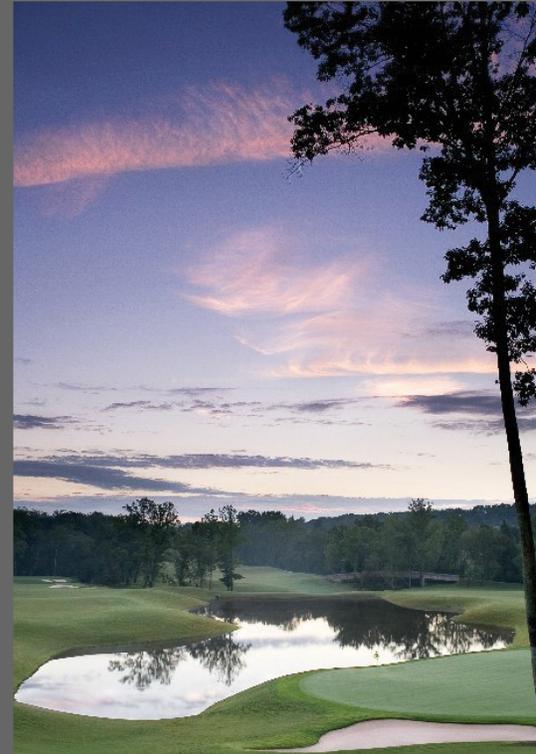
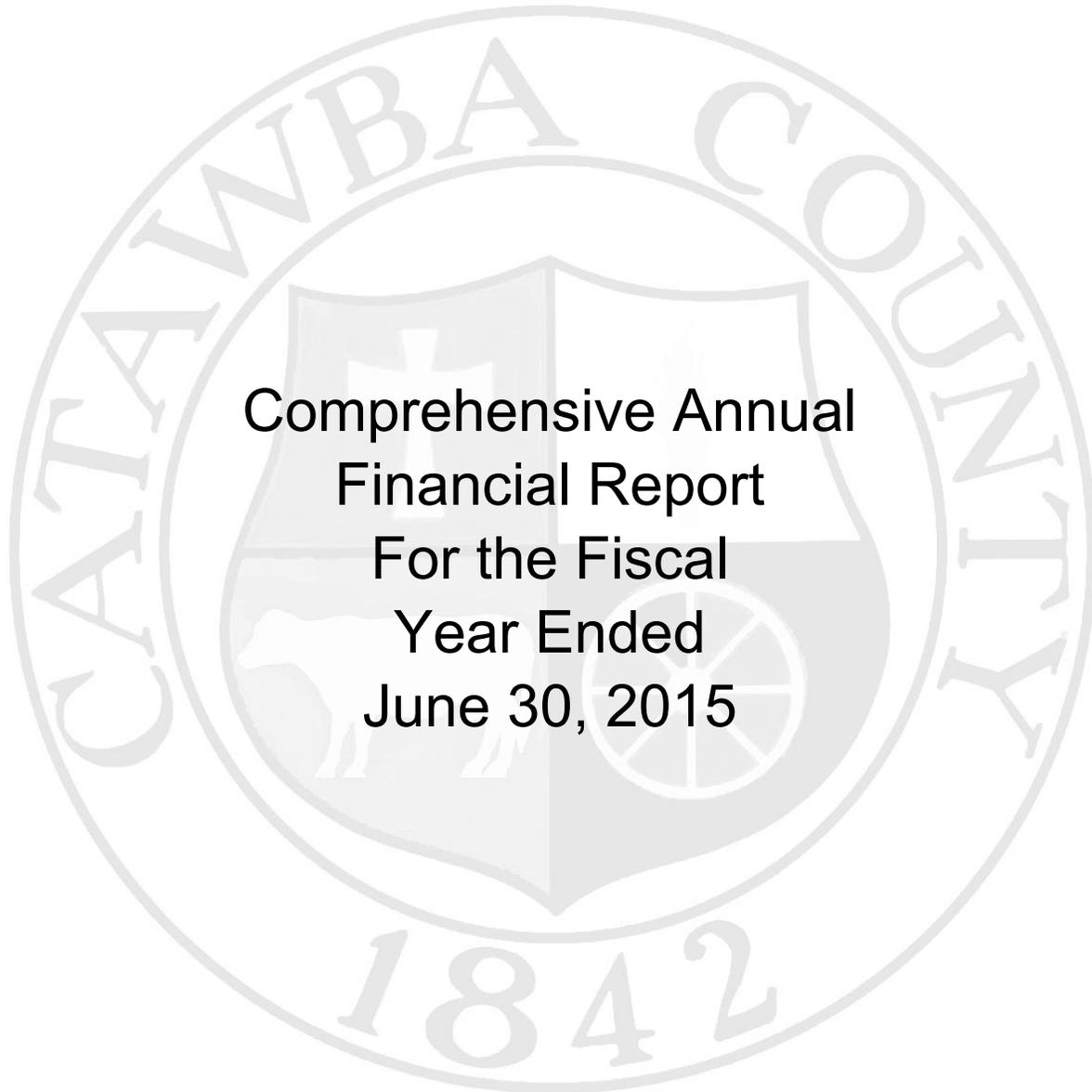


Catawba County, North Carolina

2015 Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2015



Catawba County, North Carolina



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2015

J. Thomas Lundy, County Manager
Jeanne C. Jarrett, Interim Finance Director

Prepared by Catawba County Finance Department
Published November 19, 2015

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BOARD OF COMMISSIONERS



Catawba County Board of Commissioners
Dan A. Hunsucker, C. Randall Isenhower - Chair,
Sherry E. Butler, Katherine W. "Kitty" Barnes, Barbara G. Beatty - Vice Chair



P.O. Box 389
100-A South West Boulevard
Newton, North Carolina 28658-0389
Telephone: 828-465-8201
Fax: 828-465-8392
www.catawbacountync.gov

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

November 19, 2015

State law requires that all local governments have their financial records audited by a certified public accountant using generally accepted auditing standards as soon as possible after the close of each fiscal year. Local governments are also required to 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 ending June 30, 2015.

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 information presented herein. To provide a reasonable basis for making these representations, County management has established a comprehensive internal controls framework that is designed to both protect the organization's assets from loss, theft, or misuse and to compile sufficient reliable information for 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 internal controls framework 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, 2015.”

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 ending June 30, 2015 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 ending June 30, 2015 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 federally- 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 on not only 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 grant 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

The center of the Greater Hickory metropolitan statistical area, Catawba County is conveniently located within a 1-hour drive to Charlotte, Asheville, and Winston-Salem, and affords easy access to both Interstate 40 and Highway 321. 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. Named for the Catawba Indians who resided in



the area prior to European settlement in 1747, Catawba County (established in 1842) encompasses a 414-square mile area and is located in a peaceful valley just east of North Carolina's Blue Ridge Mountains.

The County has eight cities and towns within its boundaries, and is home to a population of 155,832 residents, which positions it as the 17th largest county in North Carolina and one of the 27 urban counties with population of 100,000 or more. In 1937, Catawba County was the third of North Carolina's 100 counties to adopt the County-Manager form of government (after being the first to get the legislative authority). It is governed by five commissioners (Randy Isenhower-Chair, Barbara Beatty-Vice Chair, Kitty Barnes, Sherry Butler, and Dan Hunsucker) who are elected by countywide vote in partisan elections and serve four-year staggered terms.

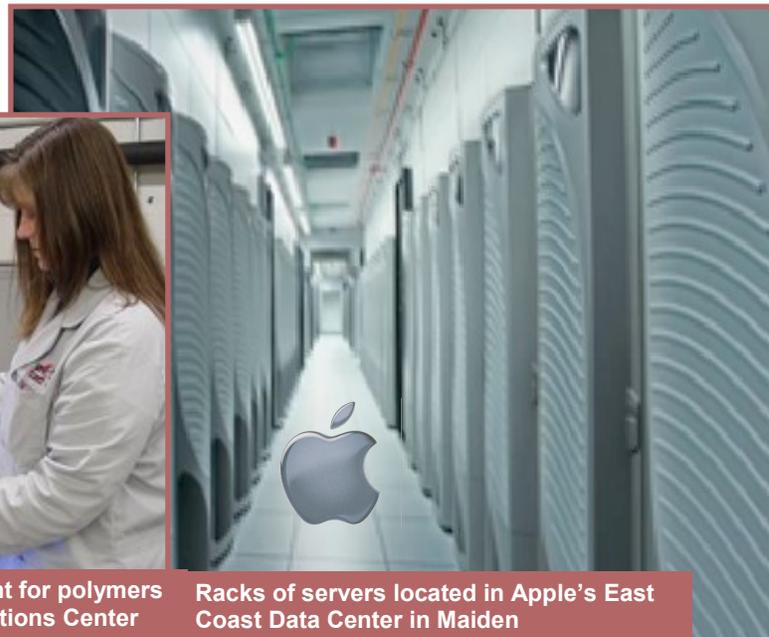
The County Manager is appointed to serve as Chief Executive Officer and is responsible for the enforcement of laws and ordinances, preparation and administration of the annual budget, delivery of services, implementing policies, managing



Trauma simulation at Catawba Valley Simulated Hospital, the largest of its kind east of the Mississippi



Weather testing equipment for polymers at the Manufacturing Solutions Center



Racks of servers located in Apple's East Coast Data Center in Maiden

daily operations, and appointment of department heads and employees. The County is fortunate to have stability in its management structure, with the County Manager (J. Thomas Lundy) affording the County more than 43 years of continuous service.

Catawba County provides 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, Catawba County Economic Development Corporation, and Hickory Metro Convention and Visitors Bureau. The Catawba Valley Medical Center and Catawba County Alcohol and Beverage Control Board are separate entities, but their financial information appears in the County's financials, as well.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is best understood when considered from the broader perspective of the specific environment in which the County operates.

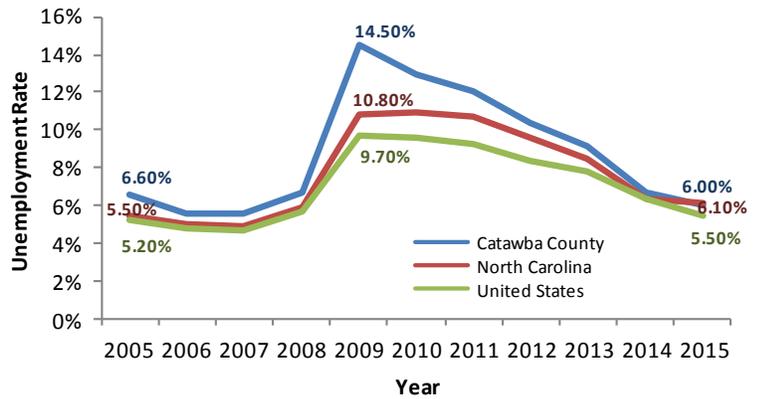
LOCAL ECONOMY

Catawba County is part of the Hickory Metropolitan Statistical Area (MSA), which includes Alexander, Burke, Caldwell, and Catawba counties. **Recent economic indicators show consistent improvement in Catawba County's economy, with positive gains in employment, unemployment, and retail sales.**

Employment Rebounds, with Unemployment among the Lowest in North Carolina

Employment figures in the Hickory MSA are on the rise, showing increases of 1,248 jobs (or .92%) from June 2014 to June 2015. A more recent snapshot shows this growth is accelerating, with 1,842 jobs (or 1.19%) added

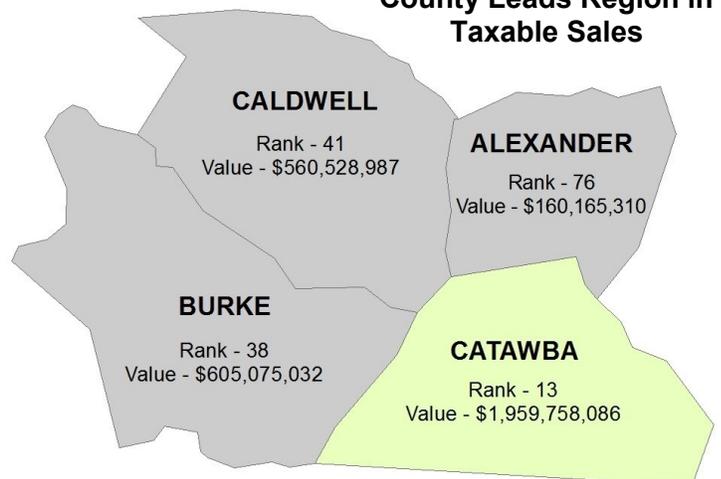
Unemployment rate hits 11-year low.



since last September. Another bright spot for the economy is that job openings are also on the rise, with 361 more openings posted online between July and September 2015 than the same period last year, according to the NC Department of Commerce Labor Market Overview. Job availability is concentrated largely in the transportation, healthcare, retail sales, customer service, and manufacturing sectors.

Catawba County's unemployment rate, 6.0% for the period of this audit in June 2015, has dropped below pre-recession levels. Recently released unemployment figures for September 2015 show this improvement continuing, dropping to 5.3% in Catawba County as compared to 5.4% for the State of North Carolina and 4.9% nationally. This unemployment rate is among the lowest 1/3rd in North Carolina, now 0.1% below the State and within 0.5% of national unemployment rates.

County Leads Region in Taxable Sales



Strong Retail Sales & Tourism Performance Indicate Sustained Recovery

Catawba County remains a retail magnet for the region, capturing 59.7% of the \$3.3 billion in retail sales from the four-county MSA, while accounting for only 42.6% of the population. Taxable sales in the County increased by 9% in 2014/15, on top of a healthy 4% increase the year before. This is the sixth year in a row that revenues have increased. **Statewide, the County ranks 17th in population but 13th highest in taxable sales.** These figures cement Catawba County’s position as a regional retail magnet, with furniture, automotive, restaurants, and shopping options that draw visitors from surrounding communities and generate taxable sales within the County.

The State’s recent extension of sales tax to certain services including tickets for entertainment events has positively impacted the County’s taxable sales activity. **Catawba County ranks 16th in the State for tourism revenue,** with \$241 million generated in 2014 (a 4.3% increase over the previous year’s activity). This economic sector is buttressed by the presence of a wide range of cultural amenities that appeal to all audiences:

- Catawba Science Center
- Green Room Community Theatre
- Hickory Choral Society
- Hickory Community Theatre
- Hickory Crawdads Baseball Team
- Hickory Metro Convention Center
- Hickory Motor Speedway
- Hickory Museum of Art
- Newton-Conover Auditorium
- Oktoberfest in Downtown Hickory
- Western Piedmont Symphony

A Focus on Job Growth and Investment

Recently, Catawba County has taken a proactive, aggressive approach in charting its economic future through targeted expansion. In the past few years, job gains have been made as a result of significant expansion projects –

funded both privately and in partnership with the public sector - occurring in a wide range of industries from traditional manufacturing to high-tech. **This mix of public-private partnership and private investment underscores the County’s balanced economic health and resiliency.**

To further bolster these efforts, the County continues to actively recruit and attract targeted national and international companies with a focus on higher-wage industries like Information, Emerging & Alternative Energy, and Advanced Manufacturing, the latter which leverages the County’s skilled workforce and high concentration of manufacturing support systems. In 2014, \$261.5 million in industry investments and 864 new jobs were announced in the County, according to the NC Department of Commerce. A sampling of the companies committing to deepening investments or adding jobs in Catawba County include:

 **Apple, Inc.** increased its investment in Catawba County by over \$100 million. To date, Apple has added \$1 billion in real and personal property and alternative energy systems to the County’s tax base, making it the County’s largest taxpayer.

Axjo America, a company that makes industrial-sized spools for cables and wire,  committed to invest \$11.1 million in the consolidation of two existing facilities and to create 14 new jobs at a new manufacturing facility in Conover.

Bassett Bassett Upholstery, a Newton-based furniture manufacturer in operation since 1965, has increased its employee base by 27% since 2010, from 410 to 520 in 2015.

Blue Bloodhound, LLC, a logistics-based technology company specializing in mobile web applications that support the transportation sector, recently committed to 



locate in Hickory. By 2018, the company will create 191 new jobs with an annual salary of \$46,368 (almost 22% higher than the County's average salary of \$38,075).

CommScope HQ, one of the County's largest  employers with a focus on connectivity products for data centers, and fiber optic cable production, announced a \$3 billion acquisition of TE Connectivity in 2015.

 **Cornerstone United**, which specializes in manufacturing warranties and protections, invested over \$2 million to renovate the historic Piedmont Wagon building in Hickory for its new headquarters, adding 35 new jobs.

GKN Driveline, the world's leading supplier of automotive driveline components and systems, broke ground on an expansion that will bring \$122 million in new investment and 228 jobs to its Newton facility. 

 **Prysmian Cables and Systems**, a world leader in manufacture of high-technology cable and systems for energy and telecommunications, announced plans to re-establish its Fiber Optical Pre-form operation by renovating 10,000 sq. ft. of manufacturing space, resulting in 24 new full-time jobs.

Republic Services, a waste service company providing residential, commercial, and industrial waste management and recycling throughout the County, expanded its Conover Recycling Facility, investing over \$10 million. Post-expansion, the highly-advanced facility has the capacity to process more than 25 tons of mixed recyclables per hour, or 400 tons each day. 

Roll-Tech Molding Products, offering a broad range of wheels and casters for use in material handling, institutional 

equipment, and furniture, expanded its Hickory facility, adding 11,733 sq. ft. and creating 4 additional jobs. This expansion allows for an increase in productive capacity at the current plant.

 **Strata Solar** has invested over \$15 million in a new solar farm in Newton, bringing its total number of solar farms in Catawba County to three, with a total investment of \$45 million. Each solar farm is projected to produce enough electricity to power 750 homes using renewable green energy, the equivalent of 2,250 homes powered by all three sites.

Sutter Street Manufacturing, a local division of Williams-Sonoma established in 2007, added new equipment valued at over \$1.6 million to their Claremont facility. Sutter Street, which started out with 35 employees and produced 200 pieces of furniture per week, now has 1,000 employees and produces 9,000 pieces of furniture per week. Pottery Barn and Williams-Sonoma distribute these US-made products with pride. 

Timmerman Manufacturing, a wholesale manufacturer of specialty wrought-iron parts and accessories, added a second facility in Conover to house a new powder coating operation, investing nearly \$750,000 in new equipment and announcing 5 new jobs. 

Transportation Insight, a Hickory logistics company, invested \$8 million to restore a downtown hosiery mill for its headquarters, adding 50 new jobs. 
Evaluate. Innovate. Dominate.

In addition to these jobs and infrastructure investments, the impact and influence of businesses with a Catawba County presence continues to bring positive attention to the community and reinforces the relevance and reliability of the area's economic base.



WestRock, a leading global packaging company, holds 2,400

world-wide patents, is responsible for producing more than 50% of all pizza boxes in North America, produces more than 6 billion beverage cartons and 200 million hand soap pumps. WestRock's Conover facility produces containers for well-known brands like Little Debbie, Lean Cuisine, Cheez-It, and Lance.

Continental Structural Plastics, manufacturer of strong, lightweight advanced composite materials with a location in Newton, recently announced



Continental Structural Plastics

that its TCA Ultra Lite (a Class A body panel) material is now in production on the 2016 Chevrolet Corvette, resulting in a 20-pound weight savings on the Stingray Coupe model.

Fiserv, a global provider of financial services technology solutions with over 400 Hickory-based employees, has recently secured recognition as one of FORTUNE Magazine's World's Most Admired Companies (2015), Forbes' list of America's Best Employers (2015), and the Top 10 on the FinTech 100, an annual listing of top financial technology companies by Bank Technology News and IDC Financial Insights (2014)

Corning, Incorporated, CORNING headquartered in Hickory,

was recently named the top vendor of distributed antenna systems by ABI Research in their latest competitive assessment report for the in-building wireless market. This ranking considered 2 factors: the company's innovation, which includes advanced features such as small cell support and total cost of ownership, and implementation, which looks at market penetration across regions and industries.

Deliberately Driving Workforce Development

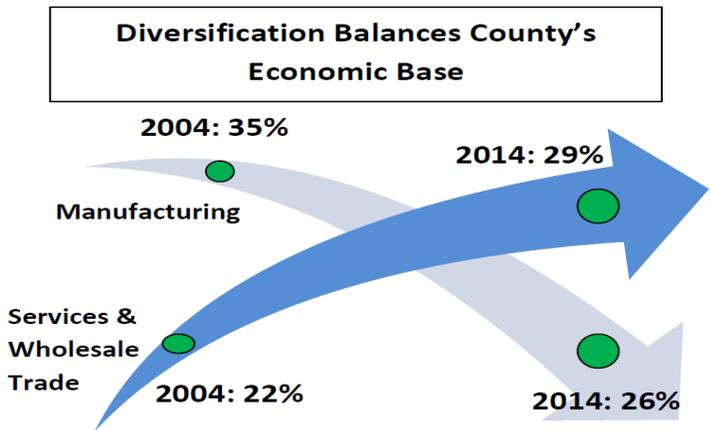
While Catawba County's economy is built upon a large industrial base (with over 26% of its workforce in manufacturing), growth in five key sectors has resulted in a more balanced economic composition today than what existed a

decade ago. Since 2004, the following sectors have experienced double-digit employment growth, collectively comprising 29% of the total economy and exceeding the manufacturing sector's employment by 1,875 jobs:

- Professional, Scientific, Technical Services;
- Administrative, Support, & Waste Mgmt and Remediation Services;
- Real Estate and Rental and Leasing;
- Wholesale Trade; and
- Healthcare and Social Assistance

The growth in these sectors represents a 24% increase from 2004 employment levels.

Further, the County has been a leader in the manufacture and development of fiber optics and telecommunications equipment for more than a decade, producing approximately 50% of the world's supply of fiber optic cable and still providing significant employment opportunities for County residents.



In the context of Catawba County's efforts at economic diversification, manufacturing still represents a mainstay industry for the community, although to a lesser extent than in years past. **Steady growth in fiber optic and telecommunications investment and employment and continued reinvestment by newer industry sectors, combined with the effects of a "re-shoring" trend that has brought furniture manufacturing jobs back to Catawba County, has brought a more balanced and sustainable economy to the County.**

Building upon the core strengths of the local economy, Catawba County has made significant



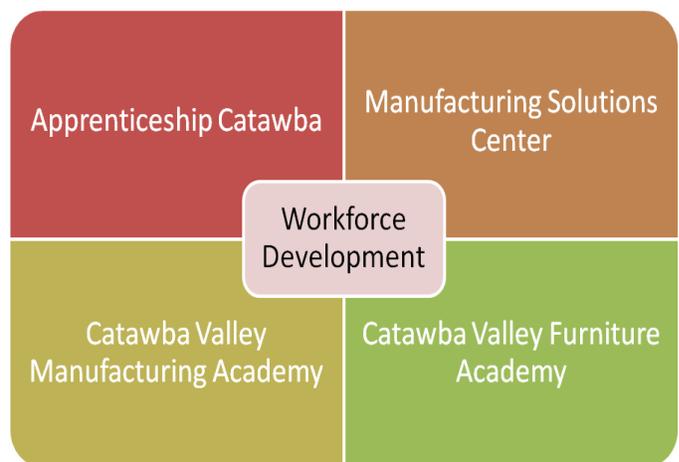
Equipment such as the Moisture Management Testing unit at the Manufacturing Solutions Center helps entrepreneurs achieve results and take products to market.

strides in preparing its workforce with the skills to meet current and future labor needs of local employers. **With employment continuing to rise, cross-sector partnerships between local governments, the business community, public educational institutions, and industry-specific resources have institutionalized a full-spectrum approach to aligning local talent with available jobs.** Programs have been designed to target high-school students as well as college-aged students and adult learners to ensure the County's workforce is poised to help local businesses thrive. Several key initiatives that have emerged from these partnerships are highlighted below:

The Manufacturing Solutions Center (MSC) is a branch of CVCC focused on helping manufacturers increase sales, and improve product quality and production efficiency. To assist manufacturers in increasing sales, MSC develops marketing materials, identifies new or expanded export opportunities, and positions companies to market products at trade shows. To improve product quality, the MSC has an accredited ISO/IEC 17025 testing laboratory that performs microbiological, thermal, and mechanical testing for textiles. The Center aids entrepreneurs in transforming concepts into finished marketable products by offering floor space, equipment and technology access, and expert advice at its 10,000 square foot manufacturing incubator. MSC connects the dots for entrepreneurs by bringing all of the

resources needed to successfully launch a product together under one umbrella. This combination of expertise and equipment has enabled the development of innovative products such as wearable technology that measures and regulates blood circulation, delivers active ingredients to the skin through fabric, and integrates QR codes into the material so it can be scanned and tracked through the production process. Future product possibilities are staggering, with the potential for everything from caffeine-infused driving gloves to sleeves that deliver heart medicine in the prescribed amount on the horizon. MSC has established itself as a regional expert in prototype development using 3D printing.

At America's 2014 Competitiveness Forum, **MSC was recognized by the US Department of Commerce as one of the top economic job creation programs.** MSC has worked with such nationally known companies as Keen, Merrell, 3M, Nike, Hanes Brand, LL Bean, Lands End, Target, Polartec, Boeing, and Ralph Lauren. Since 2012, MSC's direct economic impact has totaled \$43.7 million, assisting in the creation of 346 jobs and the retention of 268 jobs. Over the last 2 years, the MSC has helped over 1,000 entrepreneurs and worked with companies in all 50 states and 32 countries to conduct product testing or prototyping, or to find domestically-produced production inputs.



Apprenticeship Catawba is a training pipeline for high school students. Based on the German apprenticeship model and accredited by the North Carolina Department of Commerce, this 4-

year program ensures students are career-ready at graduation by providing 8,000 hours of paid on-the-job training that counts towards an Associates' Degree in Mechatronics Engineering Technology or Computer Integrated Machining Technology from Catawba Valley Community College (CVCC). Additionally, students earn Journeyman Certificates upon graduation qualifying them for skilled trades such as Mechanical Maintenance Technician, Electrical Maintenance Technician, Mechatronics Technician, Tool & Die Maker, Computer Numerically Controlled Machinist, and numerous others. Not only do students leave the program with degrees, but they do so without incurring any college debt and employed full-time by the sponsoring company, earning at least \$34,000 per year. Last year 21 students from the County's three public school systems participated, along with seven area companies: GKN, ZF, Continental, Sarstedt, Tenowo, Aptar, and Technibilt.

The **ACT Career Readiness Certificate** allows job seekers to show prospective employers that



**NATIONAL
CAREER READINESS
CERTIFICATE®**

they possess basic skills required for various positions

in today's workplace. **This certification – currently offered by Catawba Valley Community College - is recognized by over forty employers in the local area, and that number is growing. By 2016, every high school within Catawba County will also offer the certification.** Western Piedmont Council of Governments has worked to have Catawba County certified as a Work Ready Community, which positions the County to quantify the skill levels of its workforce, identify gaps, and develop plans to address those gaps. Based on this information, educators, local businesses, and governments build career pathways aligned to the needs of business and industry. The County has achieved 93% of ACT's National Career Readiness Certificate goals and anticipates full certification as a county in 2016.

The **Catawba Valley Furniture Academy**, housed within CVCC, is an industry-driven training program designed in partnership with 5 major

Furniture Academy classes equip workers with critical skills to meet the industry's future workforce needs.



local furniture manufacturers to prepare students for high-demand skilled positions in the local area. Depending on specialization, graduates of the Academy have the potential to secure jobs earning up to \$62,400, which is 53% above the County's average wage. The program varies from 9 to 18 months in length, depending on focus area (Pattern Making, Manual Cutting, Inside Upholstery, Sewing, etc.). Since January 2014, 54 people have completed the program, earned furniture manufacturing certificates and secured jobs at participating companies – Century Furniture, LEE Industries, Lexington Home Brands, Sherrill Furniture, and Vanguard Furniture. In acknowledgement of this program's success, the Furniture Academy earned a 2015 Governor's Award for Excellence.

The Furniture Academy has been such a success that CVCC is moving the program to a larger location with the help of a \$200,000 commitment from local furniture companies and \$675,000 from the County. The expanded location will serve up to 66 students per session, as opposed to the current 25. On average, there have been 100 people on the waiting list at any given time, demonstrating the strong employment demand generated by the furniture industry.

The Catawba Valley Manufacturing Academy,

modeled after the Furniture Academy, is an industry-driven training course designed with input and expertise from 29 local manufacturers to



prepare students for high-demand manufacturing positions (such as machinists and maintenance technicians) with the region's largest employers. **Graduates will be fast-tracked for open positions with sponsoring companies,**

earning Career Readiness Certificates. The inaugural session began in October 2015.

NC Data Center Corridor

Building on Catawba County's existing asset base related to fiber optic cable production and emerging technology, the County – in partnership with neighboring local governments



and the Economic Development Corporation – has had success in attracting data centers to the community. (This

strategy leverages the presence of other major data centers in surrounding communities – both Facebook and Google have data centers in the Piedmont region.)

Most significantly, in 2009 the County enticed Apple, Inc. to commit to construct a data center facility on a 183-acre site within the County. This site, located in the town of Maiden, is Apple's only east coast operations facility and its data center headquarters that houses its iCloud suite of services (storage, word processing, presentation software, *Find My iPhone*, etc.). With an investment of \$1 billion, 150 new jobs and 250 additional contract workers to operate the facility, this was the largest economic development project in the history of the County and the State. Apple is currently building another 114,300 sq. ft. data center in Maiden.

Apple, Inc., now the County's largest taxpayer, has expanded its presence into the solar industry with a 170-acre site adjacent to the data center, a 200-acre site nearby in Conover, and a 105-acre site currently under construction in Claremont. Solar energy from the first site is used to power the data center, making it the largest end-user solar farm in the country.

In 2012, Bed Bath & Beyond, Inc. built a \$36.8 million data center in the County, located in a 48,000 square foot facility in the Claremont Industrial Park. The company committed to creating a minimum of 7 jobs by the end of 2018, and they are half-way to that goal.

Catawba County, the Cities of Conover and Hickory, and the Towns of Maiden and Catawba partnered to build the NC Data Campus, a 70-acre multi-jurisdictional business park. The partnership secured a \$2.6 million Community Development Block Grant from the NC Department of Commerce to build up to three shovel-ready sites marketed primarily for data center recruitment. Catawba County's share of the project stands at 57%. These efforts will also further enhance the region's efforts to create a cluster of data centers known as the NC Data Center Corridor, leveraging the presence of existing nearby regional data centers to solidify the region's reputation as one that embraces innovation and high-tech industry.

Innovate Catawba

In early 2013, in order to speed economic recovery and to enhance the community's



capacity across all sectors, a group of community leaders came together to develop a vision for the future of Catawba County and a plan of action for making it happen. In this way, Innovate Catawba came into existence, and the community vision of transforming the County into "a growing place with more jobs" was cast.

Catawba County was a founding member of this initiative, and has been at the table providing leadership ever since, supporting efforts across the initiative's six work groups to create quality jobs, improve workforce readiness by aligning educational resources, intentionally develop more and better leaders, and enhance the community's sense of place by improving aesthetics and amenities. As part of the Building for Jobs effort, the County partnered with the City of Claremont to build a speculative building to be marketed to potential businesses.

Park 1764

Park 1764 is a 170-acre Class A Business Park being developed in partnership between Catawba County and the City of Hickory. Development of the Park will occur incrementally. The County recently committed \$700,000 (½ the cost) to provide water and



sewer to the site. The Park will target the creation of job opportunities in advanced light manufacturing facilities, technical operations, and corporate headquarters. The vision for the site integrates amenities such as walking / cycling trails, gardens, and conservation easements, appealing to business prospects in a corporate, up-scale environment.

Strong Medical & Healthcare Presence

Well positioned to meet the future medical and health care needs of its citizens, the County is home to a prospering medical and healthcare community and two large medical centers.

Catawba Valley Medical Center (CVMC) is the largest not-for-profit community hospital in the region and the County’s second largest employer. Owned by Catawba County, CVMC is completely self-supporting. **The medical center recently completed a \$58 million expansion and renovation of its surgical suite, adding three new operating rooms and updating technology in existing rooms.** The expansion also included the construction of a five-story Women’s and Oncology Pavilion. In 2014, CVMC became the first in the region to offer the new CardioMEMS implant device, part of a communications system for heart failure patients designed to wirelessly transmit critical patient information about heart status to clinicians on a regular basis.

Based on the quality and consistency of medical care provided by the facility, CVMC has recently received multiple awards, including:

- Women’s Choice Award - Best 100 Hospitals for Patient Experience (each year from 2012 through 2015)
- Women’s Choice Award – one of America’s Best Hospitals for Orthopedics (each year from 2013 to 2015)
- Women’s Choice Award - one of America’s Best Hospitals in Obstetrics (2015)
- Women’s Choice Award - one of America’s Best Stroke Centers (2015)
- Women’s Choice Award - one of American’s Best Hospitals in Cancer Care (2014)
- First hospital in the State to receive four Magnet designations from American Nurses Credentialing Center (2014)
- Achieved Accredited Chest Pain Center status by the Society of Cardiovascular Patient Care (2015)
- Quest Award for High-Value Healthcare from Premier, recognizing reduction in harm, mortality, re-admissions and costs, while improving patient experience and delivering evidence-based care (2013 and 2014)

- Designated as Breast Imaging Center of Excellence by American College of Radiology (2014)

Frye Regional Medical Center, the County's third largest employer and seventh largest taxpayer, is a private hospital that has served the community for over 100 years. **The Heart Center at Frye is home to the most extensive array of cardiology services in the region**, and was the only regional facility offering 24/7 full-service cardiology and on-site heart surgery until 2014. Subsequent to the end of the fiscal year, Frye Regional Medical Center was acquired by Duke LifePoint. This acquisition is not expected to significantly impact the facility's operations within Catawba County.

Like CVMC, this hospital has also received numerous awards for the quality of its services.

- Women's Choice Award for Excellence in Obstetrics (2014 and 2015)
- Women's Choice Award for Excellence in Heart Care (2015)



- Women's Choice Award for Excellence in Breast Centers (2015)
- Women's Choice Award for Excellence in Orthopedics (2013)
- American Heart Association/American Stroke Association's recipient of *Get With the Guidelines-Stroke Gold Plus Quality Achievement*

Award (2015)

- Heart Failure Gold-Plus Quality Achievement Award from the American Heart Association (2014)
- Received top grade in Leapfrog Group's Fall 2014 Safety Score for continued safe high-quality healthcare services
- Earned Lung Cancer Screening Designation from American College of Radiology (2014)
- Ranked #1 in North Carolina and in top 5% of US hospitals for cardiac surgery and patient safety by Health Grades, a leading independent healthcare ratings organization

A Leader in Environmental Stewardship

The County has a long history of demonstrated environmental stewardship, with several key initiatives that have become hallmarks



of this value and the County's culture of innovation. The Catawba County EcoComplex and Resource Recovery Facility, winner of the 2015 Harvard Ash Center Bright Ideas in Government Award and a 2013 Energy Leadership Award from the Charlotte Business Journal, is designed to protect the County's environment and promote economic development by attracting jobs in the green energy, agricultural and environmental sectors. One component of the EcoComplex is the Biodiesel Research, Development and Production Facility (developed in 2011 in partnership by the County and Appalachian State University). In 2014, the County leased the biodiesel facility to Blue Ridge Biofuels in a move that will generate consistent revenue for the County while increasing the company's biodiesel production capacity from 500,000 gallons a year to 3 million gallons a year starting in 2017. **Investing over \$1 million in personal property and creating 5 to 10 jobs, Blue Ridge Biofuels will also supply Catawba County with biodiesel at a reduced cost to fuel County equipment.** The company is the first biodiesel producer in the Charlotte area to make fuel from used cooking oil. Blue Ridge



Biofuels will continue the partnership with Appalachian State to conduct research at the facility to test which feed stocks are most efficient for biodiesel production and best suited for the local climate.

Another element of the EcoComplex is the County's landfill gas-to-energy project. Approved in 1998, **the County's methane capture initiative was among the first public landfill gas-to-energy projects in the nation.** Methane gas from the Blackburn Landfill is directed into one of three 20-cylinder engines specially designed to burn methane as a fuel source to produce electric power. The Gas-to-Energy Facility produces enough energy to power approximately 1,400 homes annually. The County sells this energy to Duke Power, generating revenue from a landfill by-product that in many communities goes to waste. This innovation assists the County in maintaining low landfill tipping fees for the public.

CATAWBA COUNTY RANKED #1 AGAIN FOR TOTAL PUBLIC RECYCLING IN 2014



In 2010, the County initiated efforts to reduce its carbon footprint. Since that time, direct and indirect emissions have dropped by 3.53% as a result of energy-efficient lighting change-outs and a series of energy audits that identified priority investments with strong return-on-investment. Catawba County ranked #1 in the State in 2014 for total public recycling per capita, recycling an average of 507.55 pounds per person with an 88.3 percent

participation rate in the residential curbside recycling program. This is a significant achievement, and represents the 8th year in a row the County has ranked either #1 or #2 in the state. **Without these recycling efforts, projections indicate a new landfill cell (estimated to cost just under \$7.5 million) would be needed at least 2 years earlier than the current estimate of June 2021.** The county began offering county-wide curbside recycling to its citizens in 1990, the first county in the State to do so.

LONG TERM FINANCIAL PLANNING

The County rigorously adheres to debt management and investment policies designed to protect the County's sound financial position and credit quality. In addition, the County began preparing an eight-year Service and Capital Improvement Plan in 2007 (updated annually) to anticipate and plan for future capital expenditures. Every four years, in conjunction with county-wide revaluation, the Board of Commissioners sets a tax rate to address service and capital pressures, planning to hold the rate constant until the next revaluation.

As of July 1, 2015, \$119 million in capital needs had been identified over the next eight years, which includes approximately \$56 million in school and community college construction and a \$17 million jail expansion. Additionally the County faces service expansion pressures important to maintaining the quality of life to which the community has grown accustomed. Addressing these pressures is critical to ensuring the County does not fall behind in providing basic services like maintaining an 8-minute average EMS response time, improving case management and clearance rates of criminal cases, reinstating a 6-day per week operating schedule for all County Parks, and increasing investment in education. The County has also planned for operating costs for the new Justice Public Safety Center and debt/operating costs for the jail expansion.

Jail Expansion Needed

It is the County's responsibility to house all inmates as required by state law. The County experienced a surge in inmate population beginning in mid-2012 (although indexed crime



rates have fallen, based on the types of crimes committed and Burke County's decision to close a facility shared with the County). The Catawba County Detention Center was designed with this in mind, with the capacity to readily expand the existing design by 256 beds in anticipation of future expansion needs. Since the last jail expansion, Catawba County has rented a limited number of beds to the federal government, banking the proceeds to help fund the expansion and reduce total costs to taxpayers. Through June 30, 2015, \$2.67 million in bed rental revenue has been reserved for future jail expansion. The County's foresight in setting these funds aside will result in \$1.23 million in savings to citizens through interest cost avoidance because the County will have to borrow less. (It is worth noting that in Catawba County, jail diversion efforts have prolonged the capacity of the existing facility by avoiding 25,876 bed days valued at \$2.15M annually.)

The recently adopted Fiscal Year 2015/16 budget dedicated an annual 1.5 cents on the tax rate plus the bed rental revenue toward the jail



expansion, planned for Fiscal Year 2017/18.

Quarter Cent Sales Tax Helps Address Needs

As the county continues to grow, planning for infrastructure is essential to encourage orderly economic development, prevent urban sprawl, and accommodate growth with adequate facilities. In 2007, county voters overwhelmingly approved adoption of a ¼-cent sales tax by referendum, which is currently providing approximately \$4.75 million a year in revenue to augment property tax revenues in keeping up with growth in demand for County services. Most of these funds are being used to expand the County's Justice Center, a \$42 million construction project currently underway. The new center will house new courtrooms (a county responsibility), a new 911 Communication Center, the Emergency Operations Center and the Emergency Services department. Construction is scheduled to be complete in early 2017.

The remaining ¼-cent sales tax revenues are being used primarily for economic development, education, and water and sewer needs in the county. The Board of Commissioners continues to set aside funds (1 cent on the property tax rate — \$1.575 million — and \$700,354 in sales tax revenues in Fiscal Year 2015/16) to be used for strategic water and sewer projects throughout the county. The combined funds will address approximately \$38 million in water and sewer needs identified over the next eight years.

Supporting Education

Catawba County is committed to education and recognizes the linkage between student attainment and a quality workforce. To pay for large school and community college projects, the Catawba County Board of Commissioners adopts a four-year funding cycle in conjunction with countywide property revaluation. Fiscal Year 2014/15 marked the end of the funding cycle adopted in June 2011 and a new one began July 1, 2015. Through a combination of revenue including sales tax, and state lottery funds, the equivalent of 10.7 cents on the property tax rate (or \$16.87 million) is consistently dedicated to school and

community college debt service. The dedicated funding allows the County to finance \$56 million in new construction needs over the next four years for all three school systems and CVCC. Some major projects include a new Banoak Elementary School, technology and school renovations for Hickory Public Schools, roofing/renovations and bleacher replacement for Newton-Conover City Schools, and additional funding for the CVCC Workforce Solutions Complex.

In acknowledgement of the linkage between student attainment and workforce development, Catawba County commits almost 49 cents of every property and sales tax dollar towards education. This funding commitment has supported such initiatives as increasing local teacher supplements to attract and retain the best and brightest teachers and funding critical technology updates for all three school systems to foster a positive student learning environment. These efforts appear to be paying off, as evidenced by the latest year-end achievement results. All three public

districts were above the State average in achieving measurable objectives. Newton-Conover City Schools had the highest graduation rate in the State at 97.1% compared to the statewide average of 85.6%. Catawba County Schools' rate was 89.8%, and Hickory Public Schools' was 83.9% - the highest in the history of the school system for the second year in a row.

This year, the County, CVMC, Frye Regional Medical Center, the City of Hickory, and the Catawba County EDC Committee of 100 entered into a new partnership with Lenoir-Rhyne University to develop the LRU Health Sciences Center. **The Center will offer advanced training for medical and healthcare professionals, including a new 24-month Physician Assistant Program beginning in January 2016.** The center will open with 40 students over a 24-month physician assistant program with plans to double the enrollment the following year. These efforts aim to keep the County economically viable and improve the quality of its educational opportunities.



AWARDS AND ACKNOWLEDGEMENTS

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Catawba County for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2014, the 33rd year in a row that the County has secured this recognition. The Certificate of Achievement is a prestigious national annual award that recognizes 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 must publish an easy to understand CAFR that is well-organized and conforms to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. This report continues to conform to the Certificate of Achievement program requirements and will be submitted to GFOA for consideration thereof.

In addition, the County has prepared a Popular Annual Financial Report (PAFR) to GFOA for Fiscal Year 2014-2015. The PAFR is designed to provide citizens with easily understandable information about a government's finances and economic conditions in a more condensed fashion. PAFRs are supplements to – not replacements for – CAFRs, and are reviewed by a GFOA-appointed task force. The County has received an award for its PAFR for the past seven years and hopes to continue with the Fiscal Year 2014-2015 entry.

Finally, the County has also received the GFOA's Award for Distinguished Budget Presentation for its Fiscal Year 2014-2015 Adopted Budget effective July 1, 2014. This is the 26th consecutive year the County has received this award. In order to qualify for the

Distinguished Budget Presentation Award, the County's budget document was determined to be proficient in several categories including policy documentation, financial planning, and organization.

ACKNOWLEDGEMENTS

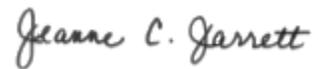
Each County department's strong commitment to the goals, vision, and mission of Catawba County is reflected in the services provided to the citizens. We appreciate the cooperation of all County departments in carrying out the financial activities encompassed in this report. The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire Finance Department staff and independent auditors, Martin Starnes and Associates, CPAs. Each has our sincere appreciation for the contributions made in preparation of this report.

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

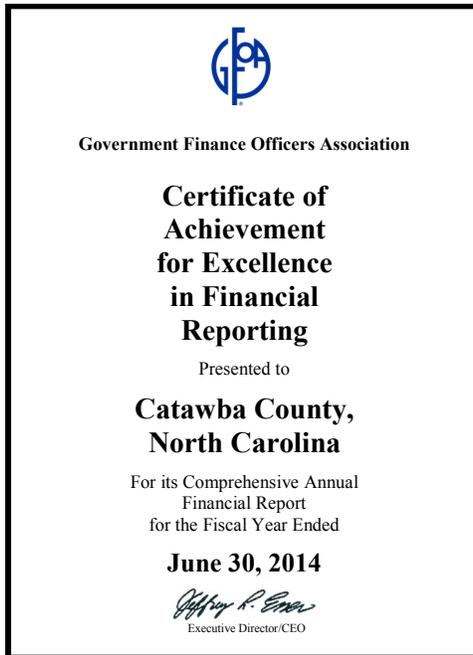
Respectfully submitted,



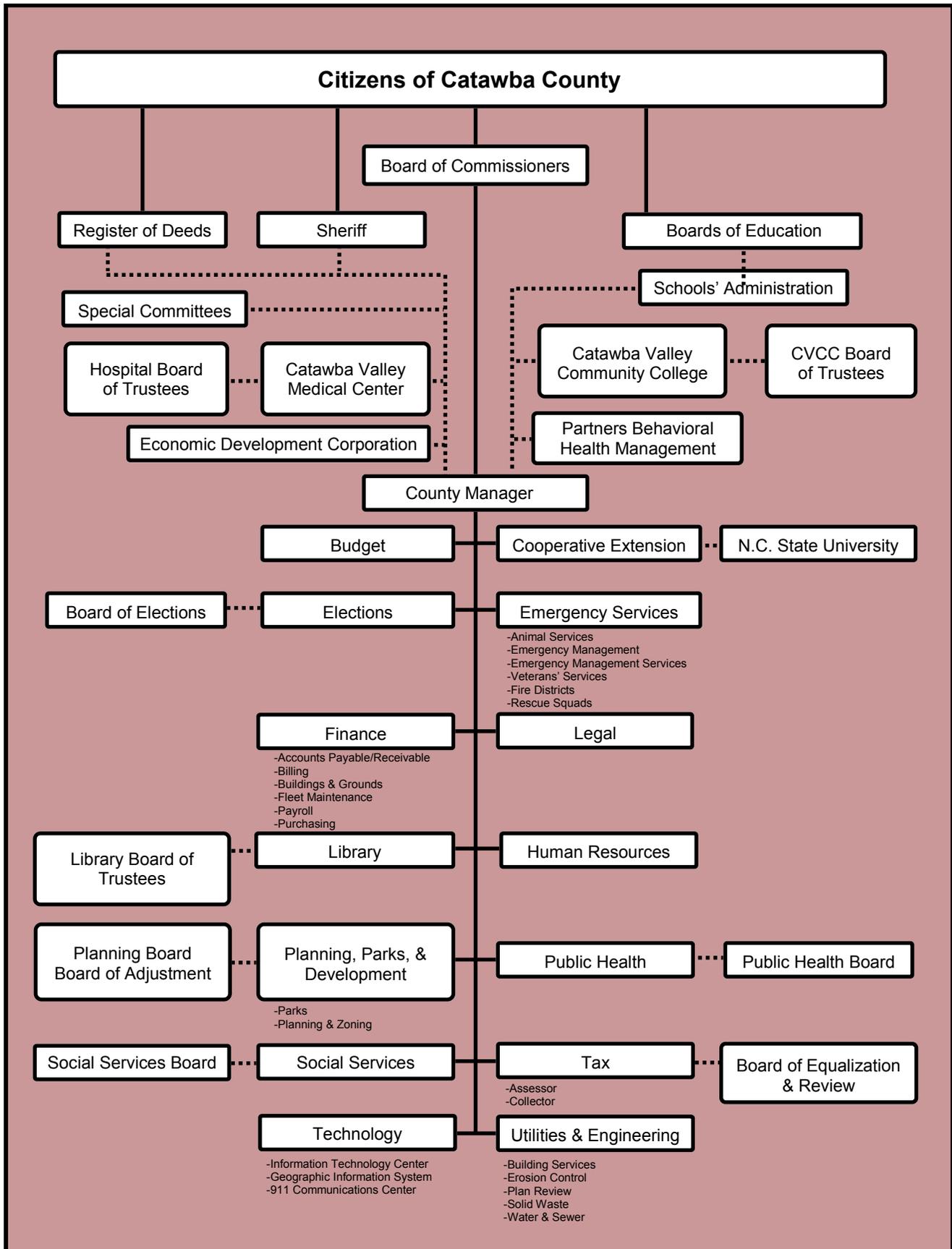
J. Thomas Lundy
County Manager



Jeanne C. Jarrett
Interim 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, 2015, 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, 2015, 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, the other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions, the Local Government Employee's Retirement System Proportionate Share of Net Pension Liability (Asset) and Contributions, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of the Net Pension Asset and Schedule of County 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,

other 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, supplemental ad valorem tax schedules, and other 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, supplemental ad valorem tax schedules, and other 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 19, 2015 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 19, 2015



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, 2015. 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

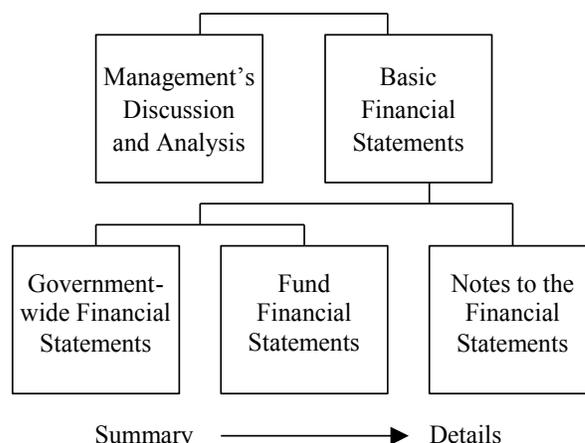
- ▶ The assets and deferred outflows of resources of Catawba County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$178,650,466 (*net position*). Of this figure, approximately \$127 million represents the County's investment in capital assets, which is not available for future spending.
- ▶ The government's total net position increased by \$24,012,319, resulting from an increase of \$21,012,217 in governmental activities and \$3,000,102 in business-type activities. This net increase is primarily due to management's focus on prudent spending while maximizing revenue collection.
- ▶ As of the close of the current fiscal year, Catawba County's governmental funds reported combined ending fund balances of \$126,839,239, an increase of \$272,383 in comparison with the prior year. Approximately 54 percent of this total amount, or \$67,913,114, 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 \$21,646,494, or 13 percent of total general fund expenditures for the fiscal year.
- ▶ Catawba County's total long-term debt decreased by \$(13,878,701) during the current fiscal year. Outstanding debt principal is \$152,133,618 and equates to \$976 per capita at the end of the fiscal year.
- ▶ For the eleventh 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 75 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 \$178,650,466 as of June 30, 2015. The County's net position increased by \$19,279,381 for the fiscal year ended June 30, 2015. Of this amount, \$24,012,319 is an increase in net position after transfers. The

Government-Wide Financial Analysis
Catawba County's Net Position

	Governmental Activities		Business-type Activities		Total		Total	
	2015	2014	2015	2014	2015	2014	Dollar Change	Percent Change
Current and other assets	\$152,357,349	\$145,963,231	\$ 57,829,553	\$ 57,609,457	\$210,186,902	\$203,572,688	\$ 6,614,214	3.25%
Capital assets	100,441,500	93,360,352	64,149,144	62,696,214	164,590,644	156,056,566	8,534,078	5.47%
Total assets	252,798,849	239,323,583	121,978,697	120,305,671	374,777,546	359,629,254	15,148,292	4.21%
Deferred outflow s of resources	6,221,402	3,228,486	132,012	52,685	6,353,414	3,281,171	3,072,243	93.63%
Long-term liabilities	151,567,961	163,494,768	23,630,302	24,504,641	175,198,263	187,999,409	(12,801,146)	-6.81%
Other liabilities	14,797,157	14,001,835	420,032	919,686	15,217,189	14,921,521	295,668	1.98%
Total liabilities	166,365,118	177,496,603	24,050,334	25,424,327	190,415,452	202,920,930	(12,505,478)	-6.16%
Deferred inflow s of resources	11,771,241	618,410	293,801	-	12,065,042	618,410	11,446,632	1850.98%
Net position:								
Net investment in capital assets	75,032,918	73,669,285	51,643,356	49,571,504	126,676,274	123,240,789	3,435,485	2.79%
Restricted	55,052,023	61,304,988	-	-	55,052,023	61,304,988	(6,252,965)	-10.20%
Unrestricted	(49,201,049)	(70,537,217)	46,123,218	45,362,525	(3,077,831)	(25,174,692)	22,096,861	-87.77%
Total net position	\$ 80,883,892	\$ 64,437,056	\$ 97,766,574	\$ 94,934,029	\$178,650,466	\$159,371,085	\$19,279,381	12.10%

difference, or (\$4,732,938) is a restatement of the net position at the beginning of the year. Catawba County implemented GASB Statement 68 this year. With the new reporting change, the County allocated its proportionate share of the Local Government Employee's Retirement System's net pension asset, deferred inflows and outflows of resources, and pension expense. A restatement of (\$6,462,567) to record the effects of the new reporting guidance decreased beginning net position. Decisions regarding the allocations are made by the administrators of the pension plan, not by the management of the County. A change in accounting for revolving loans increased net position by \$1,729,629. Additional information can be found in the notes to the financial statements.

The largest portion of net position, 71%, 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 \$8,534,078 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, 31%, represents resources that are subject to external restrictions on how they may be used.

The final component of net position is unrestricted, which is (2%) of the total net position. Because the County funds school capital needs through long-term borrowing but does not carry the resulting assets on our financial statements, we report a deficit in unrestricted net position.

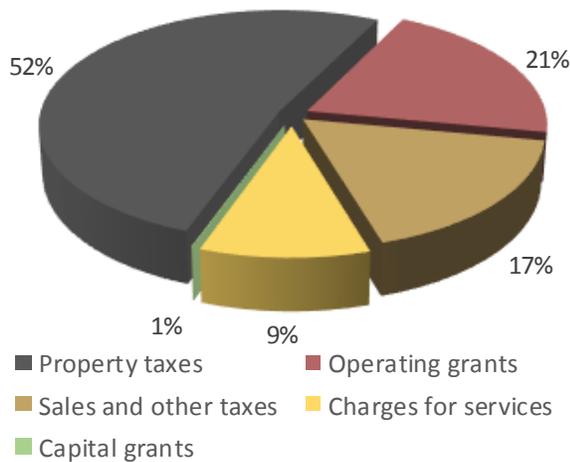
In order to provide a complete picture of the changes in net position of the County, information is provided separately for the net positions of governmental and business-type activities.

Governmental Activities - Governmental activities increased the County's net position by \$21,012,217. Several particular aspects of the County's financial operations positively influenced the unrestricted governmental net position.

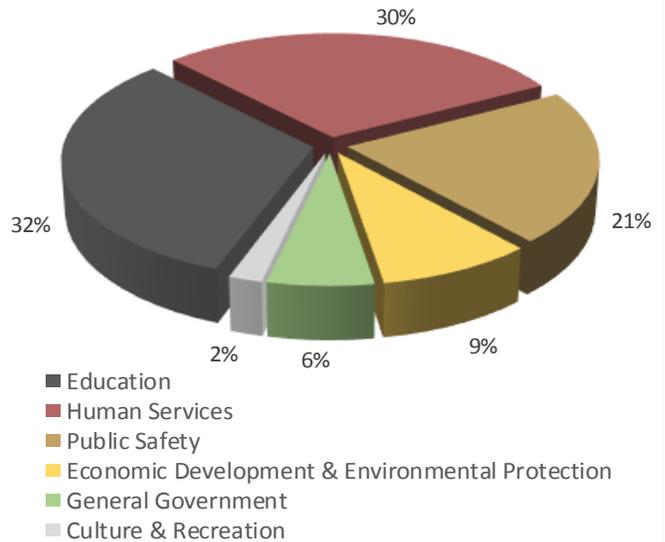
- ▶ The County, through a mutual agreement with the local school system, retained the proceeds of \$3.4 million from the sale of school property, a non-County asset.
- ▶ Long-term liabilities decreased by (\$11.9 million). The key factor in this decrease was annual debt service payments.
- ▶ Increased sales tax revenue of approximately \$1.9 million due to economic growth in the County.

The following graphs represent the major sources of revenues and the major functions of expenditures for governmental activities. Interest on long-term debt has been allocated to functional categories.

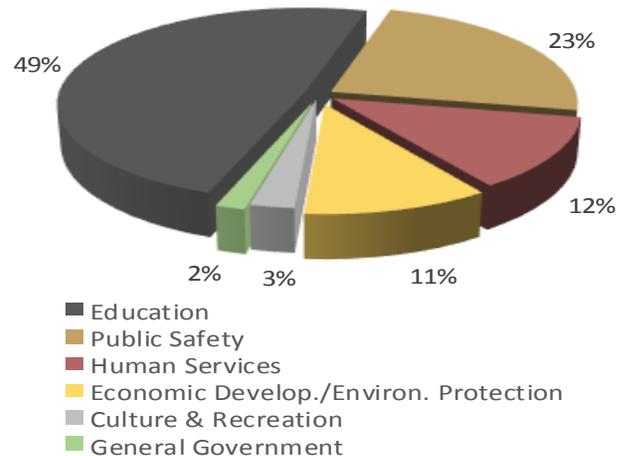
Revenues by Source - Governmental Activities



Expenditures by Function - Governmental Activities



Where do the Local Sales and Property Tax Dollars Go?



Business-type Activities - Business-type activities increased Catawba County's net position by \$3,000,102. 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.
- ▶ Transfer of 1/2 cent property tax for water and sewer capital projects in the amount \$.8 million.

Catawba County Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 18,478,369	\$ 19,345,405	\$ 6,054,569	\$ 5,671,631	\$ 24,532,938	\$ 25,017,036
Operating grants and contributions	37,229,196	29,136,207	606,766	868,759	37,835,962	30,004,966
Capital grants and contributions	125,000	2,292,224	486,732	126,942	611,732	2,419,166
General revenues:						
Property taxes	94,200,605	93,649,723	-	-	94,200,605	93,649,723
Sales and other taxes	31,614,970	29,522,013	1,763,741	1,657,101	33,378,711	31,179,114
Investment earnings, unrestricted	975,564	1,155,474	477,221	621,805	1,452,785	1,777,279
Gain on capital assets	-	-	2,220	-	2,220	-
Total revenues	182,623,704	175,101,046	9,391,249	8,946,238	192,014,953	184,047,284
Expenses						
General government	9,933,029	10,807,772	-	-	9,933,029	10,807,772
Public safety	32,921,751	32,732,323	-	-	32,921,751	32,732,323
Environmental protection	546,444	492,269	-	-	546,444	492,269
Economic and physical development	13,950,985	13,538,407	-	-	13,950,985	13,538,407
Human services	47,218,856	47,935,422	-	-	47,218,856	47,935,422
Cultural and recreation	3,127,165	2,847,558	-	-	3,127,165	2,847,558
Education	49,298,062	61,843,087	-	-	49,298,062	61,843,087
Interest on long-term debt	3,815,195	3,774,279	-	-	3,815,195	3,774,279
Solid waste management	-	-	4,899,445	5,166,963	4,899,445	5,166,963
Water and sewer	-	-	2,291,702	1,612,849	2,291,702	1,612,849
Total expenses	160,811,487	173,971,117	7,191,147	6,779,812	168,002,634	180,750,929
Increase (decrease) in net position before transfers	21,812,217	1,129,929	2,200,102	2,166,426	24,012,319	3,296,355
Transfers	(800,000)	(1,601,565)	800,000	1,601,565	-	-
Increase (decrease) in net position after transfers	21,012,217	(471,636)	3,000,102	3,767,991	24,012,319	3,296,355
Net position - beginning of year, previously reported	64,437,056	66,678,907	94,934,029	91,166,038	159,371,085	157,844,945
Restatement	(4,565,381)	(1,770,215)	(167,557)	-	(4,732,938)	(1,770,215)
Net position- beginning, restated	59,871,675	64,908,692	94,766,472	91,166,038	154,638,147	156,074,730
Net position - end of year	\$ 80,883,892	\$ 64,437,056	\$ 97,766,574	\$ 94,934,029	\$ 178,650,466	\$ 159,371,085

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 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, 2015, the governmental funds of the

County reported a combined fund balance of \$126,839,239, a 1.6 percent increase from the previous year. The primary reason for this increase is the increase in fund balance in the General Fund.

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 \$43,010,294 while total fund balance was \$60,507,995. 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 26.12% of total general fund expenditures, while the total fund balance represents 36.75% of that same amount.

The overall fund balance increased by \$8,215,054 due, in part, to the increase in sales taxes collected and the one time sale of school property with the proceeds retained by the County by agreement with the local school system.

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 decreased by (\$6.7 million) to \$42.6 million. Expenditures were \$9.4 million as construction continued on the Justice Center expansion project.

Non-Major Funds - Fund balances for non-major funds decreased by (\$1.2 million) to \$23.7 million overall. The primary decreases are from expenditures for school capital projects. Several school construction projects are in the final stages of completion.

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 \$97.8 million with \$46.1 million of this amount being unrestricted. The increase in net position in these funds was \$3 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 \$708,375 or .43%. 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 \$8,164,495. This was due mainly to increases in collections of property and sales taxes and sale of school property.

Net amendments to budgeted appropriations were \$203,508 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 \$12,836,940. These cost savings resulted mainly from unspent appropriations of a) \$5.3 million in non-personnel services and

Catawba County's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,077,887	\$ 5,696,392	\$ 7,513,455	\$ 7,894,924	\$ 13,591,342	\$ 13,591,316
Buildings	53,065,521	51,851,730	3,703,254	3,776,232	56,768,775	55,627,962
Improvements other than buildings	9,583,689	9,866,576	20,281,949	20,810,070	29,865,638	30,676,646
Machinery, equipment and vehicles	7,303,764	7,056,193	1,132,655	1,438,499	8,436,419	8,494,692
Construction in progress	24,410,639	18,889,461	31,517,831	28,776,489	55,928,470	47,665,950
Total	100,441,500	93,360,352	64,149,144	62,696,214	164,590,644	156,056,566

supplies in human services departments, b) \$3.9 million in salaries and benefits due to temporary vacancies in various departments..

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Catawba County's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$164,590,644 (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:

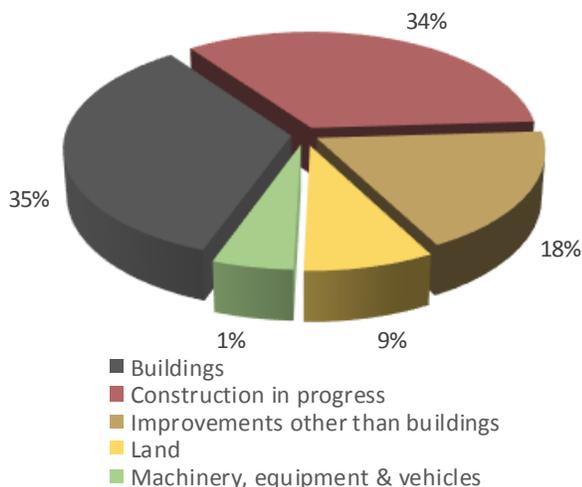
- ▶ Addition of new public safety vehicles including ambulances of approximately \$1.4 million.

- ▶ Retirement of public safety vehicles of approximately \$728,000.
- ▶ Increase in construction in progress in governmental funds of approximately \$7.2 million primarily for the Justice Center expansion.
- ▶ Increase in construction in progress in the water and sewer enterprise fund of approximately \$2.2 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, 2015, Catawba County had outstanding debt of \$152,133,618. The overall change in long-term debt was a net decrease of (\$13,878,701) from debt service payments.

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



As mentioned in the financial highlights section of this document, Catawba County maintained for the 6th consecutive year, its Aa1 bond rating from Moody's Investors Service and for the 11th 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

Catawba County's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ -	\$ 760,000	\$ -	\$ -	\$ -	\$ 760,000
Certificates of Participation	10,550,000	10,730,000	-	-	10,550,000	10,730,000
Installment Purchases	40,764,047	44,692,130	6,783,333	7,397,122	47,547,380	52,089,252
Qualified Zone Academy Bonds	350,000	400,000	-	-	350,000	400,000
Qualified School Const. Bonds	19,675,994	21,529,896	-	-	19,675,994	21,529,896
Build America Bonds	6,084,013	6,663,443	-	-	6,084,013	6,663,443
Limited Obligation Bonds	52,722,824	57,702,836	4,922,176	5,212,164	57,645,000	62,915,000
Federal Revolving Loan	-	-	1,125,000	1,200,000	1,125,000	1,200,000
Department of Commerce	2,600,000	2,600,000	-	-	2,600,000	2,600,000
Premium on long-term debt	6,380,773	6,935,140	175,458	189,588	6,556,231	7,124,728
Total	\$ 139,127,651	\$ 152,013,445	\$ 13,005,967	\$ 13,998,874	\$ 152,133,618	\$ 166,012,319

is \$152,133,618 compared to the legal debt limit of \$1,178,290,285 or 11% of the legal debt limit.

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

FISCAL YEAR 2014-15 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 11% of its statutory limit. The property tax rate of \$0.53/\$100 was below the State average of \$0.64/\$100 and the 25th lowest of all 100 counties in North Carolina.
- ▶ The County remains a retail magnet for the region, capturing 60% of the \$3.05 billion in retail sales from the four-county Metropolitan Statistical Area in 2014 despite having only 42.6% of the population. Taxable retail sales increased over 8% from the prior year.
- ▶ Sales tax revenue increased by 6.15% compared to 5.5% in the prior year.
- ▶ The county's unemployment has seen improvement as the rate declined from 7.10% in June 2014 to 6.00% in June 2015.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2016

Governmental Activities - While the local economy continues to show modest improvement, a recent property revaluation projected a 5.88 percent decrease in County-wide real property values. The property tax rate changes from \$.53/100 to \$.575/100 in next year's budget. Revenue projections include a 5.0% increase in property tax revenue and an 8.2% percent increase in sales tax revenue. The County is also budgeting an increase of 9.6 percent in operating expenses due to service expansions for a total approved budget of \$235,495,973 for fiscal year 2015-2016.

Education continues to represent the largest portion of the local budget, with 45.8 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—25.1 cents of every property tax and sales tax dollar—is spent on public safety.

As a commitment to public safety, in fiscal year 2015-2016 the County budgets funds for an additional paramedic crew in the Mountain

View area in order to maintain an 8-minute County-wide response time. To improve case management and clearance rates of criminal cases, the budget provides for an additional Criminal Investigator position. The County continues to review staffing needs annually, rightsizing in some areas while investing in others. The fiscal year 2015-2016 budget eliminates or reduces hours for 29 positions and adds or increases 12 positions in public safety, parks, cooperative extension and technology. The budget includes a 3% performance based adjustment 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 \$12,393,880 budget includes \$7,227,020 for solid waste and \$2,516,860 for water and sewer operations. Also

included in this amount is \$1,550,000 for solid waste and \$1,100,000 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 \$1.575 million of the property tax and \$700,354 of the 1/4 cent sales tax to fund strategic water and sewer needs. The budget funds a future project with the City of Hickory to provide water and sewer to Park 1764, a region Class A Business Park.

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.

