

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Catawba County (government) and its discretely presented component units conform to generally accepted accounting principles (GAAP) as applied to governmental units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the financial activities of the County and its component units, legally-separate entities for which the County is financially accountable. The Catawba County Industrial Facility and Pollution Control Financing Authority (the *Authority*) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. Catawba Valley Medical Center (the *Medical Center*) and the Catawba County ABC Board (the *Board*) have a June 30 year end and are presented as if they are separate proprietary funds of the County (discrete presentation).

Component Unit	Reporting Method	Criteria for Inclusion	Separate Financial Statements
Catawba County Industrial Facility and Pollution Control Financing Authority	Discrete	The Authority is governed by a seven-member board that is appointed by the Board of County Commissioners. The County can remove any member of the Authority with or without cause.	None Issued
Catawba Valley Medical Center	Discrete	The Medical Center is a public hospital that was organized in 1962 by resolution of the Board of Commissioners of Catawba County. The County appoints the board of trustees for the Medical Center. The County has also issued revenue bonds for improvement of the Medical Center facilities, which are paid from Medical Center revenues.	Catawba Valley Medical Center 810 Fairgrove Church Road S.E. Hickory, NC 28602
Catawba County ABC Board	Discrete	The members of the ABC Board are appointed by the County. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County.	Catawba County ABC Board 1910 Fairgrove Church Road Newton, NC 28658

B. Basis of Presentation

Government-wide Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities except for interfund services provided and used which are not eliminated in the consolidation process. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for services provided to them.

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The statement of activities presents a comparison between direct expenses and program revenues for the business-type activities of the County and for each function of the County's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a specific function. *Indirect expense allocations* that have been made in the funds have been reversed for the statement of activities. *Program revenues* include 1) fees and charges by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

Fund Financial Statements - The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in separate columns. All remaining governmental and proprietary funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result in exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary services.

The County reports the following major governmental funds:

General Fund - The *General Fund* is the primary operating fund of the County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales taxes, Federal and State grants, and other various taxes and licenses. The primary expenditures are for education, human services, public safety, economic and physical development, environmental protection, cultural and recreational projects, and general government services. The Tax Revaluation Fund is a legally budgeted fund under North Carolina General Statutes; however, for statement presentation in accordance with GASB Statement No. 54 it is consolidated in the General Fund. The General Capital Reserve Fund is a legally budgeted fund under North Carolina General Statutes; however, for statement presentation in accordance with GASB Statement No. 54 it is consolidated in the General Fund.

General Capital Projects Fund - *The General Capital Projects Fund* accounts for the financing and construction of all major general capital projects.

The County reports the following major proprietary funds, which are both enterprise funds:

Solid Waste Management Fund - *The Solid Waste Management Fund* accounts for the operation, maintenance and development of various landfills and disposal sites and other solid waste activities.

Water and Sewer Fund - *The Water and Sewer Fund* accounts for the operation, maintenance, and development of water and sewer lines and pump stations.

The County reports the following fiduciary fund types:

Agency Funds - *Agency funds* are custodial in nature (assets equal liabilities) and do not involve measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following Agency funds: Social Services Fund, which accounts for moneys deposited with the Social Services department for the benefit of certain individuals; the Sheriff Commissary Fund, which accounts for monies deposited with the Sheriff department for inmates; the Sheriff Civil Fund, which accounts for the civil settlements issued by the Courts; the Deed of Trust Fee Fund, which accounts for the five dollars of each fee collected by the register of deeds for registering or filing a deed of trust or mortgage and remitted to the State Treasurer on a monthly basis; and the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the County is required to remit to the Catawba County Board of Education, Hickory City Board of Education and Newton-Conover City Board of Education.

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Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

Non-major Funds - The County maintains twenty-six legally budgeted funds. The Emergency Telephone System Fund, Citizens' Alert System Fund, Narcotics Seized Funds and Property Fund, Rescue Squads Fund, Library Endowment Fund, Gretchen Peed Scholarship Fund, Parks/Historic Preservation Fund, Community Development Fund and the fourteen individual Fire District Funds are reported as non-major special revenue funds. The School Capital Projects Fund, School Construction Fund and the Hospital Construction Fund are reported as capital projects funds. The Hospital Capital Reserve Fund is consolidated in the Hospital Construction Fund in accordance with GASB Statement No. 54.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the County are maintained during the year using the modified accrual basis of accounting.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus*, except for agency funds that have no measurement focus. The government-wide, proprietary and fiduciary fund financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recording when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds, the Solid Waste Management Fund and the Water and Sewer Fund, are charges to customers for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available.

Expenditures are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated balances, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of

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Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

resources.

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The County's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue (except Community Development Fund), and Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances that may span more than one year are adopted for the Capital Projects Funds and the Enterprise Capital Projects Funds. The Enterprise Capital Projects Funds are consolidated with the enterprise operating funds for reporting purposes. Grant ordinances that span more than one year are adopted for the Community Development Fund. These appropriations are carried over until the projects and grants are completed.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the fund and departmental level for all annually budgeted and multi-year funds. Transfers of appropriations between funds may be made only by the Board, with the exception of merit, reclassification funds, and special contingency which the County Manager has the authority to transfer. Transfers of appropriations between departments in a fund or from contingency shall be approved by the Board, but may be approved by the County Manager if he finds they are consistent with operational needs and any Board approved goals and do not exceed \$50,000 for department transfers or \$50,000 for transfers from contingency. Transfers from contingency approved by the Manager can exceed \$50,000 if he determines an emergency exists. All such transfers approved by the Manager must be presented to the Board at its next regular meeting. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Inflows and Outflows, and Fund Equity Deposits and Investments

All deposits of the County are made in board-designated official depositories and are secured as required by G.S. 159-31. The County may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorized the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The County's investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

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Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

Cash and Cash Equivalents

A cash and investment pool is maintained by the County to facilitate disbursement and investment and to maximize investment income. The pool is used by all funds except the Social Services, Sheriff Commissary and Sheriff Civil agency funds. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Social Services, Sheriff Commissary and Sheriff Civil agency funds are maintained in noninterest bearing demand deposit accounts as reflected on Schedule G-1.

Restricted Assets

The debt service reserve in the General Fund are funds in sinking and other funds to accumulate resources for future debt maturities. Money in the Tax Revaluation Fund is classified as restricted assets because its use is restricted per North Carolina General Statute 153A-150. Money in the Capital Reserve Fund is classified as restricted assets because its use is restricted per North Carolina General Statute 159-18 through 22. The unexpended installment purchase proceeds are classified as restricted assets within the General Capital Projects Fund, School Construction Fund, and the Water and Sewer Fund because their use is completely restricted to the purpose for which the funds were borrowed.

Catawba County Restricted Cash		
Governmental Activities		
General Fund	Debt service reserve	\$ 8,273,296
General Fund	Tax revaluation	183,720
General Fund	Capital reserve funds	456,389
General Capital Projects Fund	Unexpended debt proceeds	10,604,245
School Construction Fund	Unexpended debt proceeds	<u>224,942</u>
Total Governmental Activities		<u>\$ 19,742,592</u>
Business-Type Activities		
Water and Sewer Fund	Unexpended debt proceeds	\$ <u>451,421</u>
Total Business-Type Activities		<u>\$ 451,421</u>
Total Restricted Cash		<u>\$ 20,194,013</u>

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2014.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Inventories and Prepaid Items

Inventories of the County are valued at cost (first-in, first-out), which approximates market. The County's General Fund inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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The County holds title to certain Catawba County Board of Education and Hickory Public Schools Board of Education and Newton-Conover City Schools Board of Education properties that have not been included in capital assets. The properties have been deeded to the County to permit financing of acquisition and construction costs. Agreements between the County and the Boards of Education give the Boards full use of the facilities, full responsibility for maintenance of the facilities, and provide that the County will convey title to the properties back to the Boards of Education, once all restrictions of the financing agreements have been met. The properties are reflected as capital assets in the financial statements of the Catawba County Board of Education, the Hickory Public Schools Board of Education, and the Newton-Conover City Schools Board of Education.

Capital assets of the County are depreciated on a straight-line basis over the following estimated useful lives:

Building and improvements	50 years
Furniture and office equipment	10 years
Maintenance and construction equipment	8 years
Medium and heavy motor trucks	6 years
Automobiles and light trucks	4 years
Computer equipment	5 years
Computer software	5 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County has several items that meet this criterion—a charge on refunding, pension related deferrals, and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County items that meet the criterion for this category are prepaid taxes, ambulance, business license and human resource receivables and other pension related deferrals. Detailed information regarding deferred outflows/inflows of resources can be found under Note 3 in the notes to the financial statements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statements of net position.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as another financing source.

Compensated Absences

It is the policy of the County to permit employees to accumulate up to thirty (30) days earned but unused vacation leave, with such leave being fully vested when earned. The County's liability for accumulated earned vacation and salary-related payments as of June 30, 2015, is recorded in the government-wide financial statements. For the County's proprietary fund, an expense and liability for compensated absences and the salary-related payments are recorded within those funds as the leave is earned, if the amount is considered to be material.

The sick leave policy of the County provides for an unlimited accumulation of earned but unused sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither employee nor the County has any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County.

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid - portion of fund balance that is not an available resource because it represents the asset amount of prepaid expenditures, which are not spendable resources.

Notes Receivable - portion of fund balance that is not an available resource because it represents the long-term portion of notes receivable, which are not spendable resources.

Restricted Fund Balance - This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors or imposed by law.

Stabilization of State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Register of Deeds - portion of fund balance that is restricted by revenue source to pay for the computer equipment and imaging technology for the Register of Deeds office.

Public Safety - portion of fund balance that is restricted by revenue source for public safety expenditures.

Fire Protection - portion of fund balance that is restricted by revenue source for fire protection expenditures.

Debt Service - portion of fund balance that is restricted by revenue source for debt service expenditures.

Library Endowment - portion of fund balance that is restricted by revenue source for library expenditures.

Scholarship - portion of fund balance that is restricted by revenue source for scholarship expenditures.

Parks Preservation - portion of fund balance that is restricted by revenue source for parks preservation expenditures.

Community Development - portion of fund balance that is restricted by grant revenue for community improvement projects.

School Capital and Construction - portion of fund balance that is restricted by revenue source for school capital and construction.

Hospital Capital - portion of fund balance that is restricted by revenue source for hospital capital expenditures.

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Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

General Capital Reserve - portion of fund balance that is restricted by revenue source for specified capital projects.

General Capital - portion of fund balance that is restricted by revenue source for specified capital projects.

Restricted net position on Exhibit 1 differs from restricted fund balance on Exhibit 3 due to unexpended debt proceeds of \$10,829,187.

Committed Fund Balance - Portion of fund balance that can only be used for specific purpose imposed by majority vote of Catawba County's governing body. The Board of Commissioners is the highest level of decision-making authority that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Tax Revaluation - portion of fund balance that can only be used for Tax Revaluation.

General Capital - portion of fund balance that can only be used for specified capital projects.

School Capital - portion of fund balance that can only be used for specified school capital projects.

School Construction - portion of fund balance that can only be used for specified school construction projects

Hospital Construction - portion of fund balance that can only be used for hospital construction.

Assigned Fund Balance - Portion of fund balance that Catawba County governing board has budgeted.

Public Health - portion of fund balance that has been budgeted by the board for future public health expenditures.

Social Services - portion of fund balance that has been budgeted by the board for future social service expenditures.

County Manager - portion of fund balance that has been budgeted by the board for future administrative expenditures.

Human Resources - portion of fund balance that has been budgeted by the board for future human resource expenditures.

Library - portion of fund balance that has been budgeted by the board for future library expenditures.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$50,000.

Unassigned Fund Balance - Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

For programs with multiple revenue sources, it is the County's practice to use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-County funds, and county funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

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**Notes to the Financial Statements
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F. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Defined Benefit Pension Plans

The County participates in two cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State; the Local Governmental Employees' Retirement System (LGERS) and the Registers of Deeds' Supplemental Pension Fund (RODSPF) (collectively, the "state-administered defined benefit pension plans"). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the state administered defined benefit pension plans and additions to/deductions from the state-administered defined benefit pension plans' fiduciary net positions have been determined on the same basis as they are reported by the state administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The County's employer contributions are recognized when due and the County has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. Investments are reported at fair value.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS POLICIES

a. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position. The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position– governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$(45,955,347) consists of several elements as follows:

(continued on next page)

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Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 161,867,428
Less accumulated depreciation	<u>(61,425,928)</u>
Net capital assets	<u>100,441,500</u>
Equity in joint ventures for regional jail agency recorded on government-wide statement of net position but not on fund statements because it is not a current financial source of funds	1,344,729
Charges related to advance refunding issued - included on government-wide statement of net position but are not current financial resources	2,901,647
Net pension asset	5,104,530
Contributions to the pension plan in the current year	3,316,397
Deferred inflows of resources reported in the fund statements but not the government-wide	4,162,587
Pension related deferrals	(11,658,776)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Certificates of participation	(10,550,000)
Installment purchase	(40,764,047)
Qualified zone academy bonds	(350,000)
Qualified school construction bonds	(19,675,994)
Build America bonds	(6,084,013)
Limited obligation bonds	(52,722,824)
Department of Commerce	(2,600,000)
Premium on long-term debt	(6,380,773)
Compensated absences	(4,335,872)
Net pension obligation	(1,264,671)
Net other post employment benefits	<u>(6,839,767)</u>
	<u>(151,567,961)</u>
Total adjustment	<u>\$ (45,955,347)</u>

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b. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position in governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$20,739,834 as follows:

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives	\$ 10,534,962
Fair value of donated assets that is not recorded in the fund statement but is recorded in the government-wide statements	381,495
Cost of disposed assets not recorded in fund statements	(26,845)
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(3,808,464)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affects only the statement of net position in the government-wide statements	
General obligation bonds	760,000
Certificates of participation	180,000
Installment purchases	3,928,083
Qualified zone academy bonds	50,000
Qualified construction construction bonds sinking fund	1,853,902
Build America bonds	579,430
Limited obligation bonds	4,980,012
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	3,316,397
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements	
Pension expense	(259,238)
Amortization of deferred interest	(326,839)
Net (increase) decrease in compensated absences	93,005
Net (increase) decrease in pension obligation	(148,710)
Net (increase) decrease in other post employment benefits	(903,282)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements	
Increase (decrease) in value of joint venture	(275,012)
Amortization of premium on debt issuance	554,367
Net (increase) decrease in receivables and deferred revenue	<u>(723,429)</u>
Total adjustment	<u>\$ 20,739,834</u>

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NOTE 3 – DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits and Investments

1. Deposits

All of the County’s deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County’s agents in the name of the County. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, these deposits are considered held by their agents in the entities’ names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The County relies on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any other financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The County has no formal policy regarding custodial credit risk for deposits.

At June 30, 2015, the County’s deposits had a carrying amount of \$14,943,960 and a bank balance of \$19,966,078. Of the bank balance, \$1,075,900 was covered by federal depository insurance, \$891,979 was covered by collateral held under the dedicated method and \$78,997 in non-interest bearing deposits and \$17,919,202 in interest bearing deposits was covered by collateral under the Pooling Method.

At June 30, 2015, Catawba County had \$8,606 cash on hand.

2. Investments

As of June 30, 2015 the County had the following investments and maturities.

Investment Type	Fair Value	Less than 6		
		months	6-12 months	1-5 years
U.S. Government-sponsored enterprises *	\$ 126,489,813	\$ -	\$ 1,340,511	\$ 125,149,302
Certificates of deposit	255,133	-	255,133	-
Commercial Paper	6,974,140	1,993,502	4,980,638	-
NC Capital Trust Management Trust				
Cash Portfolio-unrestricted	15,592,424	N/A	N/A	N/A
NC Capital Trust Management Trust				
Term Portfolio-restricted	7,052,013	N/A	N/A	N/A
Debt Escrow-restricted	8,153,825	N/A	N/A	N/A
Total:	<u>\$ 164,517,348</u>	<u>\$ 1,993,502</u>	<u>\$ 6,576,282</u>	<u>\$ 125,149,302</u>

*\$84,996,988 of these securities have call options. It is the intention of the County to hold these to final maturity and this time frame is reflected in the table.

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy is to stagger portfolio maturities to avoid undue concentration of assets in a specific maturity sector. A portion of the portfolio is continuously invested in maturities of less than 12 months.

The investment policy limits all securities to a final maturity of not more than five years. The County does not have a board approved policy on interest rate risk; however, it follows the restrictions of an internal investment policy that has been reviewed by the Board of Commissioners.

Credit Risk

The County limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2015, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The County's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2015. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the United States government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investment in U.S. government-sponsored enterprises includes Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (FreddieMac), Federal National Mortgage Association (FannieMae), and is rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The County's investment in money market funds carried a credit rating of A-1 P-1 by Standard & Poor's and Moody's Investors Service as of June 30, 2015. The County does not have a board approved policy on credit risk; however, it follows the restrictions of an internal investment policy that has been reviewed by the Board of Commissioners.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Proceeds from the issuance of certificates of participation and other installment financing are held in escrow in bank trust departments. These escrow agents purchase and hold the securities in the County's name. The County does not have a board approved policy on custodial credit risk; however, it follows the restrictions of an internal investment policy that has been reviewed by the Board of Commissioners.

Concentration of Credit Risk

The County places no limit on the amount that the County may invest in any one issuer. More than 77% of the County's investments are in United States government-sponsored enterprises and commercial paper. Investments in Federal Farm Credit are 8%, Federal Home Loan Bank are 18%, Federal Home Loan Mortgage Corporation are 24%, Federal National Mortgage Agency are 27% and commercial paper are 4% of the County's total investments. The County does not have a board approved policy on concentration of credit risk; however, it follows the restrictions of an internal investment policy that has been reviewed by the Board of Commissioners.

3. Property Tax – Use – Value Assessment on Certain Lands

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

<u>Year Levied</u>	<u>Tax</u>	<u>Interest</u>	<u>Total</u>
2012	1,271,592	359,225	1,630,817
2013	1,293,335	248,967	1,542,302
2014	1,306,002	133,865	1,439,867
2015	1,357,200	-	1,357,200
Total	<u>\$ 5,228,129</u>	<u>\$ 742,057</u>	<u>\$ 5,970,186</u>

4. Receivables

Receivables at the government-wide level at June 30, 2015 were as follows:

	<u>Governmental activities</u>			<u>Total Governmental Activities</u>
	<u>General</u>	<u>General Capital Projects Fund</u>	<u>Non-major Funds</u>	
	Receivables			
Accounts	\$ 2,990,648	\$ 5,712	\$ -	\$ 2,996,360
Taxes	7,261,193	-	393,122	7,654,315
Due from other governments	13,903,697	308,643	1,388,778	15,601,118
Notes	1,597,343	-	-	1,597,343
Other	75,542	-	-	75,542
Interest	144,306	88,774	58,348	291,428
Gross Receivables	25,972,729	403,129	1,840,248	28,216,106
Allowance for uncollectibles	(6,022,059)	-	(285,539)	(6,307,598)
Net total receivables	<u>\$ 19,950,670</u>	<u>\$ 403,129</u>	<u>\$ 1,554,709</u>	<u>\$ 21,908,508</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 1,250,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,250,224</u>

	<u>Business-type activities</u>		
	<u>Solid Waste Management Fund</u>	<u>Water and Sewer Fund</u>	<u>Total Business-type Activities</u>
	Receivables		
Accounts	\$ 487,684	\$ 1,298,356	\$ 1,786,040
Notes	-	296,030	296,030
Due from other governments	135,411	614,681	750,092
Interest	55,843	89,424	145,267
Gross Receivables	678,938	2,298,491	2,977,429
Allowance for uncollectibles	-	(1,288,860)	(1,288,860)
Net total receivables	<u>\$ 678,938</u>	<u>\$ 1,009,631</u>	<u>\$ 1,688,569</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ 255,090</u>	<u>\$ 255,090</u>

The due from other governments that is owed to the County consists of the following:

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Local option sales tax	\$ 7,916,118	\$ 385,047
White goods disposal tax	-	11,099
Scrap tire tax	-	52,709
Solid waste disposal tax	-	15,276
Various federal and state grants	6,996,159	196,457
Refundable sales tax	688,841	89,504
	<u>\$ 15,601,118</u>	<u>\$ 750,092</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 5,696,392	\$ 381,495	\$ -	\$ 6,077,887
Construction in progress	18,889,461	7,898,640	(2,377,462)	24,410,639
Total capital assets, not being depreciated	<u>24,585,853</u>	<u>8,280,135</u>	<u>(2,377,462)</u>	<u>30,488,526</u>
Capital assets, being depreciated				
Buildings	92,585,284	3,103,037	-	95,688,321
Other improvements	14,291,159	-	-	14,291,159
Equipment and vehicles	20,440,690	1,910,747	(952,015)	21,399,422
Total capital assets, being depreciated	<u>127,317,133</u>	<u>5,013,784</u>	<u>(952,015)</u>	<u>131,378,902</u>
Less accumulated depreciation for				
Buildings	(40,733,554)	(1,889,246)	-	(42,622,800)
Other improvements	(4,424,583)	(282,887)	-	(4,707,470)
Equipment and vehicles	(13,384,497)	(1,636,331)	925,170	(14,095,658)
Total accumulated depreciation	<u>(58,542,634)</u>	<u>(3,808,464)</u>	<u>925,170</u>	<u>(61,425,928)</u>
Total capital assets, being depreciated, net	<u>68,774,499</u>	<u>1,205,320</u>	<u>(26,845)</u>	<u>69,952,974</u>
Governmental activities capital assets, net	<u>\$ 93,360,352</u>	<u>\$ 9,485,455</u>	<u>\$ (2,404,307)</u>	<u>\$ 100,441,500</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 164,381
Public safety	1,987,770
Environmental protection	30,624
Economic & physical development	278,011
Human services	1,229,592
Culture and recreation	118,086
Total depreciation expense	<u>\$ 3,808,464</u>

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

Business-type activities	Beginning Balance	Increases	Decreases	Ending Balance
Solid Waste Management				
Capital assets, not being depreciated				
Land	\$ 6,618,072	\$ -	\$ -	\$ 6,618,072
Construction in progress	1,371,173	90,721	-	1,461,894
Total capital assets, not being depreciated	<u>7,989,245</u>	<u>90,721</u>	<u>-</u>	<u>8,079,966</u>
Capital assets, being depreciated				
Buildings	3,989,631	7,000	-	3,996,631
Other improvements	24,672,548	-	-	24,672,548
Equipment and vehicles	9,130,715	147,821	(23,009)	9,255,527
Total capital assets, being depreciated	<u>37,792,894</u>	<u>154,821</u>	<u>(23,009)</u>	<u>37,924,706</u>
Less accumulated depreciation for				
Buildings	(213,399)	(79,978)	-	(293,377)
Other improvements	(11,588,374)	(302,726)	-	(11,891,100)
Equipment and vehicles	(7,692,216)	(453,665)	23,009	(8,122,872)
Total accumulated depreciation	<u>(19,493,989)</u>	<u>(836,369)</u>	<u>23,009</u>	<u>(20,307,349)</u>
Total capital assets, being depreciated, net	<u>18,298,905</u>	<u>(681,548)</u>	<u>-</u>	<u>17,617,357</u>
Solid Waste Management capital assets, net	<u>\$ 26,288,150</u>	<u>\$ (590,827)</u>	<u>\$ -</u>	<u>\$ 25,697,323</u>

Business-type activities	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer				
Capital assets, not being depreciated				
Land	\$ 1,276,852	\$ 26	\$ (381,495)	\$ 895,383
Construction in progress	27,405,316	2,650,621	-	30,055,937
Total capital assets, not being depreciated	<u>28,682,168</u>	<u>2,650,647</u>	<u>(381,495)</u>	<u>30,951,320</u>
Capital assets, being depreciated				
Plant and distribution systems/water lines	9,894,448	-	-	9,894,448
Other improvements	58,885	-	-	58,885
Total capital assets, being depreciated	<u>9,953,333</u>	<u>-</u>	<u>-</u>	<u>9,953,333</u>
Less accumulated depreciation for				
Plant and distribution systems/water lines	(2,219,193)	(224,217)	-	(2,443,410)
Other improvements	(8,244)	(1,178)	-	(9,422)
Total accumulated depreciation	<u>(2,227,437)</u>	<u>(225,395)</u>	<u>-</u>	<u>(2,452,832)</u>
Total capital assets, being depreciated, net	<u>7,725,896</u>	<u>(225,395)</u>	<u>-</u>	<u>7,500,501</u>
Water & Sewer capital assets, net	<u>\$ 36,408,064</u>	<u>\$ 2,425,252</u>	<u>\$ (381,495)</u>	<u>\$ 38,451,821</u>

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

Construction Commitments

The County has active construction and other capital projects as of June 30, 2015. The government's commitments with contractors and vendors are composed of numerous projects within the following funds:

	<u>Project Authorization</u>	<u>Expended to June 30, 2015</u>	<u>Committed</u>	<u>Required Future Financing</u>
Governmental activities				
General Capital Projects	\$ 73,175,703	\$ 34,063,231	39,112,472	None
Schools Capital Projects	17,256,304	13,360,415	3,895,889	None
School Construction	<u>80,938,819</u>	<u>53,291,687</u>	<u>27,647,132</u>	None
Total governmental activities	<u>\$ 171,370,826</u>	<u>\$ 100,715,333</u>	<u>\$ 70,655,493</u>	
Business-type activities				
Solid Waste Management Fund	\$ 4,233,377	\$ 1,361,751	2,871,626	None
Water and Sewer Fund	<u>44,331,735</u>	<u>30,926,063</u>	<u>13,405,672</u>	None
Total business-type activities	<u>\$ 48,565,112</u>	<u>\$ 32,287,814</u>	<u>\$ 16,277,298</u>	

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2015 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities				
General	\$ 2,219,148	\$ 2,593,239	\$ 423,091	\$ 5,235,478
General Capital Projects	1,125,843	-	-	1,125,843
Non-major Funds	<u>281,180</u>	<u>3,423</u>	-	<u>284,603</u>
Total governmental activities	<u>\$ 3,626,171</u>	<u>\$ 2,596,662</u>	<u>\$ 423,091</u>	<u>\$ 6,645,924</u>
Business-type Activities				
Solid Waste Management	\$ 225,797	\$ 52,136	73	278,006
Water and Sewer	<u>117,705</u>	<u>5,193</u>	<u>19,128</u>	<u>142,026</u>
Total business-type activities	<u>\$ 343,502</u>	<u>\$ 57,329</u>	<u>\$ 19,201</u>	<u>\$ 420,032</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The County is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The County's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$3,386,383 for the year ended June 30, 2015.

Refunds of Contributions. County employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the County reported an asset of \$4,858,036 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on a projection of the County's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the County's proportion was .824%, which was a decrease of .017% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$276,953. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 530,825
Net difference between projected and actual earnings on pension plan investments	-	11,309,396
Changes in proportion and differences between County contributions and proportionate share of contributions	-	110,204
County contributions subsequent to the measurement date	<u>3,386,383</u>	<u>-</u>
Total	<u>\$ 3,386,383</u>	<u>\$ 11,950,425</u>

\$3,386,383 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (2,988,008)
2017	(2,988,008)
2018	(2,988,008)
2019	(2,986,401)
2020	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate. The following presents the County’s proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the County’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
County’s proportionate share of the net pension liability (asset)	\$ 16,490,271	\$ (4,858,036)	\$ (22,832,618)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

Plan Description. Catawba County administers public employee retirement systems (the Separation Allowance), single-employer, defined benefit pension plans that provide retirement benefits to the County’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the office for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the County are covered by the Separation Allowance. At December 31,

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>143</u>
	<u>149</u>

A separate report was not issued for the County's plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The County has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures for the County are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The separation allowance has no assets accumulated in a trust funds that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and have, at the present, chosen to fund the benefit payments on a pay as you go basis. For the County, these benefits are funded through appropriations made in the General Fund operating budget. These benefit payments for the County is considered immaterial amounts. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The County's obligation to contribute to the plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees to the County's plan.

The annual required contribution for the current year for the County was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. The inflation component was 3.00%. The assumptions do not include postretirement benefit increases. The actuarial value of assets was market value. The remaining amortization period at December 31, 2013 was 17 years.

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 251,778
Interest on net pension obligation	55,798
Adjustment to annual required contribution	<u>(94,271)</u>
Annual pension cost	\$ 213,305
Contributions made	<u>64,595</u>
Increase (decrease) in net pension obligation	\$ 148,710
Net pension obligation beginning of year	<u>1,115,961</u>
Net pension obligation end of year	<u>\$ 1,264,671</u>

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2013	177,873	24.98	994,540
6/30/2014	184,346	34.13	1,115,961
6/30/2015	213,305	30.28	1,264,671

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,922,020. The covered payroll (annual payroll of active employees covered by the plan) was \$6,096,759, and the ratio of the UAAL to the covered payroll was 31.53%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. All law enforcement officers employed by the County participate in the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Participation begins at the date of employment, and benefits are provided to all law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the County contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Total contributions for the County for the year ended June 30, 2015 were \$372,781 which consisted of \$306,871 from the County and \$65,910 from the law enforcement officers.

d. Register of Deeds' Supplemental Pension Fund

Plan Description. Catawba County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and for the foreseeable future is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the County were \$13,268 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the County reported an asset of \$365,928 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2014, the County's proportion was 1.61%, which was an increase of .024% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$(10,908). At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,358	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,970
Changes in proportion and differences between County contributions and proportionate share of contributions	-	3,541
County contributions subsequent to the measurement date	13,268	-
Total	<u>\$ 16,626</u>	<u>\$ 5,511</u>

\$13,268 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (576)
2017	(576)
2018	(509)
2019	(492)
2020	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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**Notes to the Financial Statements
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Inflation	3.0 percent
Salary increases	4.25 to 7.75 percent, including inflation and productivity factor
Investment rate of return	5.75 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2014 is 2.5%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate.

The following presents the County’s proportionate share of the net pension asset calculated using the discount rate of 5.75 percent, as well as what the County’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (4.75 percent) or 1-percentage-point higher (6.75 percent) than the current rate:

	<u>1% Decrease (4.75%)</u>	<u>Discount Rate (5.75%)</u>	<u>1% Increase (6.75%)</u>
County's proportionate share of the net pension liability (asset)	\$ (328,579)	\$ (365,928)	\$ (398,014)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**e. Other Postemployment Benefits (OPEB) – Catawba County
Healthcare Benefits**

Plan Description. According to County resolution, the County administers a single-employer defined benefit health care plan. This plan provides health care benefits to retirees of the County who participate in the North

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

Carolina Local Governmental Employees' Retirement System (LGERS) and have at least thirty years of creditable service with the County. The County will pay the individual premium for these individuals. Employees who retire with at least 15 years of service but less than 30 years can purchase coverage at the County's group rates. Also, retirees can purchase coverage for their dependents at the County's group rates. Eligibility for coverage ceases when the retiree and/or dependents receive Medicare.

Membership consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	47	3
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>940</u>	<u>143</u>
Total	<u>987</u>	<u>146</u>

A separate report was not issued for the County's plan.

Funding Policy. The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees under the County resolution that can be amended by the Board of Commissioners. The County has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 2.45% of annual covered payroll. For the current year, the County contributed \$252,245 or .53% of annual covered payroll. The County has a limited self-insurance plan covering health care coverage, and has a stop loss policy with private insurers.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 1,172,860
Interest on net pension obligation	244,815
Adjustment to annual required contribution	<u>(233,874)</u>
Annual pension cost	\$ 1,183,801
Contributions made	<u>(252,245)</u>
Increase (decrease) in net pension obligation	\$ 931,556
Net pension obligation beginning of year	<u>6,120,376</u>
Net pension obligation end of year	<u>\$ 7,051,932</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 were as follows:

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	\$ 948,783	26.3%	\$ 5,432,440
6/30/2014	\$ 948,783	27.5%	\$ 6,120,376
6/30/2015	\$ 1,183,801	21.3%	\$ 7,051,932

Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$11,184,877. The covered payroll (annual payroll of active employees covered by the plan) was \$47,684,437, and the ratio of the UAAL to the covered payroll was 23.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investment calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.50 to 5.00 percent annually. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, was 30 years.

f. Other Employment Benefits

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System, a multiple-employer, State-administered, cost sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in LGERS, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership services in LGERS at the time of death are eligible for death benefits. Lump sum death benefits payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The County considers these contributions to be immaterial.

For the fiscal year ended June 30, 2015, the County made contributions to the State for death benefits of \$0. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer

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contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. Catawba County will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

3. Closure and Postclosure Care Costs – Blackburn Resource Recovery Facility

State and Federal laws and regulations require the County to place a final cover on its current operating cell at Blackburn Resource Recovery facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County also has a closed cell at the Blackburn Resource Recovery facility for which the entire amount of the closure and postclosure costs has been recognized as the cell capacity was used. Although closure and postclosure care costs will be paid only or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$10,281,541 reported as landfill closure and postclosure care liability as of June 30, 2015 represents a cumulative amount reported to date based on the use of 78.2% of the total estimated capacity of the municipal solid waste operating cell and 56.4% of the total estimated capacity of the construction and demolition operating cell of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$9,813,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015. The County expects to close the current municipal solid waste operating cell at the Blackburn Resource Recovery facility in 2021 and the construction and demolition operating cell in 2023. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County has met the requirements of a local government financial test that is one option under State and Federal laws and regulations that helps determine if a unit is financially able to meet closure and postclosure care requirements.

(continued on next page)

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

4. Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Charge on refunding of debt	\$ 2,950,405	\$ -
Pensions - difference between expected and actual experience		
LGERS	-	530,825
Register of Deeds	3,358	-
Pensions - difference between projected and actual investment earnings	-	11,311,366
Pensions - change in proportion and difference between employer contributions and proportionate share of contributions		113,744
Contributions to pension plan in 2014/2015 fiscal year	3,399,651	
Prepaid taxes not yet earned (General)	-	106,998
Prepaid taxes not yet earned (Special Revenue)	-	2,109
Taxes receivable, net (General)	-	1,521,284
Taxes receivable, net (Special Revenue)	-	107,583
Ambulance receivable, net (General)	-	1,629,436
Business license receivable, net (General)	-	6,485
Human resource receivable, net (General)	-	897,799
Total	<u>\$ 6,353,414</u>	<u>\$ 16,227,629</u>

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The property of Catawba County Government is insured on a blanket basis with replacement cost coverage on buildings and contents, and actual cash value on equipment. The County self-insures its liability risk up to a deductible of \$100,000 each occurrence, and purchases excess liability insurance with limits of \$7 million for any one occurrence for bodily injury, property damage, and personal injury, including law enforcement, public officials, and employment practices liability. The County also self-insures its workers compensation risks up to \$350,000 each accident, and purchases excess workers compensation insurance to statutory limits. The insurance program includes physical damage coverage for owned autos at actual cash value, and fidelity insurance with limits of \$250,000 per occurrence. At the inception of the program, all of the property, liability, and workers compensation insurers utilized by the County have an A.M. Best's Company rating/financial size category of "A-/VII" or better with stable outlooks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The County health plan is self-insured with claims paid through a third party administrator. The plan has specific stop loss coverage for individual losses in excess of \$100,000 and aggregate plan losses in excess of 120% of expected net paid claims.

The County carries flood insurance as a part of its property insurance through Argonaut Insurance Group with limits of \$1 million for any one occurrence. For all locations outside flood zone "A" (100 year flood plain), as designated by the Federal Emergency Management Association, a deductible of \$50,000 applies to flood damages. Locations within flood zone "A" are subject to a deductible equal to the maximum limit of flood coverage available through the National Flood Insurance Program. The County periodically reviews updated flood maps to identify any owned locations within designated flood zones.

In accordance with G.S. 159-29, The County's employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The director of finance and tax collector are each individually bonded for \$100,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's).

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Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

Liabilities for claims are reported in the County's General Fund.

Changes in the balances of claims liabilities during the past three fiscal years are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Unpaid claims, beginning	\$ 397,445	\$ 506,660	\$ 601,365
Incurred claims	5,829,434	5,272,718	5,052,358
Claim payments	<u>(5,733,845)</u>	<u>(5,381,933)</u>	<u>(5,147,063)</u>
Unpaid claims, ending	<u>\$ 493,034</u>	<u>\$ 397,445</u>	<u>\$ 506,660</u>

6. Contingent Liabilities

At June 30, 2015, the County was a defendant to various lawsuits. In the opinion of management and the County attorney, the ultimate effect of these legal matters will not have a material effect on the County's financial position.

7. Long-Term Obligations

a. Operating Leases

Catawba County is committed under various operating leases for building space and equipment. These operating leases can be canceled with proper notice. For the year ended June 30, 2015, total lease expenditures reached \$169,252.

The following is a schedule of the future minimum lease payments under these leases:

<u>Year Ending</u>	<u>Amount</u>
2016	\$ 169,252
2017	168,712
2018	144,058
2019	<u>95,586</u>
	<u>\$ 577,608</u>

Governmental Activities

b. Installment Purchases

1. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement in April, 2006 for the purpose of providing funds up to \$9,200,000 to pay a portion of the cost of constructing and equipping a public elementary school for Catawba County Schools. The installment purchase was issued pursuant to a deed of trust that requires legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Board of Education of Catawba County Schools ("Board of Education") that transfers the rights and responsibilities for the maintenance and insurance of the property to the Board of Education. The lease calls for nominal annual lease payments with the lease term the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Board of Education.

The original transaction required thirty semi-annual principal payments by the County of \$306,667 and thirty semi-annual interest payments at an interest rate of 4.19%. On April 12, 2012, the County refinanced the transaction at a new interest rate of 2.39%. The refinanced balance of \$5,519,999 requires eighteen semi-annual principal payments of \$306,667 plus interest. This refinancing is expected to save the County \$471,960 in interest over the life of the loan.

For Catawba County, the future minimum payments as of June 30, 2015, including \$285,844 of interest are:

CATAWBA COUNTY, NORTH CAROLINA

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	Governmental Activities	
	Principal	Interest
2016	613,333	84,287
2017	613,333	69,629
2018	613,333	54,970
2019	613,333	40,311
2020	613,334	25,653
2021	613,334	10,994
Total principal payments	<u>\$ 3,680,000</u>	
Total interest payments		<u>\$ 285,844</u>

2. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement in October, 2011 for the purpose of providing funds of \$650,000 for the upgrade of computer servers for the County.

The transaction requires twenty quarterly payments by the County of \$33,896 including principal and interest at 1.67%. For Catawba County, the future minimum payments as of June 30, 2015, including \$2,102 of interest are:

	Governmental Activities	
	Principal	Interest
2016	133,625	1,961
2017	33,755	141
Total principal payments	<u>\$ 167,380</u>	
Total interest payments		<u>\$ 2,102</u>

3. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement for the purpose of providing funds up to \$16,750,000 to pay a portion of construction and renovation of public school and community college facilities. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Boards of Education and Community College Board of Trustees that transfers the rights and responsibilities for the maintenance and insurance of the property to the Boards of Education and Board of Trustees. The lease calls for nominal lease payments and a bargain purchase option. The lease term the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Boards of Education and Board of Trustees. This agreement was executed on May 12, 2009 and requires thirty semi-annual principal payments of \$558,333 and interest payments at an interest rate of 3.72%.

For Catawba County, the future minimum payments as of June 30, 2015, including \$1,775,835 of interest are:

	Governmental Activities	
	Principal	Interest
2016	1,116,667	363,475
2017	1,116,667	321,935
2018	1,116,667	280,395
2019	1,116,667	238,855
2020	1,116,667	197,315
2021-2024	4,466,665	373,860
Total principal payments	<u>\$ 10,050,000</u>	
Total interest payments		<u>\$ 1,775,835</u>

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

4. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on April 30, 2013 for the purpose of providing funds up to \$31,000,000 for the construction and renovations to public schools, community college, and County animal shelter. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Boards of Education and Community College Board of Trustees that transfers the rights and responsibilities for the maintenance and insurance of the property to the Boards of Education and Board of Trustees. The lease calls for nominal lease payments and a bargain purchase option. The lease term the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Boards of Education and Board of Trustees. This agreement was executed on April 30, 2013 and requires fifteen annual principal payments of \$2,066,666 and interest payments at an interest rate of 1.96%.

For Catawba County, the future minimum payments as of June 30, 2015, including \$3,686,107 of interest are:

	Governmental Activities	
	Principal	Interest
2016	2,066,666	526,587
2017	2,066,666	486,080
2018	2,066,666	445,573
2019	2,066,666	405,067
2020	2,066,666	364,560
2021-2025	10,333,337	1,215,200
2026-2028	6,200,000	243,040
Total principal payments	<u>\$ 26,866,667</u>	
Total interest payments		<u>\$ 3,686,107</u>

c. Qualified Zone Academy Bonds

As authorized by State law (G.S. 160A-20), the County entered into an installment financing agreement on May 30, 2008 for the purpose of providing funds up to \$700,000 to pay a portion of the renovation of a public school facility. The County's obligation under the contract will be designated as "Qualified Zone Academy Bonds (QZAB)" pursuant to the federal QZAB program. Under the QZAB program, the County's obligation will be interest free and the lender will receive tax credits that approximate a rate of return commensurate to the return it would have received on certain U.S. Treasury obligations. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Board of Education that transfers the rights and responsibilities for the maintenance and insurance of the property to the Board of Education. The lease calls for nominal lease payments and a bargain purchase option. The lease term the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Board of Education.

For Catawba County, the future minimum payments as of June 30, 2015 are:

	Governmental Activities	
	Principal	Interest
2016	50,000	-
2017	50,000	-
2018	50,000	-
2019	50,000	-
2020	50,000	-
2021-2022	100,000	-
Total principal payments	<u>\$ 350,000</u>	
Total interest payments		<u>\$ -</u>

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

d. Qualified School Construction Bonds

1. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on September 27, 2010 for the purpose of providing funds up to \$21,508,553 for the construction of a new middle school, renovations to a middle school, renovations to a high school, and renovations of a community college. The County’s obligation under the contract will be designated as “Qualified School Construction Bonds (QSCBs)” pursuant to the federal QSCB program. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Boards of Education and Board of Trustees that transfers the rights and responsibilities for the maintenance and insurance of the property to the Boards of Education and Board of Trustees. The lease calls for nominal lease payments and a bargain purchase option. The lease term is the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Boards of Education and Board of Trustees. The financing contract requires semi-annual sinking fund payments of \$716,951 beginning March 2011 with an interest rate of 5% and a maturity date of September 27, 2025 when principal is due in full. Under the original QSCB agreement, the County’s obligation is eligible up to a 100% credit against the interest paid. The federal interest subsidy was reduced during the year by 7.3%, or \$77,968.51, as part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year.

The future minimum payments as of June 30, 2015, including \$11,291,990 of interest, are as follows:

	Governmental Activities	
	<u>Principal/Sinking Fund</u>	<u>Interest</u>
2016	1,433,902	1,075,428
2017	1,433,902	1,075,428
2018	1,433,902	1,075,428
2019	1,433,902	1,075,428
2020	1,433,902	1,075,428
2021-2025	7,169,510	5,377,137
2026	716,974	537,713
Total principal payments	<u>\$ 15,055,994</u>	
Total interest payments		<u>\$ 11,291,990</u>

2. As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on May 4, 2011 for the purpose of providing funds up to \$6,300,000 for the renovations to an elementary school and renovations to a high school. The County’s obligation under the contract will be designated as “Qualified School Construction Bonds (QSCBs)” pursuant to the federal QSCB program. This agreement is an amendment to the QSCB financing from September 27, 2010. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Board of Education that transfers the rights and responsibilities for the maintenance and insurance of the property to the Board of Education. The lease calls for nominal lease payments and a bargain purchase option. The lease term is the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Board of Education. The financing contract requires semi-annual sinking fund payments of \$210,000 beginning September 2011 with an interest rate of 5.52% and a maturity date of March 27, 2026 when principal is due in full. Under the original QSCB agreement, the County’s obligation is eligible up to a 100% credit against the interest paid. The federal interest subsidy was reduced during the year by 7.3%, or \$25,212.60, as part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year.

The future minimum payments as of June 30, 2015, including \$3,825,440 of interest are:

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

	Governmental Activities	
	<u>Principal/Sinking Fund</u>	<u>Interest</u>
2016	420,000	347,760
2017	420,000	347,760
2018	420,000	347,760
2019	420,000	347,760
2020	420,000	347,760
2021-2025	2,100,000	1,738,880
2026	420,000	347,760
Total principal payments	<u>\$ 4,620,000</u>	
Total interest payments		<u>\$ 3,825,440</u>

e. Build America Bonds

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on September 27, 2010 for the purpose of providing funds up to \$8,691,447 for the construction of a new middle school, renovations to a middle school, renovations to a high school, and renovations of a community college. The County's obligation under the contract will be designated as "Build America Bonds (BABs)" pursuant to the federal BAB program. The installment purchase was issued pursuant to a deed of trust that requires that legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Boards of Education and Board of Trustees that transfers the rights and responsibilities for the maintenance and insurance of the property to the Boards of Education and Board of Trustees. The lease calls for nominal lease payments and a bargain purchase option. The lease term is the same as that of the installment purchase agreement. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Boards of Education and Board of Trustees. The financing contract requires semi-annual principal and interest payments beginning March 2011 with an interest rate of 4.9% and a maturity date of September 27, 2025. Under the original BAB agreement, the County's obligation is eligible up to a 35% credit against the interest paid. The federal interest subsidy was reduced during the year by 7.3%, or \$8,103.81, as part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year.

The future minimum payments as of June 30, 2015, including \$1,639,642 of interest are:

	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2016	579,430	291,019
2017	579,430	262,627
2018	579,430	234,235
2019	579,430	205,842
2020	579,430	177,450
2021-2025	2,897,149	461,371
2026	289,714	7,098
Total principal payments	<u>\$ 6,084,013</u>	
Total interest payments		<u>\$ 1,639,642</u>

f. Certificates of Participation

On December 12, 2012, the County issued \$10,965,000 Certificates of Participation, Series 2012 to advance refund \$9,750,000 of Certificates of Participation, Series 2005. The financing contract requires principal payments beginning June 2013 with an interest rate of 2.08%.

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

As a result, the refunded obligations are considered defeased and the liability has been removed from the government columns of the statement of net position. The reacquisition price exceeded the net carrying value of the old debt by \$1,128,232. This amount is netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 13 years and resulted in an economic gain of \$956,495.

The future minimum payments as of June 30, 2015, including \$1,161,680 of interest are as follows:

	Governmental Activities	
	Principal	Interest
2016	1,160,000	219,440
2017	1,145,000	195,312
2018	1,130,000	171,496
2019	1,100,000	147,992
2020	1,075,000	125,112
2021-2025	<u>4,940,000</u>	<u>302,328</u>
Total principal payments	<u>\$ 10,550,000</u>	
Total interest payments		<u>\$ 1,161,680</u>

g. North Carolina Department of Commerce Loan

On April 22, 2013, the County entered into an agreement with the North Carolina Department of Commerce for a Community Development Block Grant (12-L-2401) to provide funds for an industrial site development project. The funds are provided under Title I of the Housing and Community Development Act of 1974, as amended (P.L. 93-383). The County is obligated to repay these funds over a seven year period. The financing contract requires interest payments for the first two years beginning July 2014 at an interest rate of 2% and a maturity date of July 1, 2020.

The future minimum payments as of June 30, 2015, including \$210,060 of interest are as follows:

	Governmental Activities	
	Principal	Interest
2016	-	52,000
2017	499,612	52,000
2018	509,604	42,008
2019	519,796	31,816
2020	530,192	21,420
2021	<u>540,796</u>	<u>10,816</u>
Total principal payments	<u>\$ 2,600,000</u>	
Total interest payments		<u>\$ 210,060</u>

h. Limited Obligation Bonds

1. 2011 Limited Obligation Bonds

On November 22, 2011, the County issued \$48,115,000 of current and advance refunding bonds to provide resources to refinance existing financial obligations of the County and pay related financing costs. Included in this refunding were:

(continued on next page)

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

Governmental Activities

Installment Purchase Contract dated September 15, 2003 (current)	4,620,000
Certificate of Participation, Series 2004, dated August 1, 2004 (advanced)	16,205,000
Installment Purchase Contract dated May 30, 2008 (current)	18,365,950
Installment Purchase Contract dated August 8, 2008 (current)	3,924,000

Business-type Activities

Installment Purchase Contract dated May 30, 2008 (current)	6,282,897
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As a result, the refunded obligation is considered defeased and the liability has been removed from the government and business-type activities columns of the statement of net position. The reacquisition price exceeded the net carrying value of the old debt by \$4,099,840. This amount is netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$4,854,562 and resulted in an economic gain of \$2,446,942.

The future minimum payments as of June 30, 2015, including \$9,184,525 of interest are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	3,578,529	1,380,570	521,471	201,180
2017	3,547,981	1,248,863	517,019	181,987
2018	3,539,253	1,107,118	515,747	161,332
2019	3,530,525	965,723	514,475	140,727
2020	2,950,105	836,110	429,895	121,840
2021-2025	12,865,249	2,231,933	1,874,751	325,242
2026-2028	3,766,182	246,046	548,818	35,854
Total principal payments	<u>\$ 33,777,824</u>		<u>\$ 4,922,176</u>	
Total interest payments		<u>\$ 8,016,363</u>		<u>\$ 1,168,162</u>

2. 2014 Limited Obligation Bonds

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on March 4, 2014 to issue \$21,935,000 in Limited Obligation Bonds Series 2014A to refinance existing financial obligations of the County, and to provide funds for a Justice Center expansion.

Of this amount, \$1,810,000 was used to advance refund \$1,805,000 of Series 2004 Certificates of Participation. As a result, the refunded obligation is considered defeased and the liability removed from the government column of the statement of net position. The reacquisition price exceeded the net carrying value of the old debt by \$5,000. This amount is netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was paid in full in fiscal year 2015.

The remaining \$20,125,000 of this issuance was used to finance the expansion of the County's Justice Center. The agreement requires seventeen annual principal payments that vary from \$1,180,000 to \$1,185,000 and interest payments at a rate that varies from 2% - 5%.

For Catawba County, the future minimum payments as of June 30, 2015, including \$7,497,925 of interest are:

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CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2016	1,180,000	813,944
2017	1,185,000	790,344
2018	1,185,000	754,794
2019	1,185,000	713,244
2020	1,185,000	671,694
2021-2025	5,925,000	2,550,918
2026-2030	5,920,000	1,143,987
2031	1,180,000	59,000
Total principal payments	<u>\$ 18,945,000</u>	
Total interest payments		<u>\$ 7,497,925</u>

Business-Type Activities

i. Federal Revolving Loan

On November 10, 2010, the County entered into federal revolving loan agreement for the purpose of providing funds up to \$3,000,000 for a water project. The County promised to pay the State of North Carolina \$3,000,000 together with any additional amount disbursed under 15A NCAC 02M.0603 or 15A NCAC 01J.2201 with zero interest on the unpaid principal sum. As part of the American Recovery and Reinvestment Act of 2009 (ARRA), the unpaid principal and interest was immediately reduced by one half of the loan amount as “principal forgiveness.” The loan will be repaid in 20 equal installments on May 1 until the principal is paid in full.

The future minimum payments as of June 30, 2015, including interest are:

	Business-type Activities	
	<u>Principal</u>	<u>Interest</u>
2016	75,000	-
2017	75,000	-
2018	75,000	-
2019	75,000	-
2020	75,000	-
2021-2025	375,000	-
2026-2030	375,000	-
Total principal payments	<u>\$ 1,125,000</u>	
Total interest payments		<u>\$ -</u>

j. Installment Purchase

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement on May 21, 2013 for the purpose of providing funds up to \$8,000,000 for the construction of sewer lines and pump stations along Highway 150. This agreement requires twenty-four semi-annual principal and interest payments in varying amounts at an interest rate of 1.81%.

For Catawba County, the future minimum payments as of June 30, 2015, including \$693,441 of interest are:

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CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

	Business-type Activities	
	Principal	Interest
2016	624,899	122,778
2017	636,210	111,468
2018	647,725	99,952
2019	659,449	88,229
2020	671,385	76,292
2021-2025	<u>3,543,665</u>	<u>194,722</u>
Total principal payments	<u>\$ 6,783,333</u>	
Total interest payments		<u>\$ 693,441</u>

k. Debt Related to Capital Activities

Of the total Government Activities debt listed, unexpended debt proceeds, premiums on debt, and deferred charges on refundings, only \$25,408,581 relates to assets the County holds title. Unexpended debt proceeds are \$10,604,245 for governmental activities and \$451,421 for business-type activities.

l. Legal Debt Margin

At June 30, 2015, Catawba County had a legal debt margin of \$1,178,290,285.

m. Revenue Bonds

North Carolina Recreational Facilities

On December 22, 1999, the County issued County of Catawba, North Carolina Recreational Facilities Lease Revenue Bonds (YMCA of Catawba Valley Project), Series 1999 totaling \$4,300,000 pursuant to an Indenture of Trust dated as of December 1, 1999 (the "Indenture") between the County of Catawba, North Carolina (the "County") and First Citizens Bank and Trust Company, as trustee (the "Trustee"), and authorized by a bond order of the County adopted effective as of December 8, 1999. The proceeds received by the County from the sale of the Bonds were used by the County to acquire, pursuant to the Ground Lease dated as of December 1, 1999 (the "Ground Lease") between the Young Mens Christian Association of Catawba Valley, Inc. (the "Corporation") as Lessor and the County as Lessee, a long-term leasehold estate in (i) certain existing recreational facilities owned by the Corporation, and (ii), certain real property on which the Corporation constructed new recreational facilities owned by the Corporation ((i) and (ii) collectively, the "Property"), which Property the County simultaneously leased back to the Corporation pursuant to the Lease Agreement dated as of December 1, 1999 (the "Lease Agreement") between the County and the Corporation. The Corporation used the funds it received from the lease of the property to the County under the Ground Lease and from other sources for the purpose of refinancing certain existing indebtedness and financing the costs of acquiring, constructing, improving, and equipping certain new recreational facilities, which are located within the County.

The Bonds are limited obligations of the County. The Bonds and interest thereon and any redemption or purchase premiums with respect thereto do not now and shall never constitute an indebtedness or an obligation of the County, the State of North Carolina (the "State") or any political subdivision thereof, within the meaning of any constitutional limitation or statutory provision and does give rise to a charge against the general credit or taxing powers of any of them, but is payable solely from the revenues and income derived from the Lease Agreement, which revenues and income have been pledged and assigned to the Trustee to secure payment thereof, and from moneys available to be drawn by the Trustee under the Credit Facility. No owner of the Bonds shall have the right to compel the exercise of the taxing power of the County, the State or any political subdivision thereof to pay any principal installment or purchase price of, or redemption or purchase premium, if any, or interest on the Bonds.

Total NC Recreational Facilities Lease Revenue Bonds outstanding at June 30, 2015 were \$1.1 million.

Catawba Valley Medical Center

1. On August 12, 2009, the County issued County of Catawba, North Carolina Taxable Variable Rate Demand Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2009 (the "Series 2009 Bonds") totaling \$25 million at an interest rate of 12% for the purpose of funding a construction project that will renovate and

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

retrofit the current facilities while providing a utilities substructure that will allow for possible future expansion. Payments of principal begin October 1, 2018 and continue through October 1, 2039. The bonds are secured by an irrevocable letter of credit with an initial term ending August 2016. The revenue bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the County's property or upon its income, receipts, or revenues. The taxing power of the County is not pledged for the payment of the principal or interest on the revenue bonds, and no owner has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the bond order.

Total 2009 Hospital Revenue Bonds outstanding at June 30, 2015 were \$25,000,000.

2. On December 6, 2010, the County approved issuance of County of Catawba, North Carolina Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2010 ("the Series 2010 Bonds") through a commercial lender totaling \$22 million at an interest rate of 4.96% for the purpose of funding a construction project that will provide additional healthcare facilities and the acquisition and installation of health care equipment.

Total 2010 Hospital Revenue Bonds outstanding at June 30, 2015 were \$19,330,000.

3. On August 4, 2011, the County issued County of Catawba, North Carolina Refunding Revenue Bonds (Catawba Memorial Hospital Project) Series 2011 (the "Series 2011 Bonds") through a commercial lender totaling \$11,340,000 for the purpose of refunding the Series 1999 Hospital Revenue Bonds ("Series 1999 Bonds") which had previously refunded the Series 1992 bonds ("Series 1992 Bonds"). Losses totaling \$2,286,075 and \$62,800 were deferred on the refunding of the Series 1992 Bonds and the Series 1999 Bonds, respectively. These losses are being amortized over the life of the Series 2011 Bonds. The revenue bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the County's property or upon its income, receipts, or revenues. The taxing power of the County is not pledged for the payment of the principal or interest on the revenue bonds, and no owner has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the bond order.

Total 2011 Hospital Refunding Bonds outstanding at June 30, 2015 were \$4,565,000.

n. Catawba Valley Medical Center Capital Lease Obligation

Catawba Valley Medical Center (the "Medical Center") leases certain medical equipment that requires monthly payments with title passing to the Medical Center at the end of the lease term. The assets held under this capital leasing arrangement and accumulated amortization are included in equipment within the total capital assets and accumulated depreciation reported by the Medical Center. At June 30, 2015, assets under capital leases had a cost of \$1,620,663 and accumulated amortization of \$281,793. During 2015, amortization expense related to the capital lease was approximately \$605,000.

The leases do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any County property or upon its income, receipts, or revenue.

The present value of minimum lease payments at June 30, 2015 was \$3,842,871.

o. Long-Term Obligation Activity

The following is a summary of changes in the County's general long-term obligations for the fiscal year ended June 30, 2015:

(continued on next page)

CATAWBA COUNTY, NORTH CAROLINA

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

	Balance			Balance	Current
	June 30, 2014	Increases	Decreases	June 30, 2015	Portion
					of Balance
Governmental activities					
General obligation debt	\$ 760,000	\$ -	\$ (760,000)	\$ -	\$ -
Certificates of participation	10,730,000	-	(180,000)	10,550,000	1,160,000
Installment purchase	44,692,130	-	(3,928,083)	40,764,047	3,930,291
Qualified Zone Academy Bonds	400,000	-	(50,000)	350,000	50,000
Qualified School Const. Bond	21,529,896	-	(1,853,902)	19,675,994	1,853,902
Build America Bonds	6,663,443	-	(579,430)	6,084,013	579,430
Limited obligation bonds	57,702,836	-	(4,980,012)	52,722,824	4,758,529
Department of Commerce	2,600,000	-	-	2,600,000	-
Premium on long-term debt	6,935,140	-	(554,367)	6,380,773	-
Net pension liability (LGERS)	9,883,199	-	(9,883,199)	-	-
Compensated absences	4,428,877	3,060,855	(3,153,860)	4,335,872	3,153,860
Net pension obligation	1,115,961	213,305	(64,595)	1,264,671	-
Net OPEB obligation	5,936,485	1,155,527	(252,245)	6,839,767	-
Total governmental activities	<u>\$ 173,377,967</u>	<u>\$ 4,429,687</u>	<u>\$ (26,239,693)</u>	<u>\$ 151,567,961</u>	<u>\$ 15,486,012</u>
Business-type activities					
Solid-Waste Management					
Accrued landfill closure and postclosure costs	\$ 10,181,541	\$ 100,000	\$ -	\$ 10,281,541	\$ 100,000
Compensated absences	118,114	65,369	(75,726)	107,757	75,726
Net pension liability (LGERS)	246,219	-	(246,219)	-	-
Net OPEB obligation	178,790	27,227	-	206,017	-
Total Solid Waste Management	<u>\$ 10,724,664</u>	<u>\$ 192,596</u>	<u>\$ (321,945)</u>	<u>\$ 10,595,315</u>	<u>\$ 175,726</u>
Water & Sewer					
Installment purchase	\$ 7,397,122	\$ -	\$ (613,789)	\$ 6,783,333	\$ 624,899
Limited obligation bonds	5,212,164	-	(289,988)	4,922,176	521,471
Federal Revolving Loan	1,200,000	-	(75,000)	1,125,000	75,000
Premium on long-term debt	189,588	-	(14,130)	175,458	-
Compensated absences	22,221	10,071	(9,420)	22,872	9,420
Net pension liability (LGERS)	3,040	-	(3,040)	-	-
Net OPEB obligation	5,101	1,047	-	6,148	-
Total Water & Sewer	<u>\$ 14,029,236</u>	<u>\$ 11,118</u>	<u>\$ (1,005,367)</u>	<u>\$ 13,034,987</u>	<u>\$ 1,230,790</u>
Total business-type activities	<u>\$ 24,753,900</u>	<u>\$ 203,714</u>	<u>\$ (1,327,312)</u>	<u>\$ 23,630,302</u>	<u>\$ 1,406,516</u>

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

Compensated absences typically have been liquidated in the general fund and are accounted for on a last in first out (LIFO) basis, assuming that employees are taking leave time as it is earned. The current portion of compensated absences is estimated at \$3,153,860 for governmental activities and \$85,146 for business-type activities. Net pension and other post-employment benefits are typically liquidated in the general fund.

p. Conduit Debt Obligations

Catawba County Industrial Facility and Pollution Control Financing Authority has issued industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as by letters of credit and are payable solely from payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private business served by the bond issuance. Neither the County, the Authority, the State nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2015, according to information furnished by the Economic Development Commission, there were three series of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately \$4.1 million.

q. Other Commitments

In May 2005, an area municipality and tourism development authority (TDA) entered into an agreement to increase the size of the Hickory Metro Convention Center. The municipality is obligated for the financing costs associated with this expansion. The County has a financial commitment of \$1.2 million over fifteen years to the area municipality as a share of the debt obligation. The TDA will repay the County annually for the \$1.2 million obligation from revenues generated by the facility.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2015, consist of the following:

General Fund

From the General fund to the Emergency Telephone System fund to supplement other funding sources	1,350
From the General fund to the General Capital Projects fund for new construction and various capital improvement projects	1,225,000
From the General fund to School Construction fund for future debt service	3,185,358
From the General fund to Water & Sewer Construction fund for the construction of waterlines to supply adequate water to various County locations	<u>800,000</u>
Subtotal General Fund	<u>5,211,708</u>

Other Governmental Funds

From the Emergency Telephone fund to General Capital Projects fund to supplement funds for new equipment at Communication center	197,904
From the School Capital Projects fund to the General Fund to supplement funds for debt service and community college operations	530,000
From the School Construction fund to the School Capital Projects fund to supplement funds for various school renovations	35,000
From the Citizens' Alert System fund to the General fund to supplement funds for emergency services	<u>12,571</u>
Subtotal Other Governmental Funds	<u>775,475</u>
Total transfers to other funds	<u>\$5,987,183</u>

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements
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D. Fund Balance

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$60,507,995
Less:	
Inventories	319,059
Prepaid	115,502
Stabilization by State Statute	15,465,797
Notes receivable	1,597,343
Fund Balance Available	<u>44,607,637</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

	<u>General Fund</u>	<u>General Capital Projects Fund</u>	<u>Non-Major Funds</u>	<u>Enterprise Funds</u>
Encumbrances	\$ 1,167,474	\$ 19,374,375	\$ 8,500	\$ 2,912,745

NOTE 4 – RELATED ORGANIZATION

The County's governing board is also responsible for appointing five members of the nine-member board of the Economic Development Corporation (EDC), but the County's accountability for this organization does not extend beyond making these appointments. The EDC is a nonprofit organization that exists for the purpose of recruitment, retention and expansion of established manufacturing and non-manufacturing businesses for economic development purposes. Its primary revenues are allocations from Catawba County and various municipalities within the County. The County is not responsible for the debt issued by the EDC and the EDC's debt is not included in determining the County's legal debt limit.

NOTE 5 – JOINT VENTURES

The County, in conjunction with the State of North Carolina and the Catawba County, Newton-Conover and Hickory Boards of Education, participate in a joint venture to operate the Catawba Valley Community College. The State of North Carolina, Catawba County, and the Boards of Education each appoint four members of the thirteen-member board of trustees of the community college. The president of the Community College's student government serves as an ex officio nonvoting member of the Community College's board of trustees. The Community College is included as a component unit of the State. The County has the basic responsibility for providing funding for the facilities of the Community College and also provides some financial support for the Community College's operations. In addition to providing annual appropriations for the facilities, the County has periodically issued general obligation bonds and installment purchase obligations to provide financing for new and restructured facilities. Installment purchase obligations of \$7,470,812 are outstanding at June 30, 2015. The County made debt service payments of \$31,225 during the fiscal year on general obligation bonds and debt service payments of \$1,258,791 on capital related installment purchase obligations. The County has an ongoing financial responsibility for the Community College because of statutory responsibilities to provide funding for the Community College's facilities. The County contributed \$4,318,000 and \$1,425,715 to the Community College for operating and capital purposes, respectively, during the fiscal year ended June 30, 2015. The participating entities do not have any equity interest in the joint venture; therefore, no equity interest is reflected in the County's financial statements at June 30, 2015. Complete financial statements for the Community College may be obtained from the Community College's administrative offices at 2550 Highway 70 SE, Hickory NC, 28602.

The County, in conjunction with three other counties, participates in the Lake Norman Marine Commission (the

CATAWBA COUNTY, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2015

“Commission”), that was created by the North Carolina General Assembly in 1969. Board members are appointed by the four counties (Catawba, Iredell, Lincoln, and Mecklenburg) that fall within the jurisdiction of the Commission. At any given time and on a rotating basis, one of the Counties has two Board appointees and the other three have one Board appointee. Cash contributions in equal amounts from the participating counties comprise the majority of the Commission’s revenues. Catawba County contributed \$23,500 to the Lake Norman Marine Commission for operating expenses during the fiscal year ended June 30, 2015. Complete financial statements for the Commission can be obtained from the Lake Norman Marine Commission, PO Box 2454, Cornelius, NC 28031.

The County, in conjunction with Burke County, participates in the operation of the Burke-Catawba Regional Jail Agency (the “Agency”), a regional jail facility. The Agency, established under North Carolina General Statute 153A-210, was created for that purpose. On dissolution of the corporation, the net assets of the Agency will be shared by the two counties, according to their allocation. The Agency is governed by a four-member board composed of two appointees from each county. The counties are each obligated by contract to remit amounts required annually to supplement the Agency’s operating revenues and are entitled to an allocated share of the Agency’s annual operating income, if any. The County’s net investment and its share of the operating results of the Agency are reported in the County’s Statement of Net Assets. The County’s equity interest in the Agency was estimated at \$1,344,729 at June 30, 2015. Complete financial statements for the Agency can be obtained from the Agency’s administrative offices at 150 Government Drive, Morganton NC 28655.

NOTE 6 – JOINTLY GOVERNED ORGANIZATION

The County, in conjunction with three other counties and twenty-three municipalities, established the Western Piedmont Council of Governments (the “Council”). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council’s governing board. The County paid membership fees of \$42,208 to the Council during the fiscal year ended June 30, 2015.

NOTE 7 – BENEFIT PAYMENTS ISSUED BY THE STATE

Certain amounts were paid directly to individual recipients by the State from federal and State monies. County personnel are involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the State. This additional aid to County recipients does not appear in the basic financial statements, because it does not represent revenues and expenditures of the County.

NOTE 8 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The County has received proceeds from various Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Based upon prior experience, management believes such disallowances, if any, will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 9 – SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

In August 2015, Catawba County entered into a \$570,000 financing agreement for the purpose of computer equipment upgrades. The term of this financing agreement is 48 months at an interest rate of 1.43%.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The County implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June, 2015. The implementation of the statement required the County to record beginning net pension liability and the

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2015**

effects on net position of contributions made by the County during the measurement period (fiscal year ending June 20, 2014). As a result, net position for the governmental and business-type activities decreased by \$(6,295,010 and \$167,557), respectively.

The General fund balance was restated in the current year by \$1,729,629 due to notes receivable being classified as deferred inflows of resources in the prior year.

