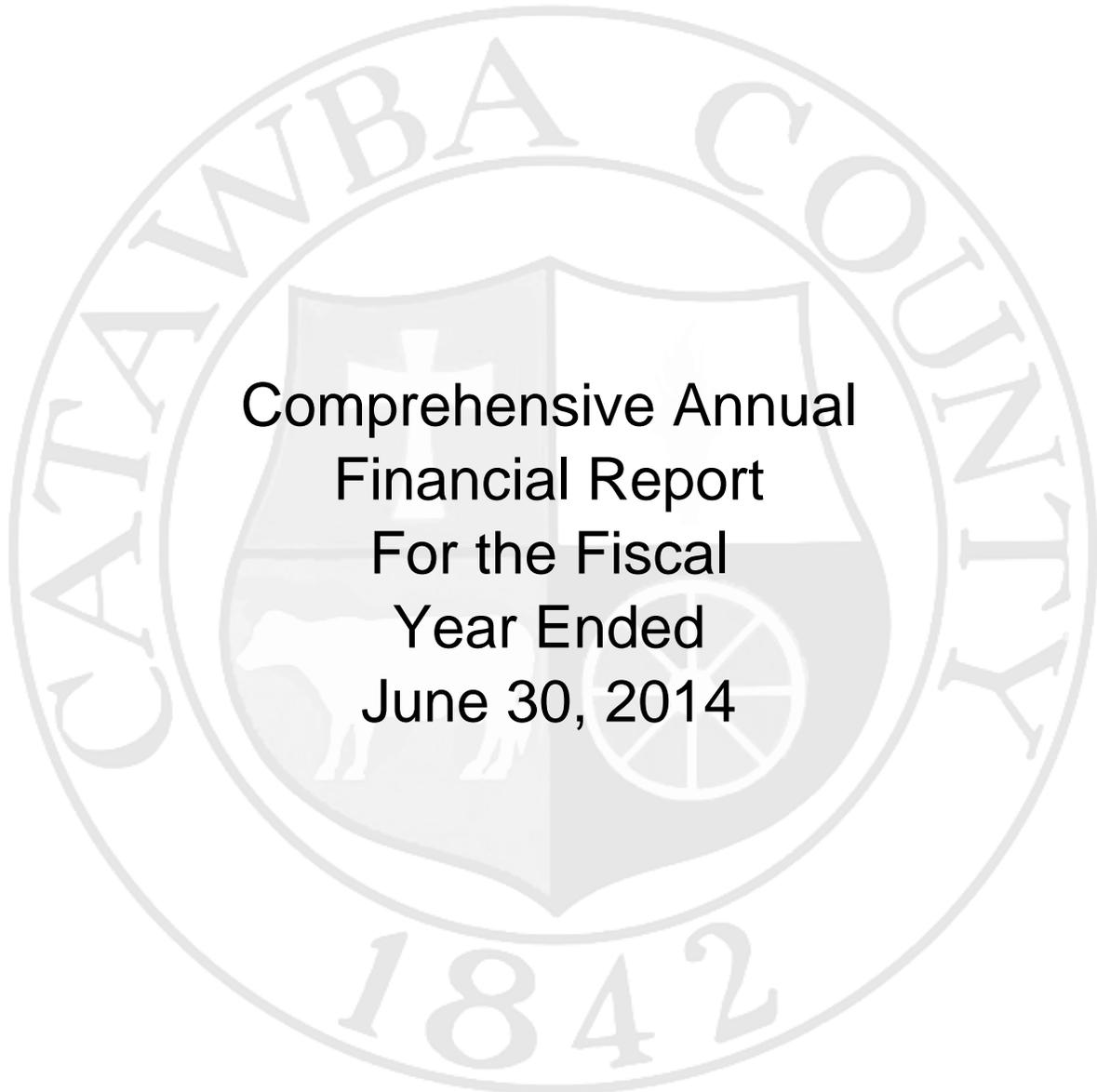


2014 Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

CATAWBA
COUNTY
North Carolina

Catawba County, North Carolina



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

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Prepared by Catawba County Finance Department
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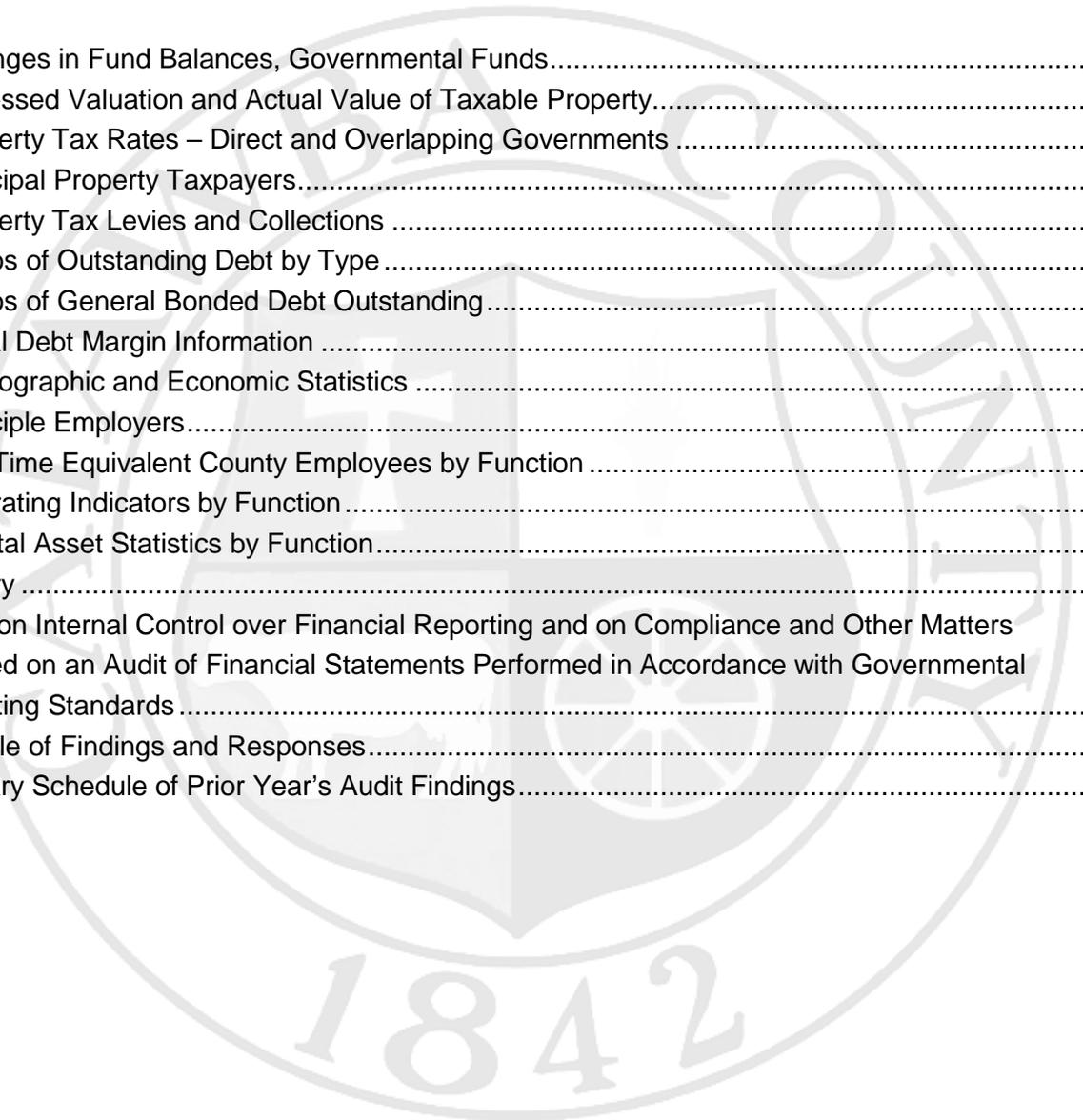
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Catawba County Board of Commissioners
*Barbara G. Beatty, Katherine W. "Kitty" Barnes - Chair, Lynn M. Lail
Dan A. Hunsucker, C. Randall Isenhower - Vice Chair*



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

November 17, 2014

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 those requirements, we hereby issue the Comprehensive Annual Financial Report (CAFR) for Catawba County for the fiscal year ended June 30, 2014.

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.

“ . . . we hereby issue the Comprehensive Annual Financial Report of Catawba County for the fiscal year ended June 30, 2014 ”

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, 2014, 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 unmodified opinion that the County's financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP. Issuance of an unmodified 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 east of the Blue Ridge Mountains, Catawba County is within an hour's drive of the Charlotte metropolitan area and its internationally recognized banking center and airport. The county's mid-Atlantic location is halfway between New York and Miami and includes a land of scenic beauty and diverse cultures with a large industrial workforce. Three 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 settled in the



valley and welcomed 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 with a population of 155,411, maintaining its ranking of 17th largest out of 100 and one of 27 urban 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 that is the policy-making and legislative authority for 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 more than forty 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 outside 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 recommends 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

The local economy has improved significantly since the national economic recession ended in

2009. The region, which includes Alexander, Burke, Caldwell and Catawba counties, has shown improvement each year as the number of employed persons has increased by more than 4,500 over that five-year period. The unemployment rate has fallen from 9.6% in June 2013 to 6.9% in 2014. More than 800 jobs were available in the Hickory area through the NC Department of Commerce at year-end consisting of construction, manufacturing, information technology and engineering. This steady progress has allowed the four-county Metropolitan Statistical Area (MSA) to improve two spots in its unemployment ranking state-wide at the end of fiscal year 2014.

For Catawba County specifically, the decline in the unemployment rate has remained steady over the past two fiscal years ending in June from 11.3% in 2012 to 9.9% in 2013 to 7.1% in 2014. The current rate is within one percent of the state and national unemployment rates at 6.5% and 6.1%, respectively, for the first time in five years. Catawba County is underpinned by a large industrial workforce and base, heavily concentrated in manufacturing, approximately two and a half times the national average of 10 percent. While this reliance on manufacturing is still significant, the County has taken deliberate steps to diversify its workforce from a 56% share in 1990 to 26% today. The county and region are renowned as a furniture-manufacturing and distribution center, with approximately 500,000 annual visitors to a large furniture mall 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. **Catawba County's mainstay industries have stabilized from the national recession and embarked on a trend of "re-shoring" furniture manufacturing jobs back into Catawba County, a steady growth in fiber-optic and telecommunications investment and employment, and continued reinvestment by newer industry sectors.**

In addition to a large manufacturing and industrial base, the County is supported by a strong service-sector, accounting for half of the economic engine in the county. Catawba County remains a retail magnet for the region, capturing 60% of the \$3.0 billion in retail sales from the four-county MSA, compared to only 42.5% of the population. Retail sales in the County increased by 5.5% in 2014 compared to a 1.0% increase the year before. This is the fourth year in a row that revenues have increased, reversing a decline the prior two years during the economic recession. Catawba County's population ranks 17th largest in North Carolina, but its taxable sales rank 13th highest out of 100 counties. One reason for this is a sizeable furniture presence still remaining in the County, with more than 100 retail furniture showrooms and outlets as well as an internationally known furniture mall totaling one million square feet of exhibit space.

During the past few years, Catawba County has made up for negative job growth that occurred during the recession by being proactive in charting its economic future through targeted expansion. Over that time period, the pace of layoffs has subsided across all sectors in the county and job gains have been made as some significant expansion projects have occurred in industries across the spectrum from traditional to the high-tech sector: In addition, the County continues to actively recruit and attract national and international companies with a focus on higher-wage industries of Information-based, Emerging & Alternative Energy facilities and producers, and Advanced Manufacturing, touting the County's skilled workforce and a high concentration of manufacturing support systems. Some of the successful projects this past year include:

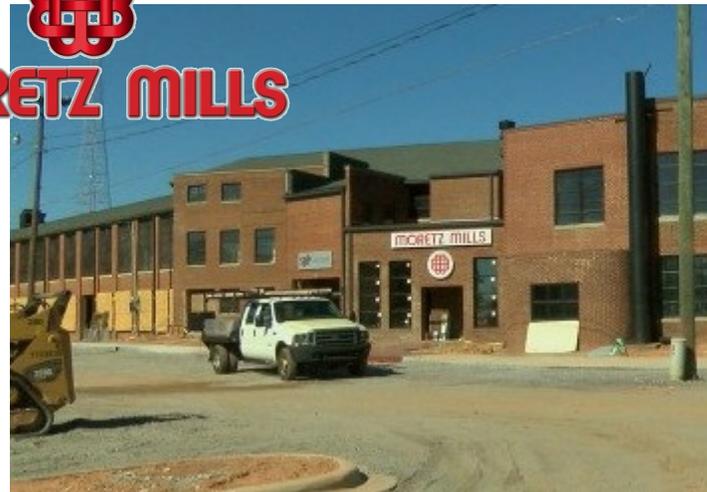


- HSM Solutions, formerly Hickory Springs Manufacturing is expanding its manufacturing facility with a \$3.3 million investment and creating 162 new jobs

- Transportation Insight, a Hickory logistics company, plans to spend \$8 million to

transform a downtown hosiery mill into its new headquarters with 50 new jobs.

- Moretz Mills is investing more than \$8 million to renovate its 84-year old hosiery mill that will turn an 83,000 square foot factory building into a mixed-use



complex that will house a restaurant, gym, spa, therapy business and possibly apartments. This is the second vacant hosiery building to be renovated in the same block, which is in close proximity to downtown Hickory, the SALT (Science, Arts & Literature Together) Block and Lenoir Rhyne University. The former project opened last year and combines a restaurant, yogurt shop, event space and a future brewery into the remodeled space

- PCA Development is constructing a new six-story Hilton Garden Inn in Hickory with estimated costs of more than \$6 million
- R&D Plastics, a plastics manufacturer for furniture, packaging and fiber optic industries, added a new production line and warehouse to their existing facility creating an additional 16 jobs and invested \$1.2 million
- CR Laine Furniture, a fixture in the community since 1958, has expanded its



facilities by 42,000 square feet with a \$2.7 million investment and adding 50 new employees

- Cornerstone United, an international warranty company, is relocating and expanding its operations into the old Piedmont Wagon Co. building in Hickory with 35 new jobs



- GKN Driveline, a manufacturer of automotive driveline components completed an expansion of \$122 million and the addition of 228 new jobs
- Convergys, a leader in customer management for over thirty years, opened in Hickory in 2008 and committed to 446 new jobs. The company continues to expand as their current workforce is 750 employees in the county
- United Franchise Group, headquartered in West Palm Beach, Florida opened an internal sales office and distribution center in Newton investing \$750,000 and creating 47 jobs
- Interstate Foam and Supply announced plans to build a 78,000 square foot facility in Conover investing \$4.7 million and creating 50 new jobs
- Vanguard Furniture added \$500,000 in new equipment and added 15 new employees

In 2013-14, the Catawba County Economic Development Corporation (EDC) has helped add more than 270 million in new investment and 840 jobs. In 2012, Site Selection Magazine ranked the region tied for 9th place in the nation for economic development announcements for

metropolitan areas with populations of 200,000 to 1 million. This was based on 23 projects in the four-county region with at least 20,000 square feet of new floor space, \$1 million in investment and at least 50 employees.

Drawing national attention, the Manufacturing Solutions Center relocated and expanded from 8,000 to 20,000 square feet in the Conover Station, an \$8 million downtown development project on a 27-acre site formerly owned by Broyhill Furniture. The center has assisted businesses in 46 states and 6 continents, including companies such as Nike, Hanes Brands, Land's End and Target. This has helped bolster the manufacturing effort in the county by providing numerous services for new and existing manufacturing companies, including product testing, research and development support and assistance, marketing support, website design and assistance with export sales. It also develops partnerships with trade groups, colleges and universities. In the past ten years, the Center is credited with creating or saving over 1,000 manufacturing jobs and providing a \$250 million economic impact worldwide and has become a model for the State. The expansion project received \$2.7 million in Federal and State grant funds and opened last year.



Another strategy that has been employed by the County included the formation of a multi-jurisdictional industrial park funded in partnership by various local governments in the county. This concept began in 2005 and became a reality with



Katie Fehrenbacher/Gigaom



Katie Fehrenbacher/Gigaom

the announcement of the **County's largest economic development project in its history: Apple Inc. constructed its only east coast operations facility with an investment of \$1 billion in Maiden. The first phase began with a 500,000 square foot data center to house its iCloud suite of services and has created more than 150 new jobs**, with plans to add a total of 250 contract workers to operate the facility when the entire \$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. In 2011, Apple, Inc. added a 170-acre site adjacent to the current facility for a 20-megawatt solar panel farm, the largest end-user farm in the country, which was not in the original plans for the data center. In addition, a new 21,000 square foot "tactical" data center was added adjacent to the main data center as well as a 10-megawatt fuel cell installation the following year. The fuel cell installation is powered with 100% biogas and has a taxable value of more than \$6 million. Apple also completed a \$3 million purchase of 200 acres in

Conover for a second solar farm that was expected to generate an additional 20-megawatts of power built by SunPower Corporation Systems. This facility was expected to cost \$10 million and combined with the Maiden facility, it will produce enough energy to power the equivalent of 10,874 homes. With the various projects completed and recently announced, it is expected that Apple will continue to be a cornerstone of the county's economic future and trigger other economic development projects in the area.

A second multi-jurisdictional park, NC Data Campus, is currently under construction in cooperation with the County and the municipalities of Hickory, Conover, Maiden and Catawba. The partnership has secured a \$2.6 million Community Development Block Grant from the NC Department of Commerce and is currently developing a 70-acre site in Conover. The funds are being used to install infrastructure including electric power supply, water and sewer, natural gas and telecommunications. Catawba County's share of the project stands at 57 percent, and will share in the expenses and the revenues of a future project in the park. The site is being marketed for another data center, similar to the Apple site.

Another economic development initiative currently in process is the result of the Southern Growth Policies Board, who was engaged by a group of Catawba County leaders and organizations to examine the community's current economic competitiveness and to help develop a set of recommendations to move the community to where it wants to be in the future. **Innovate Catawba** is the culmination of their work where six workgroups have been created to spur future economic growth in the County:



- Inspiring Communities
- Reinventing Spaces
- Building Quality Shell Buildings and Parks
- Incubating Small Business and Encouraging Entrepreneurship
- Workforce Connectivity and Development
- Leading and Communicating

The Catawba County Board of Commissioners allocated funding for this initiative in the 2014-15 budget to help retain young people in the county and ensure the community has jobs for them. One specific investment included partnering with the City of Claremont and the EDC Committee of 100 in the construction of a shell manufacturing building earlier this year.



The County also has a large medical presence, with a prospering medical and health care community and two large medical centers, one county-owned and both profitable. Catawba Valley Medical Center, the region's largest public healthcare system completed its second phase of expansion in 2013, which included the construction of a five-story addition totaling \$34 million for a Women's and Oncology Pavilion, providing centralized space for cancer treatment as well as for labor and delivery. The medical center has received multiple awards over the last few years:

- 1st NC Hospital to receive four Magnet designations from the American Nurses Credentialing Center
- Women's Choice Award Best 100 Hospitals for Patient Experience in 2012, 2013 & 2014
- One of America's Best Hospitals for Patient Experience in Obstetrics and Orthopedics in 2013 & 2014 by WomenCertified
- One of America's Best Hospitals in Cancer Care in 2014
- 2013 & 2014 QUEST Award for High-Value Healthcare from Premier, recognizing a reduction in harm, mortality, readmissions and costs, while improving the patient experience and delivering evidence-based care.

Frye Regional Medical Center, which celebrated its 100-year anniversary in 2011, has also received numerous awards for its services to the community:

- Heart Failure Gold-Plus Quality Achievement Award from the American Heart Association in 2014
- Received top grade in Leapfrog Group's Fall 2014 Safety Score for continued safe, high-quality healthcare services
- Women's Choice Award for Excellence in Orthopedics in 2013.
- In 2012, ranked number one in the state of North Carolina and in the top 5% of



U.S. hospitals for cardiac surgery and patient safety by HealthGrades, the leading independent healthcare ratings organization in the nation.

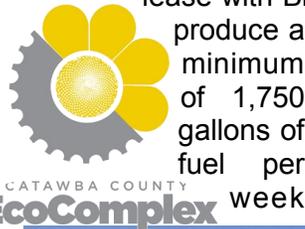
The Heart Center at Frye is home to the most extensive array of cardiology services in the region and the only one that has full service cardiology and on-site heart surgery, 24 hours a day, seven days a week. With approximately 1,500 employees county-wide, the medical center is a strong corporate partner of the County as well as the seventh largest property taxpayer for 2014.

Another segment of the county's economy is tourism, ranking 16th in travel impact among NC's 100 counties with more than 2,000 travel and tourism jobs. The county is home to many cultural organizations such as the Science Center, Hickory Museum of Art, Western Piedmont Symphony, Hickory Choral Society, Millholland Planetarium and Patrick Beaver Library that together drew more than 500,000 visitors to the county in 2013. Other attractions include the Hickory Crawdads, a class-A minor league baseball team, and Hickory Motor Speedway, the birthplace of many NASCAR stars as well as cultural sites such as Murray's Mill, Bunker Hill Covered Bridge, Harper House, Hickory History Center and the Museum of History that received approximately 225,000 visitors over the past year.

A community event based in Catawba County with positive economic impact is the Greater Hickory Kia 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 18th in its annual top 100 Golf Courses in the State of North Carolina in 2011. The 2014 event was the twelfth consecutive year the tournament was held and broadcast on the Golf Channel that was available in 120 million homes worldwide and provides an estimated economic benefit of \$15 million to the County.

The county has been a leader in environmental

initiatives, one of the first local governments in the nation to capture landfill gas and convert to electricity through a co-generation process, producing enough electricity to power 1,400 homes annually. The County's EcoComplex is 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 EcoComplex has won multiple awards the last few years, most recently receiving the 2013 Energy Leadership Award in the Charlotte Business Journal for "playing a key role in making the Carolinas a global player in the energy industry". Within the EcoComplex, a partnership was formed in 2011 between the County and Appalachian State University (ASU) that led to the completion of a Biodiesel Research, Development and Production Facility. The facility has a biodiesel production capacity of 100,000 gallons per year, which can be used in county equipment. Earlier this year, the county entered into a long-term lease with Blue Ridge Biofuels, who will



and partner with ASU to conduct research at the facility to test which feed stocks grow best in the local climate and produce the best oil for biodiesel.

In 2013, Catawba County ranked first in the state out of 100 counties in the amount of recycling



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. Two large construction projects have been completed this past year to plan for that population growth:

waste per capita, more than 638 pounds per citizen, totaling approximately 50,000 tons. The county began offering curbside recycling to its citizens in 1990, the first county to do so.



LONG-TERM FINANCIAL PLANNING

In 2007, the County adopted an eight-year Capital Improvement Plan (CIP) to anticipate and plan for future capital expenditures, which is updated on an annual basis. As of July 1, 2014, \$137 million in capital needs have been identified over the next eight years, which includes approximately \$57 million in school and community college construction needs.

To pay for the school and community college projects, the Catawba County Board of Commissioners continued their practice of a four-year funding cycle in fiscal year 2011-12 by dedicating one cent of the property tax rate, equal to approximately \$1.6 million, along with \$1.6 million in annual lottery funds in addition to pledging the amount of school/community college debt retired each year towards new construction. This provides funding for \$57.1 million in new construction needs over the next four years for all three school systems and CVCC. The County has completed the first three years of the funding plan in the 2013-14 fiscal year towards two new elementary schools, renovations to an existing elementary, middle and high school, as well as campus improvements at the community college.

- A new 10,000 square foot branch library replaced a 39-year old library in the Sherrills Ford community that more than doubles the space for library services, which is one of seven branches available to citizens across the County
- A new animal shelter was constructed with capacity for 233 animals compared to 78 animals in the former facility; the county contracted with the Humane Society of Catawba County to assist with adoption of animals in the facility as a public/private partnership

Both of these projects ended up costing less than budgeted amounts due to proactive planning/programming and sound construction management practices.

In 2007, the county adopted a new ¼ cent sales tax, approved overwhelmingly by local referendum, which is currently providing approximately \$4.2 million a year in revenues to keep up with growth in the County without relying solely on the property tax. The sales tax is a preferred option for the county as one cent yields \$13 million as one cent on the property tax yields \$1.6 million. Some of the additional sales

tax funds are being used to expand the County's Justice Center to include the addition of new courtrooms (a county responsibility) and a new 911 Communication Center and Emergency Operations Center (EOC). Construction is underway on the \$40 million project with completion anticipated in late 2016.

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 also continued a policy of setting aside funds, one cent on the property tax rate or \$1.60 million in fiscal year 2013-14, to be used for strategic water and sewer projects throughout the county. Those funds, along with an additional \$1.4 million in sales tax revenues will help fund approximately \$38 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 its citizens. Catawba County continues to commit almost fifty cents of every local dollar towards education, which has funded several efforts over the years 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 better learning environment for our children.

Indications that these efforts are having a positive impact have been encouraging over the past year. In April, U.S. News and World Report ranked Newton-Conover Schools the 13th best high school in the State for its test scores. The report detailed the high school proficiency of 81% in English, 72% in Algebra and a 27.9 college readiness index. This was in addition to claiming the fifth lowest dropout rate in North Carolina. Hickory Public Schools ended the 2013-14 school year with an 83.9 percent cohort graduation rate for students

who graduated in four years, its highest in the history of the school system; this compares with a 70.4 percent rate in 2006. Newton-Conover Schools achieved a 92.5 percent rate and Catawba County Schools ended the school year with a 90.8 percent rate. All three districts ended the year above the State of North Carolina average of 83.8%.

Finally, the County continues to support higher education initiatives in the region. In the 2014-15 budget, more than \$3.8 million was allocated to Catawba Valley Community College to meet the higher education and job training needs of the community and 4,800 students. This was in addition to \$2.6 million in capital improvements and ranked 16th highest in funding out of 58 community colleges in the state. Furthermore, the County, along with the City of Hickory and our two local hospitals, have partnered with Lenoir-Rhyne University to create a new health science center that will offer advanced training for medical and health care professionals beginning in 2016. The center will open with 40 students over a 24-month physician assistant program with plans to double the enrollment the following year.

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 and improve its educational prowess.



AWARDS AND ACKNOWLEDGEMENTS

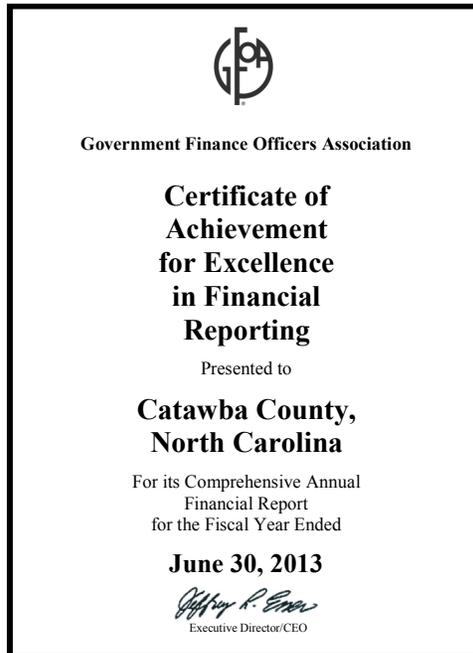
AWARDS

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, 2013. 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 32 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 2013-14. This is the seventh 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 in a more condensed fashion. 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 six years in a row and hopes to continue with the 2013-14 entry.

Finally, the County has also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2013. This is the twenty-fifth 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

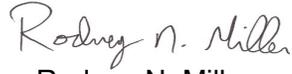
Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Catawba County. We appreciate the cooperation of all the County departments in carrying out the financial activities encompassed in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

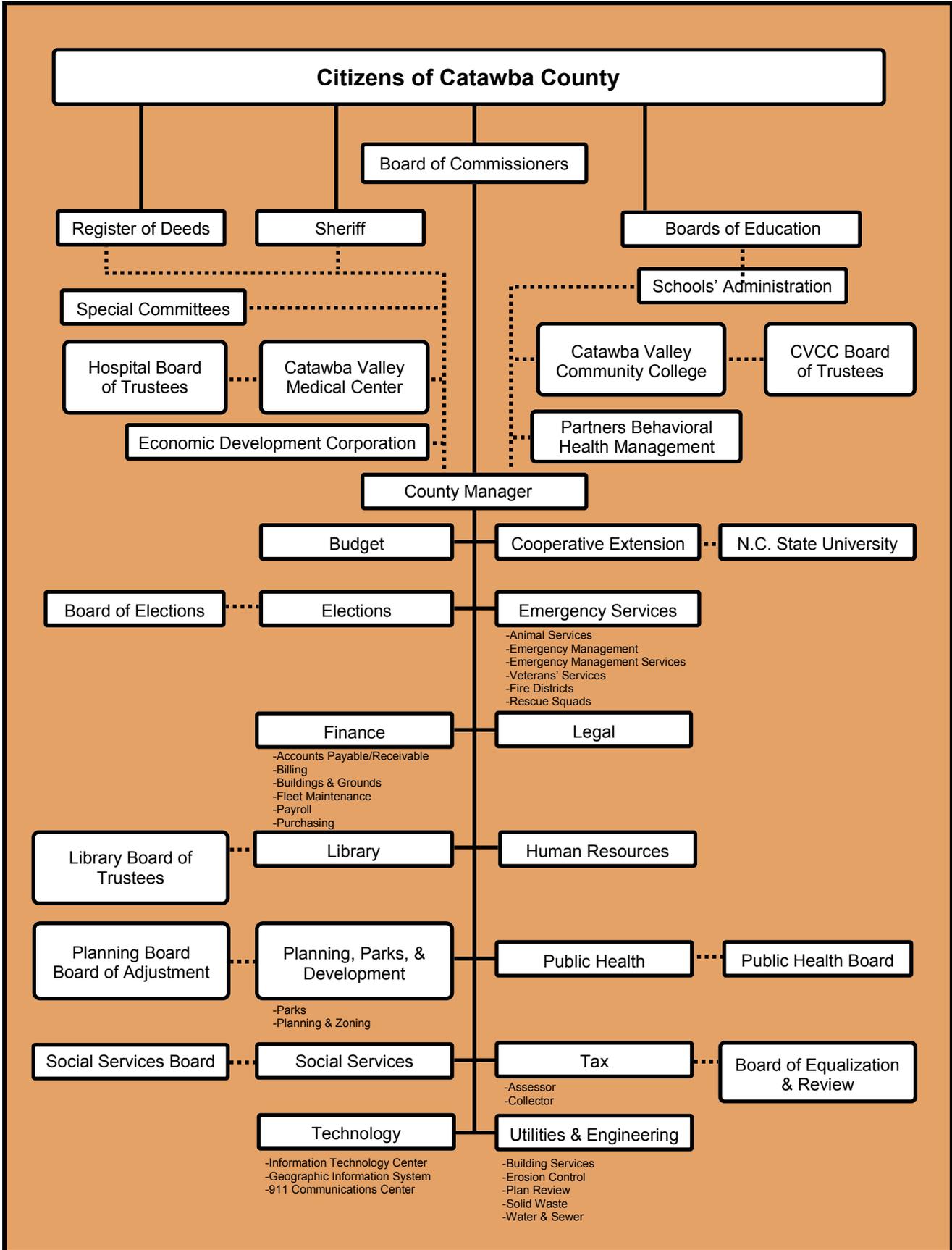
In closing, we thank the Catawba County Board of Commissioners for its leadership and support in making Catawba County a fiscally sound, well-governed community.

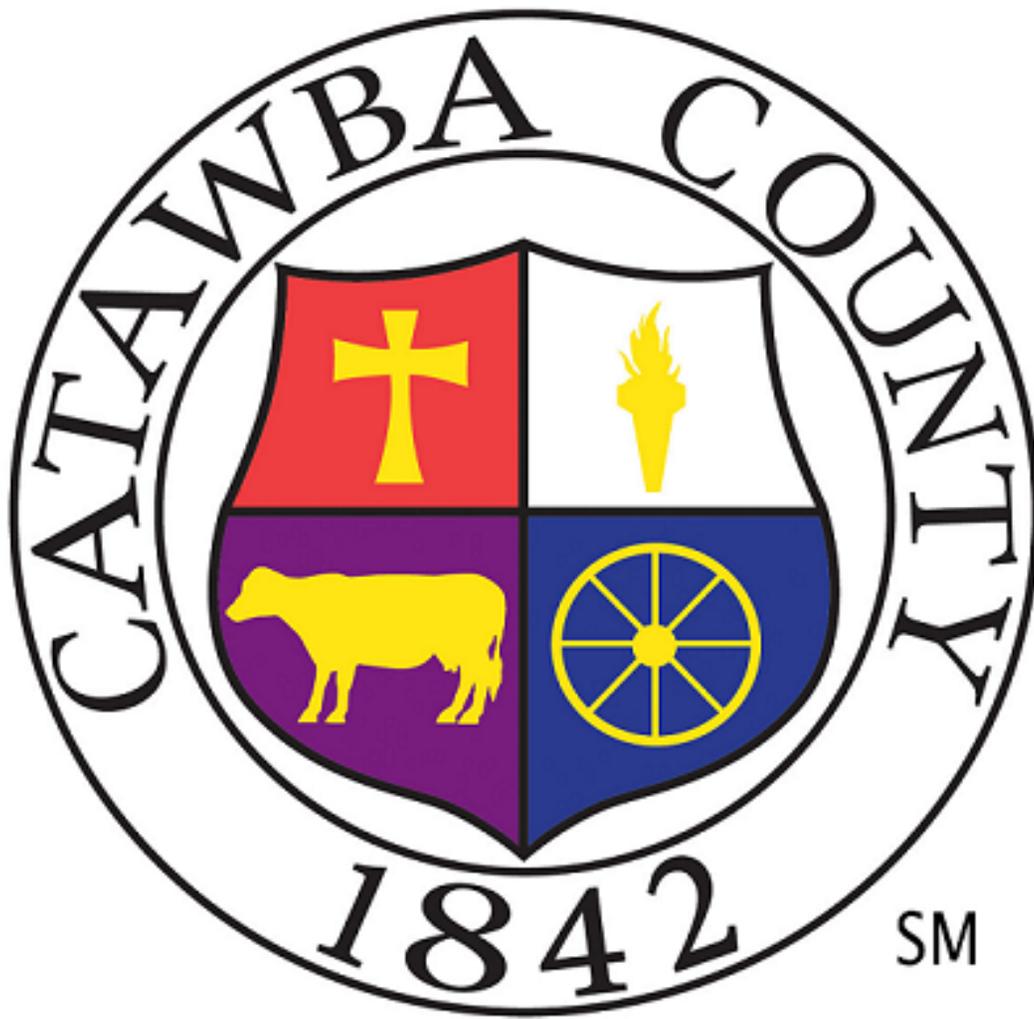
Respectfully submitted,


J. Thomas Lundy
County Manager


Rodney N. Miller
Finance Director

ORGANIZATIONAL STRUCTURE





MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Catawba County
Newton, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Catawba County, North Carolina, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Catawba Valley Medical Center. Those statements were audited by another auditor whose report has been furnished to us and, our opinion, insofar as it relates to the amounts included for the Catawba Valley Medical Center, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Catawba County ABC Board and Catawba Valley Medical Center were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Catawba County, North Carolina, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance, and the other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Catawba County's basic financial statements. The introductory section, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements; and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014 on our consideration of Catawba County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing; and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catawba County's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
November 17, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Catawba County, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Catawba County for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

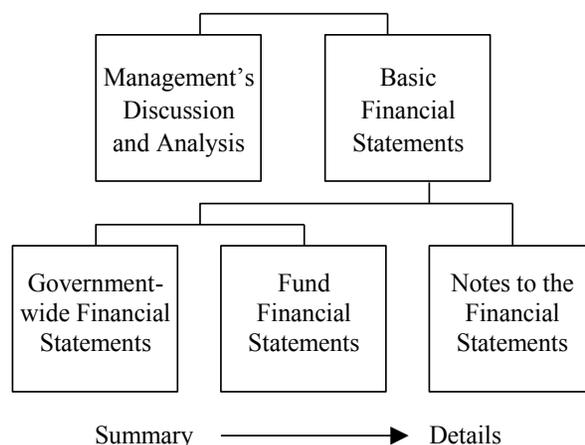
- ▶ The assets and deferred outflows of resources of Catawba County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$159,371,085 (*net position*). Of this figure, approximately \$123 million represents the County's investment in capital assets, which is not available for future spending.
- ▶ The government's total net position increased by \$3,296,355, resulting from a decrease of \$(471,636) in governmental activities and an increase of \$3,767,991 in business-type activities. This net increase is primarily due to management's focus on monitoring spending and maximizing revenue collection.
- ▶ As of the close of the current fiscal year, Catawba County's governmental funds reported combined ending fund balances of \$124,837,227, an increase of \$662,327 in comparison with the prior year. Approximately 67 percent of this total amount, or \$83,055,556, is restricted and non-spendable. [See Exhibits 3 and 4]
- ▶ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$20,734,380, or 13 percent of total general fund expenditures for the fiscal year.
- ▶ Catawba County's total long-term debt increased by \$5,978,873 during the current fiscal year. Outstanding debt principal is \$166,012,319 and equates to \$1,068 per capita at the end of the fiscal year.
- ▶ For the tenth consecutive year, Catawba County maintained its AA bond rating with

Standard & Poor's and maintained its Aa1 bond rating with Moody's Investors Service for the fifth consecutive year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Catawba County's basic financial statements. The County's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements (see Figure A). The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Catawba County.

Figure A - Required Components of Annual Financial Report



BASIC FINANCIAL STATEMENTS

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial statements: (1) governmental funds statements,

(2) budgetary comparison statements, (3) proprietary fund statements, and (4) fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net position and how it has changed. Net position is the difference between the County's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Deferred outflows of resources are a consumption of net position that are applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position that are applicable to a future reporting period. Measuring net position is one way to gauge the County's financial condition.

The government-wide statements are divided into three categories: (1) governmental activities, (2) business-type activities, and (3) component units. The governmental activities include most of the County's basic services such as human services, education, public safety, parks and recreation, and administration. Property taxes and state and federal grant funds finance most of

these activities. The business-type activities are those that the County charges customers to provide. These include the water and sewer and landfill services offered by Catawba County. The final category is the component units. Catawba Valley Medical Center is a public hospital that was organized in 1962 by resolution of the Board of County Commissioners. The County appoints the board of trustees for the Medical Center and has issued debt on its behalf. Although legally separate from the County, the Alcohol Beverage Control (ABC) board is important to the County because the County is financially responsible for the Board by appointing its members, and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on Exhibit 1 and 2 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Catawba County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Catawba County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. *This method also has a current financial resources focus.* As a result, the governmental fund financial statements give

the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Catawba County adopts an annual budget for its General Fund, as required by North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board of Commissioners about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: (1) the original budget as adopted by the board; (2) the final budget as amended by the board; (3) the actual resources, changes to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements can be found on pages 20-24 of the report.

- ▶ **Proprietary Funds** - Catawba County maintains one type of proprietary fund which includes two enterprise funds.

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial

statements. The County uses enterprise funds to account for both its solid-waste and water and sewer operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

The proprietary funds financial statements can be found on pages 25-29 of this report.

- ▶ **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Catawba County has five fiduciary funds, all of which are agency funds.

The fiduciary funds financial statements can be found on page 30 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found beginning on page 31 of this report.

SUPPLEMENTARY INFORMATION

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Catawba County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found beginning on page 69 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Catawba County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$159,371,085 as of June 30, 2014. The County's net position increased by \$1,526,140 for the fiscal year ended June 30, 2014. Of this amount, \$3,296,355 is an increase in net position after transfers. The difference, or

Government-Wide Financial Analysis
Catawba County's Net Position

	Governmental Activities		Business-type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Current and other assets	\$145,963,231	\$148,077,455	\$ 57,609,457	\$ 58,830,785	\$203,572,688	\$206,908,240	\$ (3,335,552)	-1.61%
Capital assets	93,360,352	84,659,283	62,696,214	58,558,562	156,056,566	143,217,845	12,838,721	8.96%
Total assets	239,323,583	232,736,738	120,305,671	117,389,347	359,629,254	350,126,085	9,503,169	2.71%
Total deferred outflow s of resources	3,228,486	3,562,549	52,685	56,612	3,281,171	3,619,161	(337,990)	-9.34%
Long-term liabilities	163,494,768	155,512,637	24,504,641	25,287,123	187,999,409	180,799,760	7,199,649	3.98%
Other liabilities	14,001,835	13,130,358	919,686	992,798	14,921,521	14,123,156	798,365	5.65%
Total liabilities	177,496,603	168,642,995	25,424,327	26,279,921	202,920,930	194,922,916	7,998,014	4.10%
Total deferred inflow s of resources	618,410	977,385	-	-	618,410	977,385	(358,975)	-36.73%
Net position:								
Net investment in capital assets	73,669,285	72,733,148	49,571,504	51,632,394	123,240,789	124,365,542	(1,124,753)	-0.90%
Restricted	61,304,988	50,910,338	-	-	61,304,988	50,910,338	10,394,650	20.42%
Unrestricted	(70,537,217)	(56,964,579)	45,362,525	39,533,644	(25,174,692)	(17,430,935)	(7,743,757)	44.43%
Total net position	\$ 64,437,056	\$ 66,678,907	\$ 94,934,029	\$ 91,166,038	\$159,371,085	\$157,844,945	\$ 1,526,140	0.97%

(\$1,770,215) is a restatement of the net position at the beginning of the year. Additional information can be found in the notes to the financial statements.

The largest portion of net position, 77%, reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt outstanding that was issued to acquire those items. Capital assets increased by \$12,838,721 during the current year. Catawba County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Catawba County's investment in its capital assets is reported net of the outstanding related debt, the resources to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of Catawba County's net position, 39%, represents resources that are subject to external restrictions on how they may be used.

The final component of net position is unrestricted, which is (16%) of the total net position.

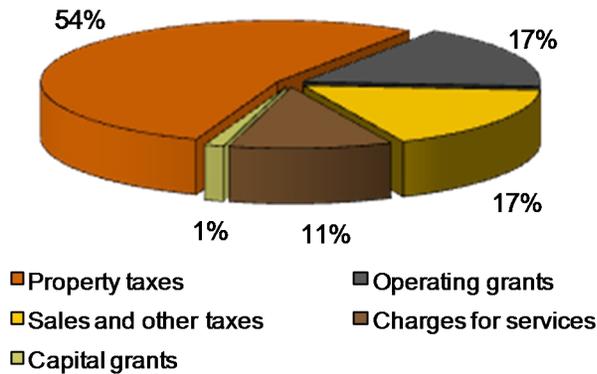
In order to provide a complete picture of the changes in net position of the County, information is provided separately for the net positions of governmental and business-type activities.

Governmental Activities - Governmental activities decreased the County's net position by (\$2,241,851). Key elements of this change are as follows:

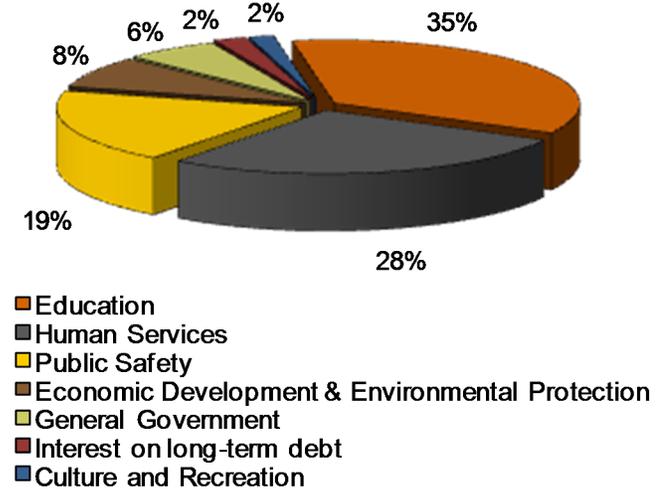
- ▶ The County is committed to providing needed water and sewer infrastructure. It increased the allocation of the property tax rate from 1/2 cent to 1 cent in the current year. This is reflected in the transfer of (\$1.6 million) to the water and sewer fund.
- ▶ A prior period adjustment of (\$1,770,215) to correct an accrual in the School Construction Fund caused a restatement of net position.

The following graphs represent the major sources of revenues and the major functions of expenditures for governmental activities.

Revenues by Source - Governmental Activities

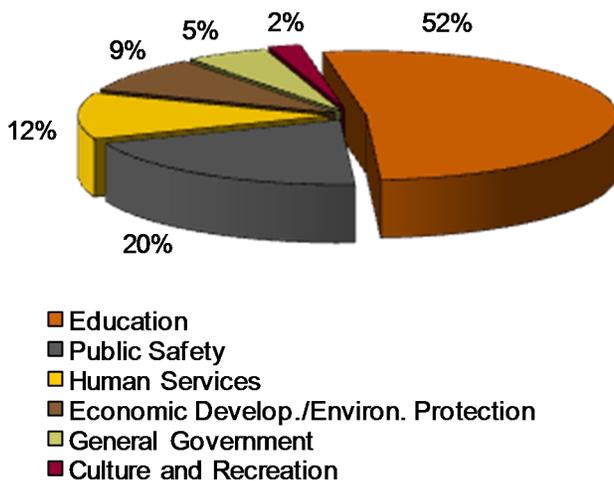


Expenditures by Function - Governmental Activities



The following graph shows the expenditures percentage as funded by local dollars.

Expenditures by Function - Funded by Local Dollars



- ▶ Transfer of 1 cent property tax for water and sewer capital projects in the amount \$1.6 million.
- ▶ Investment earnings of \$621,805 from a rise in interest rates.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Catawba County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Information is presented separately in the governmental funds balance sheets and statement of revenues, expenditures and changes in fund balance for the General Fund, the General Capital Fund, and the School Construction Fund, all of which are considered

Business-type Activities - Business-type activities increased Catawba County's net position by \$3,767,991. Key elements of this change are as follows:

- ▶ Article 46 Sales tax revenues totaling \$1.4 million for various water and sewer projects in the County.

Catawba County Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 19,345,405	\$ 21,191,015	\$ 5,671,631	\$ 5,880,833	\$ 25,017,036	\$ 27,071,848
Operating grants and contributions	29,136,207	28,576,342	868,759	650,178	30,004,966	29,226,520
Capital grants and contributions	2,292,224	1,859,891	126,942	731,970	2,419,166	2,591,861
General revenues:						
Property taxes	93,649,723	89,347,893	-	-	93,649,723	89,347,893
Sales and other taxes	29,522,013	28,193,637	1,657,101	1,587,713	31,179,114	29,781,350
Investment earnings, unrestricted	1,155,474	(183,818)	621,805	(94,709)	1,777,279	(278,527)
Gain (loss) on capital assets	-	9,169	-	-	-	9,169
Total revenues	175,101,046	168,994,129	8,946,238	8,755,985	184,047,284	177,750,114
Expenses						
General government	10,807,772	9,760,225	-	-	10,807,772	9,760,225
Public safety	32,732,323	31,236,944	-	-	32,732,323	31,236,944
Environmental protection	492,269	508,073	-	-	492,269	508,073
Economic and physical development	13,538,407	12,780,487	-	-	13,538,407	12,780,487
Human services	47,935,422	48,863,130	-	-	47,935,422	48,863,130
Cultural and recreation	2,847,558	2,776,547	-	-	2,847,558	2,776,547
Education	61,843,087	57,519,210	-	-	61,843,087	57,519,210
Interest on long-term debt	3,774,279	3,602,099	-	-	3,774,279	3,602,099
Solid waste management	-	-	5,166,963	5,927,016	5,166,963	5,927,016
Water and sewer	-	-	1,612,849	2,102,576	1,612,849	2,102,576
Total expenses	173,971,117	167,046,715	6,779,812	8,029,592	180,750,929	175,076,307
Increase (decrease) in net position before transfers	1,129,929	1,947,414	2,166,426	726,393	3,296,355	2,673,807
Transfers	(1,601,565)	(775,000)	1,601,565	775,000	-	-
Increase (decrease) in net position after transfers	(471,636)	1,172,414	3,767,991	1,501,393	3,296,355	2,673,807
Net position - beginning of year, previously reported	66,678,907	65,709,270	91,166,038	89,664,645	157,844,945	155,373,915
Restatement	(1,770,215)	(202,777)	-	-	(1,770,215)	(202,777)
Net position- beginning, restated	64,908,692	65,506,493	91,166,038	89,664,645	156,074,730	155,171,138
Net position - end of year	\$ 64,437,056	\$ 66,678,907	\$ 94,934,029	\$ 91,166,038	\$ 159,371,085	\$ 157,844,945

major funds. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules elsewhere in the report.

At June 30, 2014, the governmental funds of the County reported a combined fund balance of \$124,837,227, a .8 percent decrease from the previous year. The primary reason for this decrease was the restatement of beginning fund balance of (\$1.8 million) for a change in a fund

accrual. Additional information may be found in the notes to the financial statements.

General Fund - The General Fund is the chief operating fund of Catawba County. At the end of the current fiscal year, available fund balance of the General Fund was \$35,421,913 while total fund balance reached \$50,563,312. The governing body of Catawba County has determined that the county should maintain an available fund balance of at least 16% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash

flow needs of the County. The County currently has available fund balance of 21.61% of total general fund expenditures, while the total fund balance represents 36.7% of that same amount.

The overall fund balance decreased by (\$54,852) due, in part, to the increase in property and sales taxes transferred to the water and sewer fund. Additional information is provided in the discussion on General Fund budgetary highlights on the next page.

Other Major Funds - The General Capital Projects Fund is a major governmental fund. This fund accounts for the financing and construction of all general government multi-year capital projects. Its fund balance increased by \$16.3 million to \$49 million. The largest financing sources came from \$2.7 million in sales taxes along with new debt of \$20 million issued for the future Justice Center expansion. Expenditures were \$11.5 million, an increase of \$8.2 million from the prior year as construction continued on a new animal shelter, branch library and parking deck for the Justice Center expansion project.

The School Construction Fund is a major governmental fund. This fund accounts for the financing and multi-year construction projects for public school and community college facilities. Its fund balance decreased by (\$18) million to \$7.4 million. Expenditures were \$17.6 million primarily for the construction of two new elementary schools. In addition, there was a prior period restatement of (\$1.8) million to correct an accrual in this fund.

Non-Major Funds - Fund balances for non-major funds increased by .9 million to \$17.5 million overall. The primary increases are from a \$194,357 net increase in investment revenue across all non-major funds and the \$211,869 increase in sales tax revenue in the School Capital Fund.

Proprietary Funds - The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The County has two enterprise funds, the Solid Waste Management and the Water and

Sewer Fund. Total net position of the Enterprise Funds at the end of the fiscal year amounted to \$94.9 million with \$45.4 million of this amount being unrestricted. The increase in net position in these funds was \$3.8 million. Other factors concerning the finances of these funds have been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

- ▶ Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available.
- ▶ Amendments made to recognize new funding amounts from external sources, such as Federal and State grants.
- ▶ Increases in appropriations that become necessary to maintain services.

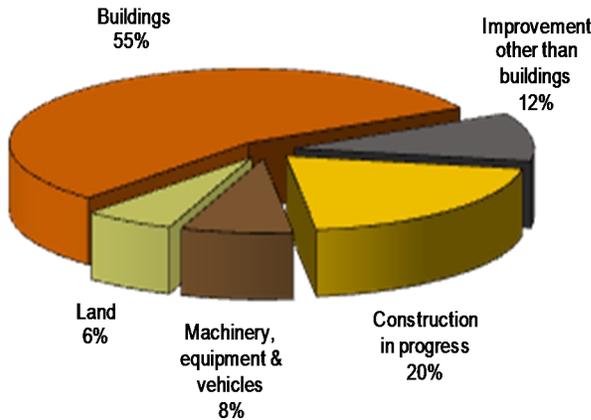
Total amendments to the General Fund increased revenues by \$900,706 or .6%. This increase was due mainly to anticipation of additional federal and state grants available for County services.

Actual revenues were greater than final budgeted amounts by \$2,056,297. This was due mainly to increases in collections of property and sales taxes.

Net amendments to budgeted appropriations were \$207,026 or .1%. The majority of amendments were for public safety and human services, mainly for change in expectations for receipts of federal and state grants. Actual expenditures were less than final budgeted amounts by \$11,038,784. These cost savings resulted mainly from unspent appropriations of a) \$5.3 million in services and supplies in human services departments, b) \$3.3 million in salaries and benefits due to temporary vacancies in various departments, c) reductions in health claims by County employees.

CAPITAL ASSET AND DEBT ADMINISTRATION

Catawba County's Total Capital Assets (net of depreciation)



Capital assets - Catawba County's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$156,056,566 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities and vehicles. Major capital asset transactions during the year include the following additions and deletions:

- ▶ Addition of new public safety vehicles of approximately \$1,007,300.
- ▶ Retirement of public safety vehicles of approximately \$131,000.
- ▶ Increase in construction in progress in governmental funds of approximately \$11 million primarily for the addition of a new animal shelter, branch library, and justice center parking deck.

- ▶ Increase in construction in progress in the water and sewer enterprise fund of approximately \$4.3 million for the extension of new sewer lines along Highway 150.

Additional information on the County's capital assets can be found in note 4.A of the Basic Financial Statements.

Long-term Debt - As of June 30, 2014, Catawba County had total general obligation bonded debt outstanding of \$760,000, all of which is debt backed by the full faith and credit of the County. In addition, the County had other outstanding debt of \$165,252,319. The overall change in long-term debt was a net increase of \$5,978,873. The County issued installment purchase debt during the year of \$20,125,000 for the expansion of the Justice Center and refunded \$3,755,000 of outstanding certificates of participation.

As mentioned in the financial highlights section of this document, Catawba County maintained for the 5th consecutive year, its Aa1 bond rating from Moody's Investors Service and for the 10th consecutive year, its AA rating from Standard and Poor's. This stable bond rating is a clear indication of the sound financial condition of the County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

North Carolina general statutes limit the amount of debt that a unit of local government can issue. The County's total debt outstanding is \$166,012,319 compared to the legal debt limit of \$1,336,048,179 or 12% of the legal debt limit.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 5,696,392	\$ 5,696,392	\$ 7,894,924	\$ 7,886,912	\$ 13,591,316	\$ 13,583,304
Buildings	51,851,730	49,670,152	3,776,232	584,683	55,627,962	50,254,835
Improvements other than buildings	9,866,576	10,149,462	20,810,070	20,484,287	30,676,646	30,633,749
Machinery, equipment and vehicles	7,056,193	7,264,396	1,438,499	1,743,104	8,494,692	9,007,500
Construction in progress	18,889,461	11,878,881	28,776,489	27,859,576	47,665,950	39,738,457
Total	93,360,352	84,659,283	62,696,214	58,558,562	156,056,566	143,217,845

Catawba County's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 760,000	\$ 3,325,000	\$ -	\$ -	\$ 760,000	\$ 3,325,000
Installment Purchases	44,692,130	48,618,040	7,397,122	8,000,000	52,089,252	56,618,040
Certificates of Participation	10,730,000	16,465,000	-	-	10,730,000	16,465,000
Qualified Zone Academy Bonds	400,000	450,000	-	-	400,000	450,000
Qualified School Const. Bonds	21,529,896	23,383,798	-	-	21,529,896	23,383,798
Limited Obligation Bonds	57,702,836	37,770,939	5,212,164	5,504,061	62,915,000	43,275,000
Build America Bonds	6,663,443	7,242,872	-	-	6,663,443	7,242,872
Federal Revolving Loan	-	-	1,200,000	1,275,000	1,200,000	1,275,000
Department of Commerce	2,600,000	2,600,000	-	-	2,600,000	2,600,000
Premium on long-term debt	6,935,140	5,195,017	189,588	203,719	7,124,728	5,398,736
Total	\$ 152,013,445	\$ 145,050,666	\$ 13,998,874	\$ 14,982,780	\$ 166,012,319	\$ 160,033,446

Additional information regarding Catawba County's long-term debt can be found in note 4.B of this report.

FISCAL YEAR 2013-14 ECONOMIC FACTORS

The following factors reflect the economic activity of the County.

- ▶ Low debt burden and property tax rate. The County's existing debt obligations are only 12% of its statutory limit. The property tax rate of \$0.53/\$100 was below the State average of \$0.63/\$100 and the 26th lowest of all 100 counties in North Carolina.
- ▶ The County remains a retail magnet for the region, capturing 60% of the \$3.0 billion in retail sales from the four-county Metropolitan Statistical Area in 2013 despite having only 42.5% of the population.
- ▶ Sales tax revenue increased by 5.5% compared to 1.0% in the prior year.
- ▶ The county's unemployment has seen improvement as the rate declined from 9.9% in June 2013 to 7.10% In June 2014.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2015

Governmental Activities - The local economy continues to show modest improvement. In next year's budget, the property tax rate at \$.53/100 is unchanged from the prior year. Projections include a 1.7 percent increase in sales tax revenue and a 2.8 percent increase in local permits and fees. The County is also budgeting an increase of 2.1 percent in operating expenses for a total approved budget of \$201,910,411 for fiscal year 2014-15.

Education continues to represent the largest portion of the local budget, with 47.6 cents of every property and sales tax dollar allocated for the instructional costs and capital needs of the three public school systems and Catawba Valley Community College.

The County places public safety as a high priority, and accordingly, additional expenditures are planned in this area. The second largest portion of local funds—23 cents of every property tax and sales tax dollar—is spent on public safety.

As a commitment to public safety, in fiscal year 2014-2015 the County budgets funds for two new road patrol deputies, replacement of fifteen front-line vehicles, renovations to a former branch library site for conversion to a satellite station for Sheriff deputies, and expansion of the Justice Center. The County

continues to review staffing needs annually, rightsizing in some areas while investing in others. The fiscal year 2014-15 budget eliminates or reduces hours for 16 positions and adds 5 new positions in public safety. The budget includes a 1% cost of living adjustment and other salary adjustments based on performance including a 1 percent increase for employees who exhibit satisfactory performance as reflected in the annual evaluation. A limited amount of funding is included to address pay inequities in order to keep the County competitive with other jurisdictions through an annual reclassification study.

Business – type Activities - The \$12,788,908 budget includes \$5,952,979 for solid waste and \$2,283,674 for water and sewer operations. Also included in this amount is \$750,000 for solid waste and \$3,802,255 for water and sewer capital projects. As the County grows, there is a

greater demand for clean drinking water and sewage disposal. To address these needs, the budget commits 1/2 cent (\$.8 million) of the property tax rate and \$1.36 million of the 1/4 cent sales tax to fund strategic water and sewer needs. The County has entered into an agreement with a private company to operate the Biodiesel operations, with a result of adding new jobs and reduced costs to the County and citizens.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Catawba County, PO Box 389, Newton, NC 28658. Online information may be found at the County's website at www.catawbacountync.gov.

