

2010 Comprehensive Annual Financial Report

Canola Crop at Eco Complex for Biodiesel



*Snow Creek Elementary—
Catawba County's first LEED certified school*



Hybrid Vehicle



*Catawba County
ranks 2nd in the State in recycling*



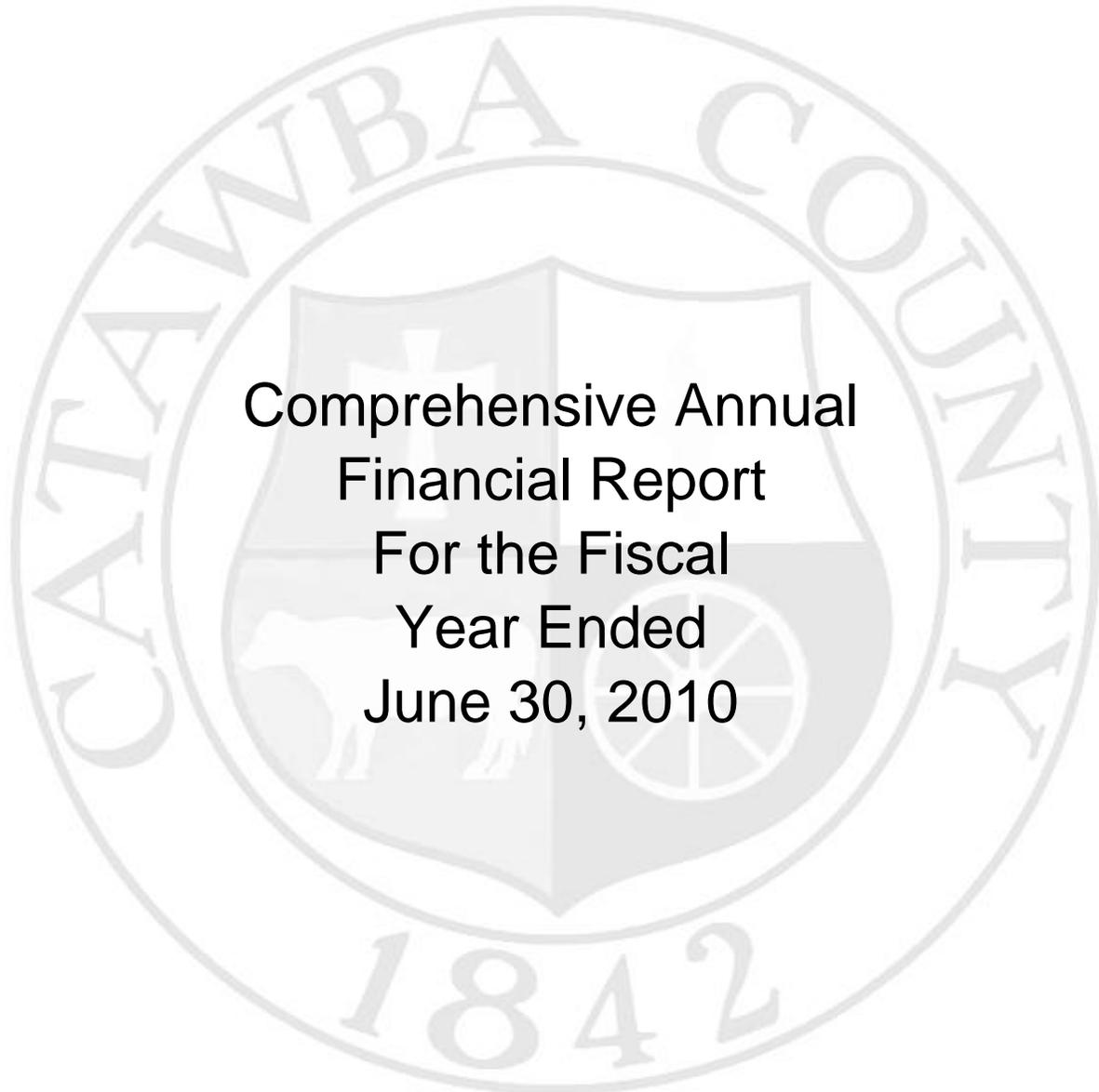
For the Fiscal Year Ended June 30, 2010

Keeping the Spirit Alive Since 1842!



**Catawba County,
North Carolina**

Catawba County, North Carolina



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

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

Prepared by Catawba County Finance Department
Published November 4, 2010

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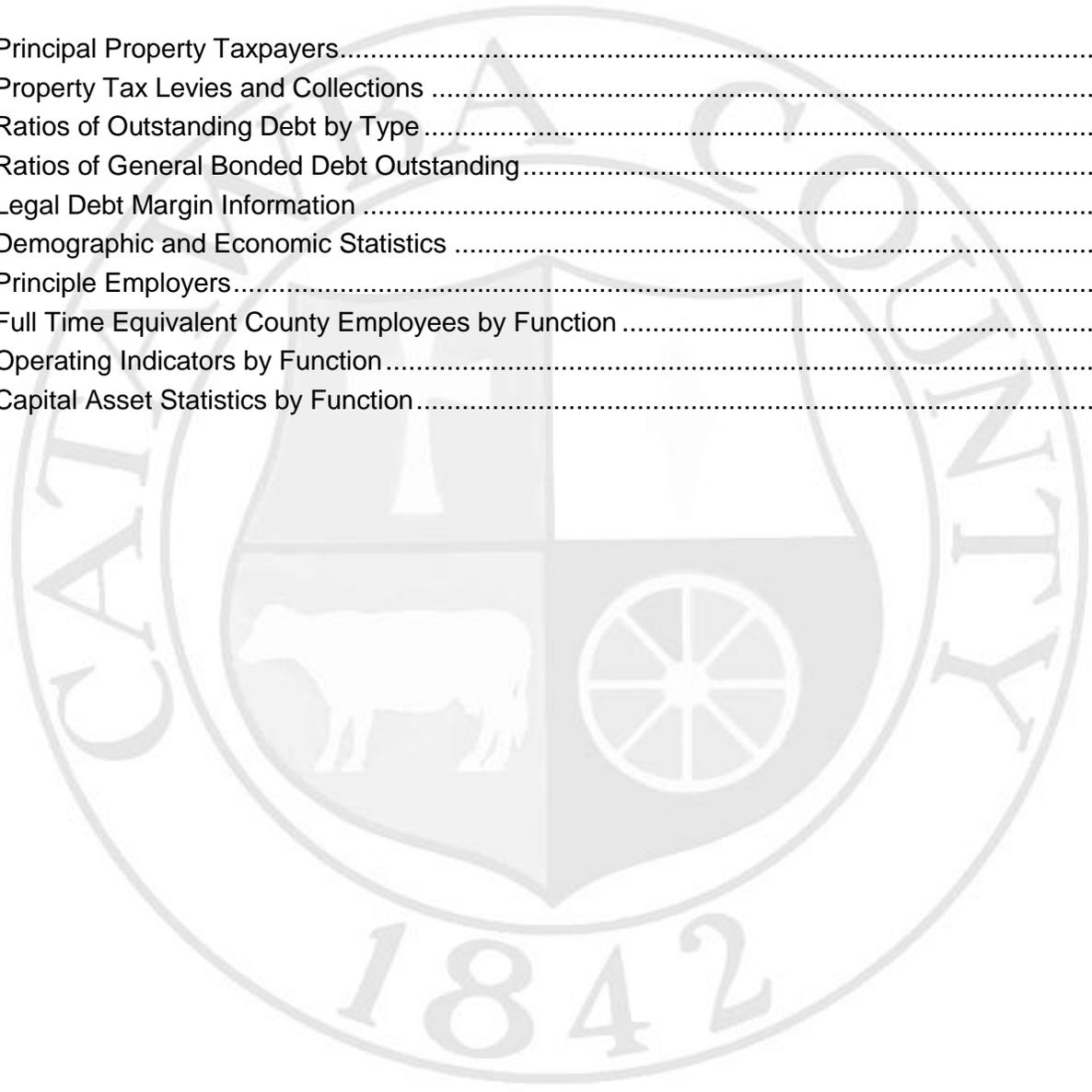
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BOARD OF COMMISSIONERS



Catawba County Board of Commissioners

*Barbara G. Beatty, Glenn E. Barger, Katherine W. "Kitty" Barnes - Chair,
Dan A. Hunsucker, Lynn M. Lail - Vice Chair*



CATAWBA COUNTY

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

November 4, 2010

State law requires that all local governments have its financial records 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, 2010.

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, 2010, 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, 2010, 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



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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 various 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 German and

Scotch-Irish settlers who migrated to the County 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 159,013, ranking 16th 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 38 years of continuous service.

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

balanced 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 in which the County operates.

LOCAL ECONOMY

After facing the longest U.S. recession in decades, which officially ended in June 2009, the region's economy struggled to recover this past year. The region, which includes Alexander, Burke, Caldwell and Catawba counties, finally began to experience some relief when its unemployment rate decreased in July 2010 to 12.8% from a peak of 15.6% in February 2009. In addition, it avoided the distinction of having the highest unemployment rate of the 14 metro areas in North Carolina after having that designation for more than a year.

For Catawba County specifically, the unemployment rate decreased over the past year from 14.9% in July 2009 to 12.6% in July 2010. Fortunately, the county rate continues to decrease from its peak of 15.6% in March, the highest rate since 1975. Catawba County continues to be home to a large industrial base, heavily concentrated in manufacturing at approximately 30 percent, compared to the national average of 12 percent. The county and region are renowned as a furniture-manufacturing and distribution center, with approximately 500,000 annual visitors to two





furniture malls and twenty miles of furniture stores between Hickory and Lenoir, two of the largest cities in the region. Furthermore, the County has been a leader in the manufacture and development of fiber optics and telecommunications equipment for more than a decade, producing approximately 40% of the world's supply of fiber optic cable at its peak and still providing significant employment opportunities for county residents. 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 the county.

During the prior economic recession in 2002, significant job losses occurred primarily in the County's traditional industries of furniture and textiles. Though most of the textile jobs will never return to the county, a result of cheaper labor overseas, the furniture industry still needs skilled workers; especially cutters, sewers and upholsterers, which provides some hope for the future for those workers facing unemployment.

In this latest recession, job losses extended to the telecommunications and automotive industries in addition to the County's traditional industries. Major employers including Corning, CommScope, Shurtape Technologies and Shuford Mills, Hickory Springs, Getrag and GoldToe Moretz all cut their workforce over the past year, unable to avoid the decreased demand for their products and services and the lingering effects of the global recession.

In spite of the hardship that some employers have faced in the county, a surplus of available skilled workers and vacant buildings once occupied by prospering county businesses have provided opportunities for existing companies to expand their operations. Last year, Legacy

Furniture group, founded in January 2002, relocated to the former Ameritex building, more than tripling their available space and adding 50 employees to their furniture manufacturing workforce. Also, Ethan Allan announced a \$2.25 million expansion to its existing facility, transferring 300 jobs from a leased facility in California to Maiden. Finally, Paramount Automotive Group, which owns Kia and Hyundai dealerships in Hickory, announced it was purchasing the Porsche, Volvo and Volkswagen franchises previously owned by Hickory Auto Group, which filed for bankruptcy in 2008. Paramount plans to make a \$5 million investment into a new facility, adding the Mazda franchise that was bought in the summer of 2009.

Earlier this year, Convergys Customer Management Group, which had just opened in 2008, added 120 jobs to its call center operations. In March, Turbotec Products, Inc. announced a \$6.5 million expansion and the addition of 73 jobs over three years by relocating their operations from Connecticut to Hickory. In April, Pierre Foods, maker and distributor of frozen sandwiches, announced a \$16.8 million expansion to their existing facility in Claremont, adding 500 jobs to their current workforce of 700 over the next three years.

County economic development efforts have continued to focus on new manufacturing companies, touting the availability of the county's skilled workforce and one of the highest concentrations of manufacturing companies in the country. Heil Screw Products, a manufacturer of precision screw products in metals and plastics relocated from New York to Conover into an existing building last year adding 10 jobs initially.

Furthermore, targeted efforts have been made to diversify the County's economic base from traditional manufacturing and textiles. Last year, a new Target distribution center opened in Newton, providing approximately 600 new jobs in the county. The \$90 million facility is the largest distribution facility in the Charlotte region at 1.5 million square feet, and is a prototype for Target's regional

distribution centers, serving 60 to 80 retail stores. In 2008, County officials worked with ADEVCO Corporation, a real estate development firm, to construct a \$5 million speculative call center and later that year, Covation LLC agreed to purchase the building, along with \$6.2 million in improvements and hundreds of new customer support jobs. Unfortunately, the recession derailed their plans and the building sat unoccupied until February of this year. Fiserv, a Fortune 500 company that is rated number one among the largest technology providers to the financial services industry, opened in this facility, with plans to employ 400 people over the next three years.

Another economic development initiative in the county is the Ensure Classic, a PGA Tour's Champions Tour golf event held in Conover since 2003 that

receives support from the business community and local governments, including the County. This year, the tournament acquired its first title sponsor, Ensure, which will hopefully continue its success along with the economic

benefit to the County, estimated to be \$15 million. In September, the event included its

strongest field ever, increasing attendance and sales, in addition to being broadcast on the Golf Channel that is available in 120 million homes worldwide.

Finally, the largest economic development project in the history of the County was announced this past year. Apple, Inc. committed to an investment of \$1 billion in Maiden to construct a data center in a 500,000 s.f. facility."

The project will create 50 new jobs and 250 related jobs upon completion of phase one later this year, along with approximately 750 construction jobs currently filled. The 183-acre site had been marketed as a multi-jurisdictional park to attract a data center similar to the \$600 million Google, Inc. complex in an adjacent county, with large amounts of power and water available. The

"The largest economic development project in the history of the County was announced this past year. Apple, Inc. committed to an investment of \$1 billion in Maiden to construct a data center in a 500,000 s.f. facility."



Construction of Apple, Inc. Facility

location of these two large economic development projects has assisted economic development

efforts in marketing the region as a data center corridor, with low-cost and available power and

water, favorable labor conditions, abundance of fiber optics infrastructure, easy access to major airports and a high quality of life.

The County is also a major medical hub, with a prospering medical and health care community, and two large medical centers, one county-owned and both profitable. Catawba Valley Medical Center, a county-owned facility, was granted its third consecutive Magnet designation from the American Nurses Credentialing Center earlier this year, becoming one of only 30 hospitals in the nation to receive the designation three times. The Magnet program recognizes health care organizations that provide the very best in nursing care and professionalism in nursing practice, resulting in the gold standard for nursing excellence. In addition, Catawba Valley Medical Center is currently in the first phase of a \$25 million expansion and renovation of its surgical suite, creating three new operating rooms and renovating the others with new technology. The project was financed with bonds offered through the American Recovery and Reinvestment Act, which gave a 35%-45% tax credit on the interest payable over the life of the loan and is expected to be completed in 2011. Later this year, a second phase of expansion is planned, which will include the construction of a five-story addition to house a Women's and Oncology Pavilion estimated to cost \$25 million.

Frye Regional Medical Center, which is celebrating its 100-year anniversary this year, was identified as a recipient of the 2010 HealthGrades Patient Safety Excellence Award™, indicating that its patient safety ratings were in the top 5% of U.S. hospitals, in a study released by HealthGrades, the leading independent healthcare ratings organization. They were one of only 238 hospitals in the country to receive this designation. In addition, Frye Regional Medical Center received the 2010 Distinguished Hospital award from J.D. Power and Associates, a global marketing information services firm. It has now won the award four times (2005, 2006, 2008 & 2010) for providing an outstanding inpatient experience and service excellence to its visitors.

Though retail sales continued to decline in 2010, they were only 1.8% lower than 2009 (compared to an 11% decrease the year before) and have

actually been higher than the previous year the last few months. Catawba County remains a retail magnet for the region, capturing 60% of the \$4.0 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. Though Catawba County's population ranks 16th largest in North Carolina, its retail sales per capita ranks 10th highest out of 100 counties. Furthermore, Catawba County boasts of a strong tourism industry, ranking 16th in tourism expenditures across the state, and more than one million visitors each year generating \$2.8 billion in economic activity, accounting for fifteen percent of the County's economy.

Last year, Catawba County received a \$3 million grant from the American Recovery and Reinvestment Act (ARRA), which consisted of 11 miles of water lines to create a loop, which will service the town of Maiden and the southeastern portion of the county. ARRA funds were also used for school construction in the County in the form of Qualified School Construction Bonds, which provide an interest subsidy from the Federal Government to the County. These bonds were



Southeastern Catawba County (SECC) Water Supply Loop Phase II

issued this summer for two school projects, a new LEED certified middle school for Newton-Conover Schools and a middle school expansion for Catawba County Schools totaling \$21.5 million. The bonds had a fifteen-year term and were issued at a net 0% rate to the County, resulting in interest savings of more than \$7.5 million over the life of the loan. Also, the City of Conover landed a \$2.1 million federal grant to create a planned passenger rail station. The funds are being used to renovate a vacant manufacturing facility that was constructed in the

1900s, and provide a multi-modal transit station, which will combine rail and bus passenger service at one site for county citizens.

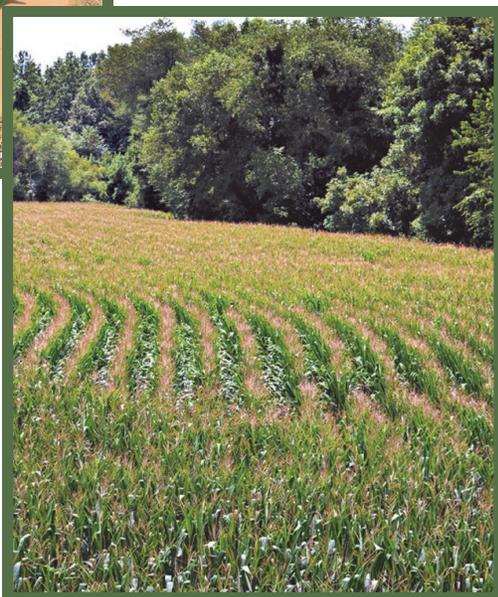
In addition to grant funding, the county continues to receive some national and state exposure, which will hopefully improve economic development in the County. News

wood products. Also, the County is partnering with Appalachian State University, who received a grant from the Golden LEAF Foundation to build a biodiesel research facility in the EcoComplex using the electricity and heat generated at the facility. The facility will provide testing and research for biodiesel manufacturers in western NC as well as producing biodiesel from agricultural crops at the landfill and surrounding farms. This will be the first facility of its kind in the state and will meet Leadership in Energy and Environmental Design (LEED) standards. The County has been a leader in environmental initiatives, ranking second in the state in county recycling and was one of the first in the country to capture landfill gas and convert to electricity through a co-generation process, producing enough electricity to power 1,400 homes annually.

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, which is updated on an annual basis. As of June 30, 2010, \$253 million in capital needs have been identified over the next eight years, which includes approximately \$120 million in school and community college construction needs.

To pay for the school and community college projects, the Catawba County Board of Commissioners implemented a four-year funding cycle in fiscal year 2007-08 by dedicating two cents of the property tax rate, approximately \$2.8 million, along with \$1.4 million in lottery funds, as well as pledging the amount of school/community college debt retired each year towards new construction. This provided funding for \$76.1 million in new construction needs over the four year period for all three school systems and CVCC. The Board of Commissioners continued the third year of the funding plan in the 2009-10 fiscal year by using those funds for a new middle school, which is anticipated to be the county's second LEED certified school, expansion of two schools and the construction of a simulated hospital and other renovations at the community college. The next four-year funding cycle will be planned in the upcoming fiscal year.



Catawba County EcoComplex

crews from CNN visited the County's landfill last year to tour the EcoComplex, a Regional Biosolids Processing Facility. The complex is designed to improve the ecology of Catawba County and promote economic development by attracting jobs in the green energy, agricultural and environmental sectors. Currently, two businesses are located at the facility producing



H.M. Arndt Middle School Renovation and Construction

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. In 2007, the NC General Assembly agreed to assume responsibility for Medicaid costs from counties, 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, approved by local referendum. The new ¼ cent sales tax passed by an overwhelming majority on November 6, 2007 for Catawba County. This revenue source is currently providing approximately \$4.5 million a year in revenue 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 without relying solely



on the property tax. Some of the additional funds are planned to be used for the addition of courtroom space (a county responsibility) and a new Public Safety facility, which will include a new 911 Communication Center and Emergency Operations Center (EOC). The County has engaged an architect for the project and a concept development phase is underway.

The remaining sales tax revenues are being set aside for economic development, education, and water and sewer needs in the county. The Board of Commissioners continued a policy of setting aside funds, one and a half cents on the property tax rate or \$2.25 million, in fiscal year 2009-10 for future water and sewer projects throughout the county. Those funds, along with an additional \$1.5 million in sales tax revenues will help fund approximately \$49 million in water and sewer needs identified over the next eight years.

Another long-term initiative by the County is to improve the educational attainment of the region, which has ranked last out of 14 metro areas across the State. Catawba County continues to commit forty-eight cents of every dollar towards education, which has funded several efforts such as increasing local teacher supplements, helping to attract and retain the best and brightest teachers in the County and funding much needed technology updates for all three school systems to help foster a positive learning environment for our children. Those efforts seem

to be producing dividends as evidenced by Newton-Conover City Schools ranking 1st out of 115 school districts statewide in meeting 98% of their Adequate Yearly Progress targets established by the federal government for 2008. Also, Newton-Conover Schools achieved an 88.6 percent graduation rate for students who graduated in four years for the 2009-10 school year, which was third highest in the State. Catawba County Schools ended the 2008-09 year with an 83.8 percent graduation rate, which was fifth highest in the State, and first among school districts with more than 12,000 students.

Furthermore, the County has invested in its educational future by continuing to support higher education initiatives in the region. The Hickory Metro Higher Education Center opened in 2003 through a partnership with Catawba County, the City of Hickory, Catawba Valley Community College, Lenoir-Rhyne University and Appalachian State University (ASU). Since opening, HMHEC has provided a unique collaborative learning experience to the area that serves the needs for graduate, undergraduate, non-credit certificate courses, research and specialized workforce training. Last year, the name of the center changed to Appalachian State University Center at Hickory, which created a new partnership consisting of ASU, CVCC, Caldwell Community College and Western Piedmont Community College to expand degree offerings in the region. It added four new bachelor degree programs in communications, psychology, criminal justice and business administration, which have further assisted local residents with their higher education needs including more than 600 adults who have completed degree or licensure programs at the center since opening.

A similar endeavor was the creation of a new NC Center for Engineering Technologies, which provides facilities for applied research in engineering related fields and serves as a conduit to baccalaureate education delivered by University of North Carolina system schools. The primary schools involved in the center are Appalachian State University, Western Carolina University, University of North Carolina – Charlotte, Catawba Valley Community College, Caldwell County Community College and Technical Institute, and Western Piedmont Community College. The Center collaborates with other schools in bringing the best programs to the region to meet employment needs. This effort began as a regional economic development initiative and has become reality with public and private contributions of more than \$2.5 million. It is currently offering undergraduate degree programs enabling individuals employed in business, industry and State-related occupations to pursue a four-year degree through part-time evening study.

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 these efforts will help the County remain economically viable by giving its citizens additional higher education opportunities that are desperately needed.



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 (CAFR) for the fiscal year ended June 30, 2009. 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 28 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 prepared and submitted a Popular Annual Financial Report (PAFR) for 2008-09. This was the second time the County has prepared a PAFR, which is designed to provide citizens and other users with easily understood information about a government's finances and economic condition. PAFRs are supplements to, not replacements for CAFRs and are reviewed by a Popular Reporting Task Force and GFOA. This summer, the county was notified that it received the award, which is also valid for one year. The County plans to submit a 2009-10 report for consideration in the program.

Finally, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2009. This is the twenty-first 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

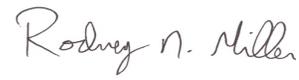
possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. Special recognition is extended to Jeanne Jarrett and Kenneth Maynor, along with Martin, Starnes & 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.

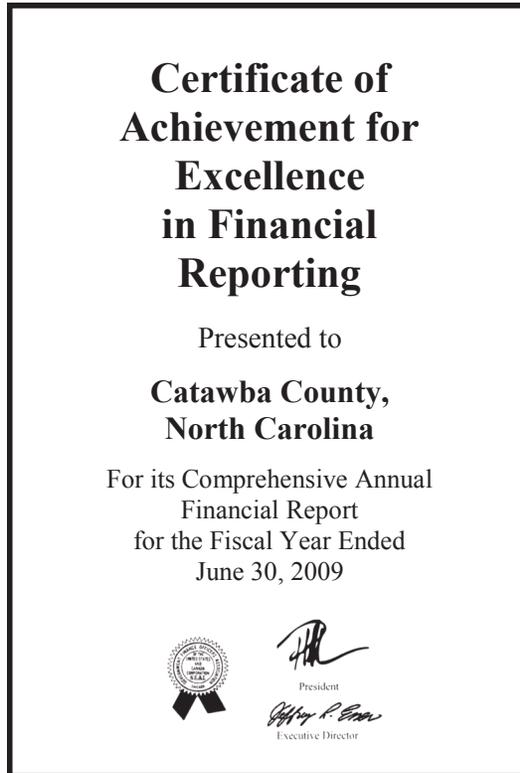
Respectfully submitted,



J. Thomas Lundy
County Manager



Rodney N. Miller
Finance Director



ORGANIZATIONAL STRUCTURE

