previously, received the 2007 Thomas Muehlenbeck Award for Excellence from the Alliance for Innovation. This award is



**TOP:**  
*New Catawba County Detention Facility.*



**RIGHT:** *Construction of a subtitle D cell and liner at landfill.*



**ABOVE:** *Construction of new Catawba Elementary School.*

presented for outstanding achievement to one local government in the nation each year.

**LONG-TERM FINANCIAL PLANNING**

This past year, the County began preparing an eight-year Capital Improvement Plan (CIP) and as of June 30, 2007 estimates \$266 million in capital needs over the next eight years. This includes over \$167 million

in school and community college construction needs, with four new elementary schools and a middle school planned for the three school systems in the County and a new vocational building for Catawba Valley Community College (CVCC).

To help pay for these needs, the Catawba County Board of Commissioners in fiscal year 2007-08 implemented a new four-year funding cycle by dedicating two cents of the property tax rate, approximately \$2.8 million, along with \$1.4 million in lottery funds, as well as school debt retired each year towards new school construction. This will provide funding for \$81.6 million in new construction needs over the next four years for all three school systems and CVCC. During the last funding cycle, two cents of the property tax rate 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 CVCC.

In addition, as the county continues to grow, planning for infrastructure is essential to encouraging orderly economic development, preventing urban sprawl, and accommodating that growth in adequate facilities. The Board of Commissioners continued a policy established in fiscal year 1994-95 by setting aside funds, one and a half cents on the property tax rate or \$2.1 million, in fiscal year 2007-08 for future water and sewer projects throughout the County. Those needs equate to approximately \$25 million over the next eight years. Also, increased growth in the County's jail population necessitated a \$17.5 million jail expansion earlier this year adding an additional 172 beds, which now totals 259 beds, and a facility designed for future expansion. Planning for the facility began five years ago and the Board of Commissioners dedicated three cents of the tax rate, or \$4.2 million for annual operating costs and debt service for the new jail. Finally, in the current year budget, the NC General Assembly agreed to take responsibility for Medicaid costs from counties, phasing out those costs over three years by reducing local sales tax revenues. In addition, counties were allowed

to implement a local revenue option, either a ¼ cent sales tax or a land transfer tax, if approved by local referendum. This has been a long-term goal for Catawba County, which has looked for the State to provide relief from the ever-increasing cost of Medicaid and to provide additional revenue options to keep up with growth in the County.

Another long-term initiative by the County 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. A 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. In FY 2007-08, the budget included the addition of thirteen school nurse positions as well as a ¾ cent tax increase for school current expense to meet operational costs and continue implementation of the new FORESIGHT initiatives.

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 (HMHEC). The North Carolina Center for Engineering Technologies is scheduled to open this fall 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 \$2.5 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 serves the needs for graduate, undergraduate, non-credit certificate courses, research and specialized workforce training. In April, the Center was awarded the Creative and Innovative Program Award from the NC Adult Education Association Conference. Since opening, State and Federal funding has been secured in addition to ongoing local support, allowing more than 400 working-age adults to complete their bachelor's or master's degree through programs offered through HMHEC. In 2007, 744 students are currently enrolled in programs seeking degrees.

With the Hickory Metro region having the distinction as the largest without a NC University presence, it is hoped that both of these efforts will help the County remain economically viable by giving its citizens additional higher education opportunities that are desperately needed.

#### **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, 2007 for all funds is \$115 million. Investment income includes appreciation or depreciation in the fair value of investments at June 30, 2007. 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 Carolina Local Governmental Employees' Retirement System. This system, as well as optional supplemental retirement plans available to employees and the

# AWARDS AND ACKNOWLEDGEMENTS

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

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, 2006. 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 25 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, 2006. This is the eighteenth 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

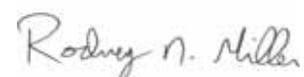
Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Catawba County. We appreciate the cooperation of all the County departments in carrying out the financial activities encompassed in 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  
County Manager



Rodney N. Miller  
Finance Director

