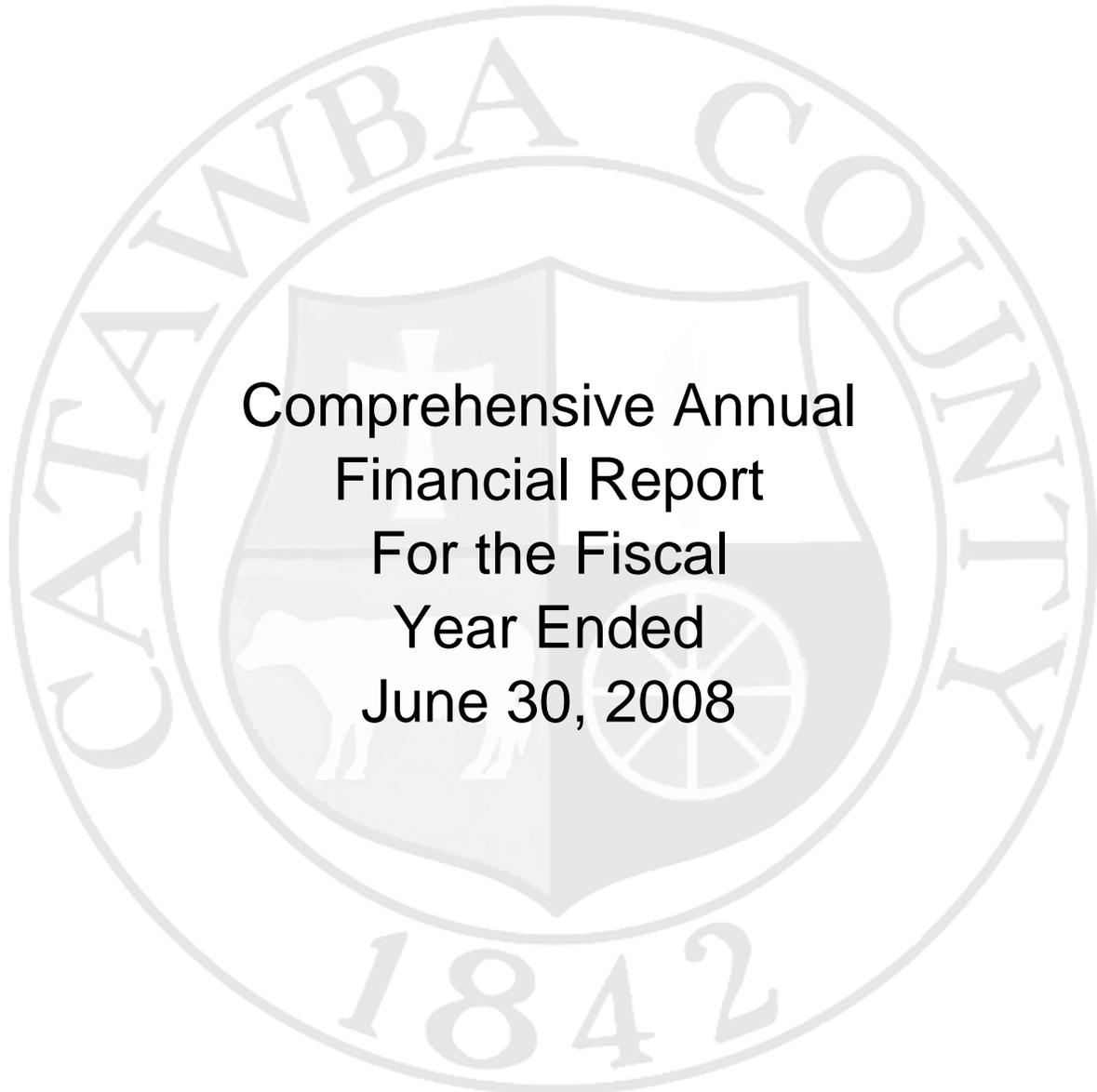


Catawba County, North Carolina



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2008

J. Thomas Lundy, County Manager
Rodney N. Miller, Director of Finance

Prepared by Catawba County Finance Department
Published November 12, 2008

Catawba County, North Carolina
 Comprehensive Annual Financial Report
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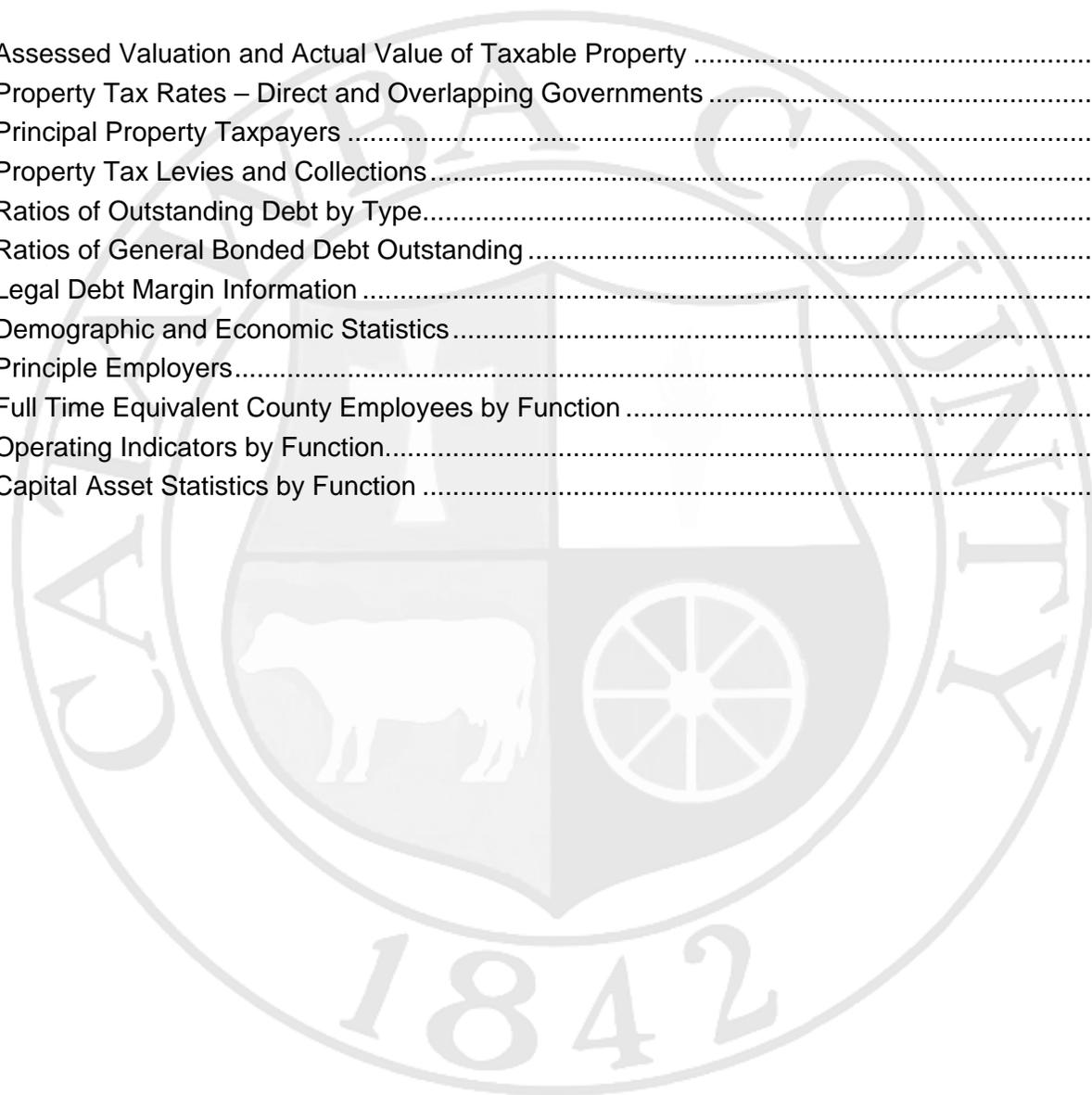
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BOARD OF COUNTY COMMISSIONERS



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CATAWBA COUNTY

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

November 12, 2008

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. It is also required that a local government 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, 2008.

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 were 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, 2008, 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



"Keeping the Spirit Alive Since 1842!"

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, 2008, 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 155,452, ranking 15th largest 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 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 was mixed this past year, as evidenced by the Western North Carolina Economic Index, which tracks the level of economic activity in 25 counties, including Catawba. The Index reported a decrease in regional economic activity in the fourth quarter of 2007, no change in the first quarter of 2008 and an increase in the second quarter of 2008.

As evidence of an up-and-down local economy, in 2007 Forbes Magazine listed the Hickory Metro region as being among the ten worst metro areas for job growth in the nation. The region, which includes Alexander, Burke, Caldwell and Catawba counties, has seen its unemployment rate increase from 5.9% in August 2007 to 8.4% in August 2008. The increase is attributed to approximately 3,000 more persons actively seeking employment and about 800 more unemployed since January. Though some layoffs have occurred in the region with another national recession looming, if not already present in 2008, the numbers pale in comparison to the last national recession in 2002, which saw approximately 25,000 jobs lost in the region and an unemployment rate exceeding 10.0%.

In February of this year, the region received some positive economic news in the area of residential

housing. The Office of Federal Housing Enterprise Oversight ranked the Hickory Metro region 14th among cities in a hot housing market. The area saw an 8.6 percent gain in the market over the last four quarters and a 22.5 percent gain in the last five years.

With large metropolitan areas in Florida, California and Nevada experiencing significant housing decreases and increasing foreclosure rates, the Charlotte area was one of the few metro areas nationally that saw modest gains in housing and avoided huge foreclosure rates. The region's proximity to Charlotte has had a positive impact to the area's residential increases.

For Catawba County specifically, the unemployment rate has increased from 5.4% in August 2007 to 8.1% in August 2008. Fortunately, the County has not seen significant job losses and layoffs thus far, and is faring better than other counties in the Hickory Metro region during this economic downturn.

Catawba County continues to be home to a large industrial base, heavily concentrated in manufacturing (31%), nearly three times the national average (11%). 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 the last economic recession in 2002, significant job losses occurred primarily in the County's traditional industries of furniture and textiles. The County lost more than 14,000 jobs



CommScope Headquarters Hickory, North Carolina

from the third quarter of 2000 through the end of 2007. However, this provided a surplus of available skilled

workers and 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 opened or begun construction in new facilities. Poppelmann Plastics USA opened their new \$17 million manufacturing and warehouse facility in Claremont, which is expected to grow to a workforce of 50 employees. Sutter Street, a division of Williams Sonoma, announced plans for a \$2.7 million investment in Hickory adding 820 jobs to the furniture industry. CommScope, a global telecommunications company headquartered in Hickory, acquired Andrew Corp. last year, valued at \$3.8 billion, and will quadruple their workforce and double their sales. The von Drehle Corporation, a national supplier of towel and tissue products, expanded their facilities with a 60,000 square foot addition to their existing Maiden plant, giving them 210,000 square feet of manufacturing space. Turbotec Products expanded its manufacturing operations in Hickory creating an additional 25 jobs.

In addition, with the changing economic conditions, the County has diversified its economic base from a traditional manufacturing base. ADEVCO Corporation announced plans for a \$10 million call center, with 600 new jobs to the County. Convergys Customer Management Group, based in Ohio, announced a \$4 million investment in the former Joan Fabrics building with plans to create 446 new jobs. The center will provide technical support and customer service for Fortune 500 clients and leaders in the telecommunications industry. A new Data Storage Multi-jurisdictional Industrial Park has opened, with spec buildings currently being built in Claremont. Pallet One Inc., the nation's largest pallet manufacturer, completed 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



Construction of the Target distribution center

facility. Finally, Target Corporation is nearing completion of one of the largest economic projects for the County in many years with a \$90 million investment in a 1.5 million square foot distribution center. The facility will create approximately 650 jobs over the next five years, with the potential for total employment of 800-1200 people based on similar projects.

Over the last three years, more than 3,300 jobs and investment of over \$1 billion have been announced in Catawba County. Within the next year, more than 2,000 jobs are expected to be available to citizens throughout the region.

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. As evidence, this past year, two medical facilities valued at \$18 million were opened in McDonald Crossing, a 75-acre medical, office and commercial development project in Hickory, which is also home to ADEVCO, mentioned previously. This area of the County is well known for its many medical and health care facilities, with more planned for the future.

“Over the last three years, more than 3,300 jobs and investment of over \$1 billion have been announced in Catawba County.”

The County is also a retail magnet for the region, capturing 58% of the \$4.4 billion in retail sales from the four-county Metropolitan Statistical Area (MSA), compared to only 43% of the population. The County has approximately 150 retail furniture 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 4.6% from the previous year in part from 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. Though Catawba County’s population ranks 15th in the state, its retail sales per capita ranks 10th in North Carolina out of 100 counties. Furthermore, Catawba County boasts of a strong tourism industry, with more than one million visitors each year generating \$2.8 billion in economic activity, accounting for fifteen percent of the County’s economy.

Along with commercial, industrial and retail growth, the County continues 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 passed 150,000 residents



and the City of *Catawba Valley Boulevard retail shopping* Hickory passed 40,000 residents last year according to North Carolina’s demographics unit.

The local economy also received some national and state exposure over the last year, which will hopefully improve economic development in the County. CommScope was added to the 2007 Fortune 100 list by Fortune Magazine, a first for a Catawba County-based company. In November, Forbes magazine ranked Catawba County fourth in the nation for Cost of Doing Business. Finally, in August 2008, Catawba County was ranked as the top mid-market in North Carolina, according to Southern Business and Development's "Top 250 Best Places in the South to Locate Your Company." The ranking was based on the number of announcements that resulted in the creation of 200 jobs or more between 1993 and 2007.

LONG-TERM FINANCIAL PLANNING

Beginning in 2007, the County began preparing an eight-year Capital Improvement Plan (CIP) to anticipate and plan for future capital expenditures. As of June 30, 2008, \$276 million in capital needs have been identified over the next eight years. This includes over \$172 million in school and community college construction needs, with three 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/community college debt retired each year towards new construction. This will provide funding for \$81.1 million in new construction needs over four years for all three school systems and CVCC. In the current fiscal year, funds were used to begin improvements to four high schools and to construct a new Snow Creek elementary school, the county's first LEED (Leadership in Energy and Environmental Design) certified school. During the last four-year 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



Construction of the Snow Creek Elementary School

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.

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 \$32 million over the next eight years. Also, increased growth in the County's jail population necessitated a \$17.5 million jail expansion last year, which added an additional 172 beds, now totaling 259 beds, and a facility designed for future expansion. Planning for the facility began more than 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.



In fiscal year 2007-08, the NC General Assembly agreed to assume responsibility for Medicaid costs from counties, as was the case in the other 49 states in the United States, phasing out those costs over three years and reducing local sales tax revenues to help pay for the change. Furthermore, counties were allowed to implement a new revenue option, either a ¼ cent sales tax or a land transfer tax, if approved by local referendum. The new ¼ cent sales tax passed by an overwhelming majority on November 6, 2007 for Catawba County. This will provide approximately \$5 million a year and 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. The additional funds are planned to be used for economic development, education, public safety and water and sewer needs in the county. Within public safety, expansion of courtroom space (a county responsibility), the 911 Communication Center, Emergency Operations Center (EOC) and Newton EMS base have been identified as the most urgent needs. A space needs study and facility master plan have been prepared to address these areas in the coming years.

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



New Catawba Elementary School

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, thirteen school nurse positions were added, 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 educational 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 opened in December 2007 as part of the University of North Carolina system with 40 students. The 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 Higher Education Center opened in 2003 through a partnership with Catawba County, the City of Hickory, Catawba Valley Community College,



AWARDS AND ACKNOWLEDGEMENTS

Lenoir-Rhyne University and Appalachian State University (ASU). 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 2007, the Center was awarded the Creative and Innovative Program Award from the North Carolina 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 March 2008, there were 747 students enrolled in programs seeking 43 undergraduate and 59 graduate degrees. In the fall, ASU will be adding four new bachelor degree programs in communications, psychology, criminal justice and business administration.

With the Hickory Metro region having the distinction as the largest metropolitan statistical area in the state without a public 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, 2008 for all funds is \$148 million. Investment income includes appreciation or depreciation in the fair value of investments at June 30, 2008. 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 required supplemental retirement plan for law enforcement officers, are discussed in more detail beginning on page 40 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, 2007. 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 26 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, 2007. This is the nineteenth 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

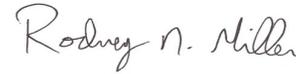
extended to Martin, Stames & Associates, CPAs for their assistance with the report.

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

**Certificate of
Achievement for
Excellence
in Financial
Reporting**

Presented to

**Catawba County,
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007



President



Executive Director

ORGANIZATIONAL STRUCTURE

