

# 2011 Comprehensive Annual Financial Report

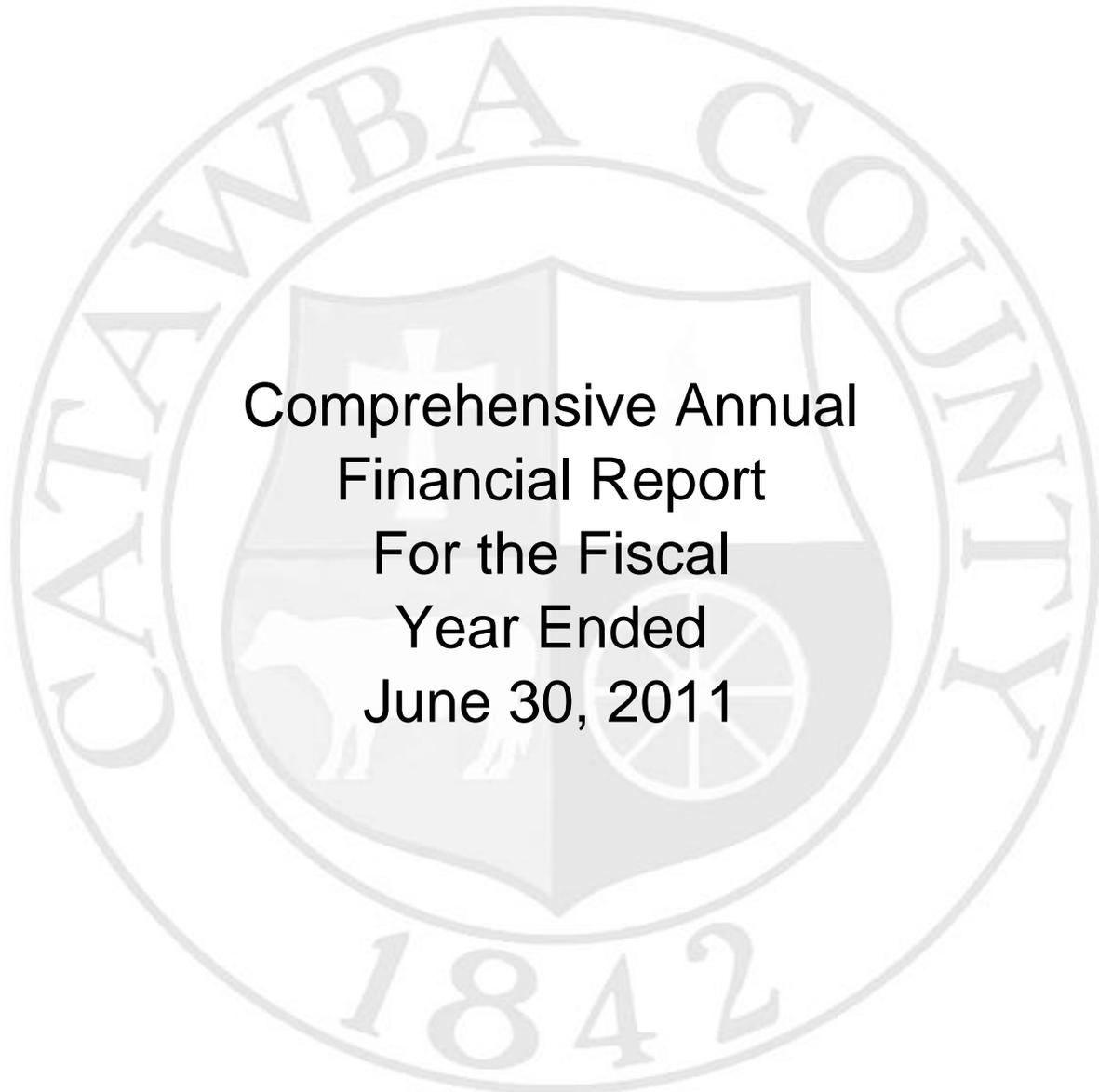
*Keeping the  
Spirit Alive  
Since 1842!*



**Catawba County  
North Carolina**

**For the Fiscal Year Ended  
June 30, 2011**

# Catawba County, North Carolina



## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2011

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Prepared by Catawba County Finance Department  
Published November 18, 2011

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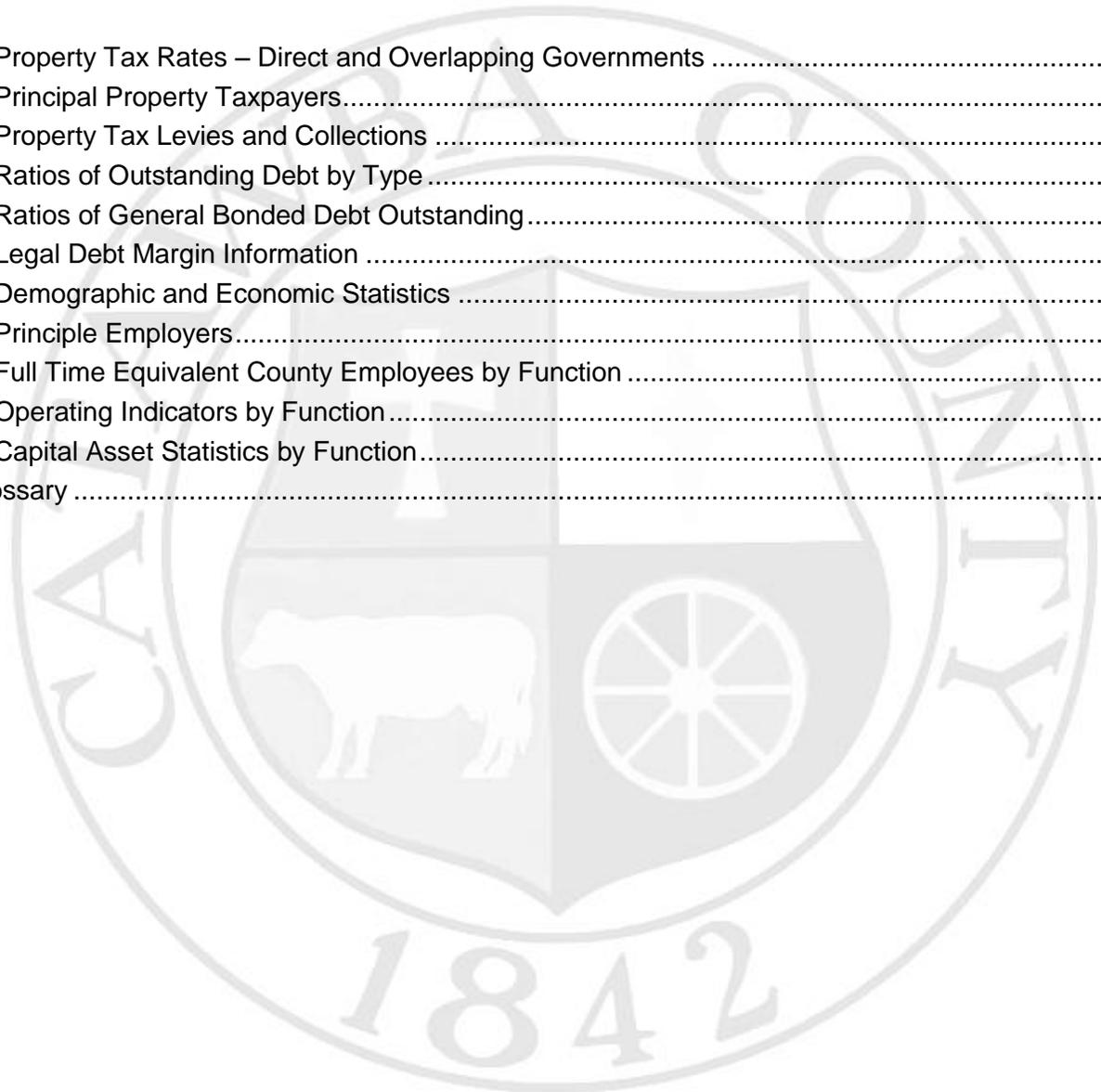
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**Catawba County Board of Commissioners**

*Barbara G. Beatty, Katherine W. "Kitty" Barnes - Chair, Lynn M. Lail - Vice Chair  
Dan A. Hunsucker, C. Randall Isenhower*



## CATAWBA COUNTY

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

November 18, 2011

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, 2011.

### 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, 2011, 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, 2011, 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

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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 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 159,125, ranking 17<sup>th</sup> 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 39 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**

Since the national recession officially ended in the U.S. in June 2009, the local economy continues to improve slowly. The region, which includes Alexander, Burke, Caldwell and Catawba counties, has shown signs of improvement this past year with the unemployment rate falling to 12.4% in July 2011 from 13.1% the year before. The region has experienced some modest improvement, however, the four-county MSA maintains the second highest unemployment rating of fourteen metro areas in North Carolina.

For Catawba County specifically, the unemployment rate has decreased over the past two years from 14.7% in July 2009 to 12.8% in July 2010 to 12.2% in July 2011. Though the

rate has not declined as quickly as hoped, it continues to fall from its peak of 15.6% in March 2009, the highest rate in the County since 1975. Catawba County continues to be home to a large industrial base, heavily concentrated in manufacturing at 28 percent, almost three times the national average of 10 percent. Catawba County's mainstay industries have stabilized and positive indications are apparent, with a trend to "re-shoring" of furniture manufacturing via consolidation back into Catawba County, a steady growth in fiber-optic and telecommunications investment and employment, and continued reinvestment by newer industry sectors. 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, now accounting for more than half of the economic engine in the county. A transformation has occurred over the last twenty years as many furniture and textile jobs moved overseas where cheaper labor could be used for the manufacture of these products. As a result, the local economy is less reliant on its manufacturing base as it has reduced from 56% in 1990 to 28% today.

In the early years of the latest recession, job losses extended to the telecommunications and automotive industries as major employers including Corning, CommScope, Shurtape Technologies/Shuford Mills, Hickory Springs, and Getrag all reduced their workforce, though not nearly as severe as the prior economic downturn. These layoffs have leveled off. Most recently, GoldToeMoretz announced that it will close two distribution centers in the County, resulting in the loss of 66 jobs. This was a result

of the sale of the company to Gilbane, a non-resident parent and the consolidation of facilities to achieve more operational efficiencies.

Fortunately, the County has experienced some significant expansion of several companies recently. These include industries across the spectrum from traditional industries to the high-tech sector: Lee Industries expanding its operations and adding 75 new jobs; Legacy Furniture Group more than tripled its space and added 50 employees; Ethan Allen commenced with a \$2.25 million expansion and the transfer of 300 jobs from a facility in California to Maiden; Hooker Furniture will transfer 90 employees from Cherryville to its Hickory facility; Paramount Automotive Group announced the purchase of several auto franchises and the planned \$5 million investment into a new facility; Convergys Customer Management group added 120 jobs to its previous workforce of 675 employees for its call center operations; Pierre Foods announced a \$16.8 million expansion to their existing facility in Claremont and the addition of 500 jobs, which will total more than 1,000 employees by the end of 2011; and Shurtape Technologies is renovating a very high-profile building for a relocation of its headquarters in Hickory.

The County continues to actively recruit and attract companies with a focus on Information-based Industries, Emerging Energy and Alternative Energy facilities and producers, and Advanced Manufacturing, touting the County's skilled workforce and a high concentration of manufacturing support systems. This was evident in early 2011 with the announcement that Fairmont Designs, a California-based home furnishings manufacturer, would create 200 jobs

in a former Thomasville Furniture plant for their east coast operations. Also, Turbocoating Corp., an Italian manufacturer of coatings for turbines announced plans to add 53 jobs and invest \$15 million over the next three years.



*Target Distribution Center*

Additionally, targeted efforts have been made to diversify the County's economic base from traditional manufacturing and textiles over the last few years. In 2009, a \$90 million 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 1.6 million square feet, and is a prototype for Target's regional distribution centers, serving 60 to 80 retail stores. Also in 2009, Fiserv, a Fortune 500

company rated number one among the largest technology providers to the financial services industry, opened in a previously vacant facility with plans to employ 400 people over a three year period.

Another economic development initiative in the county is the Greater Hickory Classic, a PGA Tour's Champions Tour golf event held at the Rock Barn Golf and Spa in Conover that receives support from the business community and local governments, including the County. Business North Carolina magazine ranked Rock Barn 18<sup>th</sup> in its annual top 100 Golf Courses in the State of North Carolina for 2011. This year's event occurred in June for the ninth consecutive year, and once again was broadcast on the Golf

Channel that is available in 120 million homes worldwide and provides an estimated economic benefit to the County of \$15 million.

Finally, Apple, Inc. completed the first phase of the largest economic development project in the history of the County. Apple, Inc. committed to invest \$1 billion in Maiden to construct a data center in a 500,000 square foot facility to house its iCloud suite of services. The project has already created more than 50 new jobs in phase one, with plans to add 250 contract workers to operate the facility when the \$1 billion project is completed. The 183-acre site was marketed as a multi-jurisdictional park to attract a data center similar to the Google, Inc. complex in an adjacent county, with large amounts of power and water available, and included more than 750 construction jobs during the construction phase. The location of these two large projects has assisted economic development efforts in marketing the region as the "NC Data Center Corridor" a location with favorable labor conditions, abundance of fiber optics infrastructure, easy access to major airports and a high quality of life. Most recently, Apple, Inc. has begun to develop a 170-acre site adjacent to the current facility for a solar panel farm, which was not in the original plans for the data center. Catawba County, being home to Apple's only east coast operations facility, has benefited from a great deal of exposure as a result, having recently been written up in USA Today and interviewed by the London Sunday Times and the Washington Post for upcoming articles on Data Center recruitment.

The County is also a major medical hub, with a prospering medical and health care community,

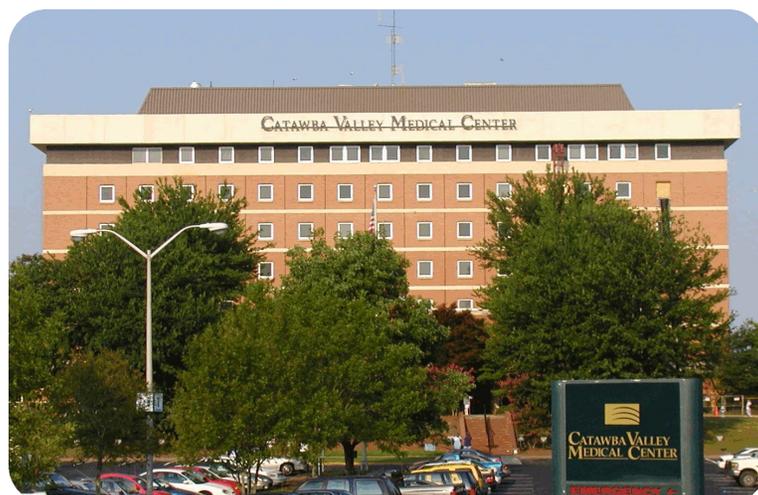


*Apple, Inc. Data Center - Maiden, N.C.*

*... Apple, Inc. completed the first phase of the largest economic development project in the history of the County."*

and two large medical centers, one county-owned and both profitable. Catawba Valley Medical Center, a county-owned facility, was granted its third 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 was named one of the top five hospitals in North Carolina for overall orthopedic services in 2011. The Medical Center is almost finished with 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 later this year. In 2010, a second phase of expansion began, which includes the construction of a five-story addition to house a Women's and Oncology Pavilion estimated to cost \$33 million. The project is scheduled to be complete in the spring of 2013.

Frye Regional Medical Center, which celebrated its 100-year anniversary earlier this year, was named number one in the state of North Carolina and in the top 5% of U.S. hospitals for cardiac surgery and patient safety in 2011 by HealthGrades, the leading independent healthcare ratings organization in the nation.



They were one of only 238 hospitals in the country to receive this designation. In 2010, they received the 2010 Distinguished Hospital award from J.D. Power and Associates, a global marketing information services firm.

The medical center has won the award four times (2005, 2006, 2008 & 2010) for providing an outstanding inpatient experience and service excellence to its visitors.

Retail sales in the County increased by 2.5% in 2011, after declines of 1.8% and 10.9% the past two years. 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 17th largest in North Carolina, its retail sales per capita rank 11th highest out of 100 counties. Furthermore, Catawba County boasts a strong tourism industry, ranking 16<sup>th</sup> 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.

In 2009, Catawba County received a \$3 million grant from the American Recovery and Reinvestment Act (ARRA), which was used to create 11 miles of water lines to create a loop, which is serving 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 a 100% interest subsidy from the Federal Government to the County. These bonds have been issued for several school projects including a new LEED certified middle school for Newton-Conover Schools and expansion of an elementary, middle and high school for Catawba County Schools totaling approximately \$27 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 \$9.3 million over the life of the loans. Also, the City of Conover landed a \$2.1 million federal grant to renovate a vacant manufacturing facility that was constructed in the 1900s, and converted it to a multi-modal transit station combining rail and bus passenger service at one site for county citizens, which has been recently completed.

In addition to grant funding, the county continues to receive some national and state exposure in other areas, which will hopefully increase economic development opportunities in the County. The County was recognized in BIODIESEL Magazine in August 2011 for the grand opening of its biodiesel research facility, a partnership between the County and Appalachian State University, who received a grant from the Golden LEAF Foundation to build a biodiesel research facility 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 is the first facility of its kind in the state and meets



million in school and community college construction needs.



*Biodiesel Research Facility*

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 \$3.0 million, along with \$1.5 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 \$76.5 million in new construction needs over the four year period for all three school systems and CVCC. The Board of Commissioners completed the final year of the funding plan in the 2010-11 fiscal year by using those funds for a new middle school, which will be the county's second LEED certified school, expansion of two existing

Leadership in Energy and Environmental Design (LEED) standards. The facility is located in the County's EcoComplex, a Regional Biosolids Processing Facility that is designed to improve the ecology of Catawba County and promote economic development by attracting jobs in the green energy, agricultural and environmental sectors. The county EcoComplex received a \$30,000 grant in late 2010 to install wireless broadband service to assist researchers at partner universities and to remotely monitor equipment at the site. Currently, two businesses are located at the facility producing wood products. 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.



schools and the construction of a simulated hospital and other renovations at the

**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, 2011, \$209 million in capital needs have been identified over the next eight years, which includes approximately \$120

community college. The next four-year funding cycle will begin in the 2011-12 fiscal year.

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 \$4.1 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

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 2010-11 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 \$35 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 almost fifty 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 the latest year-end results for the school systems. Catawba County Schools ended the 2010-11 year with an 86.2 percent graduation rate, which was ninth highest out of 115 school districts and first among medium-sized school districts in the State.

*Newton-Conover Middle School Construction*

Hickory Public Schools had 71.2% of the senior class take the SAT exam last year, compared to 64% across the State; also, they had a



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 completed a concept development phase of the project; schematic design will begin in late 2011.

combined average SAT score for math and reading of 1050 compared to 1001 in the other

school districts. Newton-Conover Schools achieved an 85.2 percent rate for students who graduated in four years for the 2010-11 school year, well above the average of 77.9% in North Carolina.

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 College 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. In 2009, the Appalachian State University Greater Hickory Partnership was established between Appalachian State University and the three community colleges in the Hickory-Lenoir-Morganton region. The partnership coordinates delivery of Appalachian's off-campus degree programs in four regional centers: the ASU Center at Hickory and the North Carolina Center for Engineering Technologies (NCCET) in Catawba County, the ASU Center at Burke and the ASU Center at Caldwell. During the 2010-2011 academic year, 900 students are expected to pursue Appalachian degrees at these four



centers.

The NC Center for Engineering Technologies focuses on 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 (CAFR) to Catawba County for its comprehensive annual financial report for the fiscal year ended June 30, 2010. 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 29 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 has prepared and will be submitting a Popular Annual Financial Report (PAFR) to GFOA for 2010-11. This is the fourth 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. The county has received an award for this report for three years in a row and hopes to make it a fourth with the 2010-11 entry.

Finally, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2010. This is the twenty-second 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.

### 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, 2010



## 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,

A handwritten signature in black ink that reads "J. Thomas Lundy".

J. Thomas Lundy  
County Manager

A handwritten signature in black ink that reads "Rodney N. Miller".

Rodney N. Miller  
Finance Director

# ORGANIZATIONAL STRUCTURE

