

COUNTY OF RUTHERFORD

RUTHERFORDTON, NORTH CAROLINA



**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

Year Ended June 30, 2006

Rutherford County, North Carolina
Comprehensive Annual Financial Report
For the Year Ended June 30, 2006

Prepared By
Rutherford County Finance Department



TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page(s)</u>
INTRODUCTORY SECTION		
• Letter of Transmittal		ix
• Area Map		x
• Organization Chart		xi
• GFOA Certificate of Achievement		xii
• Principal Officials		xiii
 FINANCIAL SECTION		
• Independent Auditors' Report		1-2
• Management's Discussion and Analysis		3 - 13
• Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	14 - 15
Statement of Activities	2	16 - 17
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	4	19 - 20
Statement of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual - General Fund	5	21
Statement of Net Assets - Proprietary Funds	6	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	7	23
Statement of Cash Flows - Proprietary Funds	8	24 - 25
Statement of Fiduciary Net Assets - Fiduciary Funds	9	26
Notes to the Financial Statements		28 - 55
 Required Supplemental Financial Data		
• Law Enforcement Officers' Special Separation Allowance-Required Supplementary Information		56 - 57

Combining and Individual Fund Financial Statements and Schedules:

• General Fund:	
- Comparative Balance Sheets	58
- Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	59 - 62
• Debt Services Fund:	
- Balance Sheet	63
- Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	64
• Nonmajor Funds:	
- Combining Balance Sheet - Nonmajor Governmental Funds	65
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	66
Special Revenue Funds:	
• Combining Balance Sheet	67 - 68
• Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance	69 - 70
- Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
• Building Capital Reserve	71
• Reappraisal Fund	72
• School Capital Reserve Fund	73
• Enhanced 911 Fund	74
• Mental Health Reserve Fund	75
• Tourism Development Fund	76
• Grant Fund	77
• Grant CDBG Project Fund	78
• Fire Districts Fund	79
• Register of Deeds Automation Enhancement Fund	80
• Water and Sewer Project Fund	81
Capital Projects Funds:	
• Combining Balance Sheet	82
• Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	83
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
• School Capital Projects Fund	84
• County Buildings Capital Projects Fund	85

• Proprietary Fund Types:	
- Enterprise Funds:	
• Combining Balance Sheet	86
• Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings (Deficit)	87
• Solid Waste Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	88
• Solid Waste Reserve Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	89
• Combining Schedule of Cash Flows	90
• Internal Service Fund:	
- Statement of Net Assets	91
- Statement of Revenues, Expenses and Changes in Net Assets	92
- Statement of Cash Flows	93
• Component Unit - Proprietary Fund:	
- Rutherford County Transit Administration - Schedule of Revenues and - Expenditures - Budget and Actual (Non-GAAP)	94
- Statement of Cash Flows	95
• - Agency Funds:	
- Combining Balance Sheet	96
- Combining Statement of Changes in Assets and Liabilities	97
• Trust Fund:	
- Statement of Postemployment Healthcare Plan Net Assets	98
- Statement of Changes in Postemployment Healthcare Plan Net Assets	99
• Discretely Presented Component Units:	
- Schedule of Revenues Expenditures and Changes in Fund Balance:	
• Economic Development Commission	100
• Rutherford County Airport Authority	101
• Supplemental Financial Data:	
- Schedule of General Fund Ad Valorem Taxes Receivable	102
- Analysis of Current Tax Levy - General Fund	103
- Schedule of Special Districts Ad Valorem Taxes Receivable	104
- Analysis of Current Tax Levy - Special Districts Levy	105 - 106

STATISTICAL SECTION

• Net Assets By Component	107
• Changes in Net Assets	108
• Fund Balances of Governmental Funds	109 - 110
• Changes in Fund Balances of Governmental Funds	111 - 112
• Assessed Value and Actual Value of Taxable Property	113 - 114
• Direct and Overlapping Property Tax Rates	115
• Principal Property Taxpayers	116 - 117

• Property Tax Levies and Collection	118
• Ratio of Outstanding Debt by Type	119 - 120
• Ratios of General Bonded Debt Outstanding	121
• Direct and Overlapping Governmental Activities Debt	122
• Legal or Debt Margin	123 - 124
• Demographic and Economic Statistics	125
• Principal Employers	126
• Full-Time Equivalent County Government Employees by Function	127
• Operating Indicators by Function	128
• Capital Assets Statistics by Function	129

COMPLIANCE SECTION

• Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	130
• Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	131 - 132
• Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	133 - 134
• Schedule of Expenditures of Federal and State Awards	135 - 140
• Schedule of Findings and Questioned Costs	141
• Summary Schedule of Prior Year Audit Findings	142

CHARLES HILL
Chairman
CHIVOUS BRADLEY
Vice Chairman
AMANDA KING
Commissioner
PAUL MCINTOSH
Commissioner
BRENT WASHBURN
Commissioner

JOHN W. CONDREY
County Manager
HAZEL S. HAYNES
Clerk to the Board
ROBERT W. BOLE
Finance Director
PAULA A. ROACH
Assistant Finance Director

Rutherford County

289 North Main Street
Rutherfordton, NC 28139
(828) 287-6045
(828) 287-6262 FAX

November 30, 2006

Rutherford County Board of Commissioners
County of Rutherford
289 North Main Street
Rutherfordton, North Carolina 28139

Dear Commissioners:

In compliance with the General Statutes of the State of North Carolina, the Comprehensive Annual Financial Report (CAFR) of the County of Rutherford, North Carolina, is submitted for the fiscal year ended June 30, 2006. The responsibility for the accuracy, completeness, and clarity of the report rests with the County Finance Director. We believe the data presented is accurate in all material respects; that it is presented in a manner to fairly represent the financial position and the results of operations of the County of Rutherford as measured by the financial activities of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the county's financial activity have been included.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of independent auditors.

REPORTING ENTITY AND ITS SERVICES

The county has a commissioner/manager form of government with five commissioners elected for four-year staggered terms. The Board of Commissioners approves all tax and budget issues by a majority vote. An organizational chart is presented in this introductory section.

The financial reporting entity consists of the primary government, organizations for which a primary government is financially accountable, and other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government is financially accountable if it appoints a voting majority of the organization's governing body; and (1) is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The following agencies have been included in the reporting entity as component units:

Rutherford County Airport Authority
Rutherford County Economic Development Commission
Rutherford County Transit Authority

Based on the foregoing criteria, it was not considered appropriate to include the following entities in the County of Rutherford reporting entity:

Rutherford County Board of Education
Region C Council of Governments
Fire and Sanitary Districts
Isothermal Community College
Rutherford/Polk/McDowell Public Health District
Western Highlands Local Management Entity

The financial statements of these entities are audited and available at the County Finance Office and the office of each entity.

The County provides, in total or in part, a full range of governmental services including General Government, Public Safety, Environmental Protection, Human Services, Economic and Physical Development, Education, and Cultural Activities.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The county's accounting and financial systems have been designed to provide adequate internal accounting controls and to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or dispositions and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of

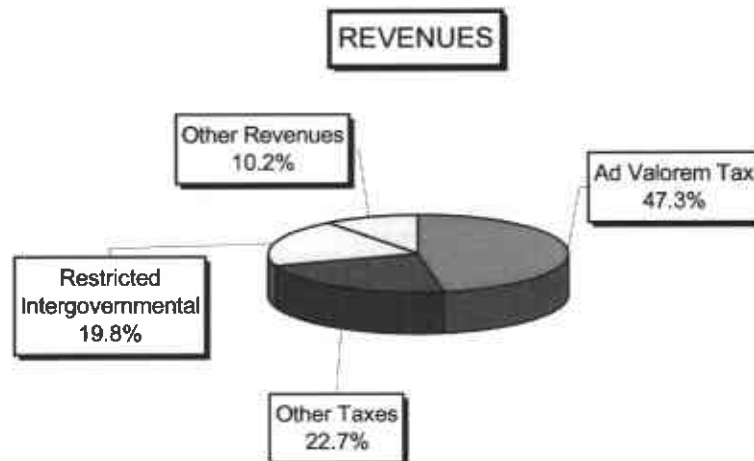
control should not exceed the benefits to be derived, and the evaluation of costs and benefits requires estimates and judgment by management. The county believes that the internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary or other control is exercised over all funds. Appropriations are made at the functional level for the General Fund, at the departmental level for the Special Revenue and Proprietary Funds, and at the object level for the Capital Project and Debt Service Funds. The Governing Board amends appropriations as necessary. The budget shown in the financial statements is the budget ordinance as amended through June 30, 2006. The county's budget ordinance is prepared on a modified accrual basis for all governmental fund types. The budgets for the General, Special Revenue, Debt Service, and Enterprise Funds are prepared on an annual basis, and the budgets for the Capital Project Funds are authorized for the life of the project.

GENERAL GOVERNMENTAL FUNCTIONS

Revenues for annual general governmental functions come primarily from ad valorem taxes, the two and one-half-cent optional sales tax, and intergovernmental revenues (primarily state and federal). These governmental functions include the general and special revenue funds. Revenues in the general fund are the sources used to carry out the general operations of the County. Special revenue funds are monies that are restricted by law or administrative action for specific purposes such as reappraisal, school capital projects, tourism development and the fire districts tax distribution.

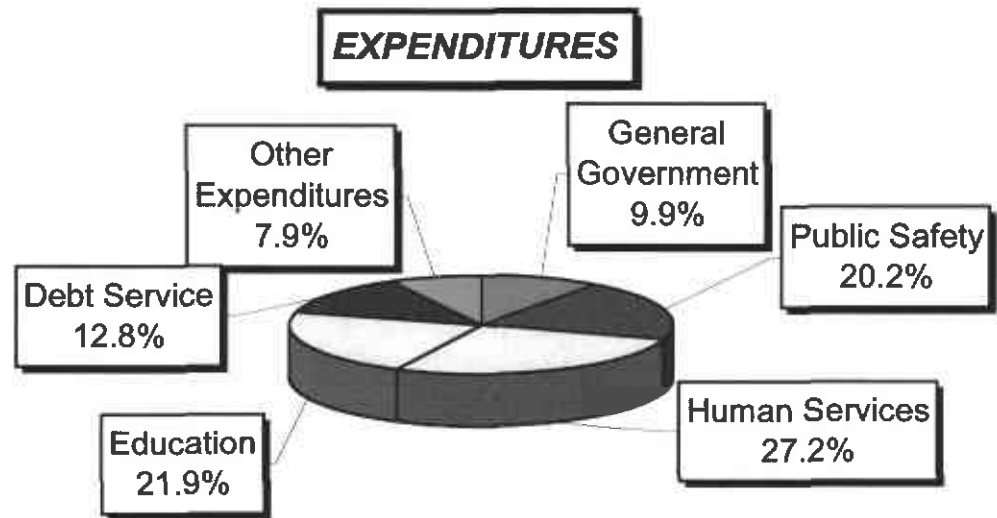
The following graph illustrates the County's general governmental sources of revenue for the general, special revenue and debt service funds only:



Rutherford County's revenues increased by approximately six and one-half percent mainly due to increases in ad valorem taxes and permits and fees.

Ad valorem and other tax revenues continue to be the largest source of revenue for the County accounting for 70% of total revenues. Permits and fees increased twenty-five percent, or \$287,711, mainly due to increases in revenues for excise stamps and building permits. Investment earnings increased following the growth in interest rates that has been experienced over the past year.

Management recognizes that local sources of revenue must be used to provide basic services instead of relying on the uncertainty of federal and state funding. Education, human services, and public safety continue to be the largest of county government expenditures representing 69% of all expenditures. The following graph illustrates the County's general governmental expenditures in the general, special revenue and debt service funds only:



Total expenditures increased by approximately six percent or \$3.3 million. The majority of the increases occurred in economic and physical development with increases also occurring in the areas of human services and debt service. Increased expenditures in human services were due to medical assistance, state foster care and child day care. The increase in economic and physical development was due to the Corporate 74 industrial park project which is discussed further on page vi and the water and sewer projects to expand utilities into rural areas of the County.

CASH MANAGEMENT

Rutherford County has in place an approved Cash Management Policy. This policy has specific guidelines for both revenues and expenditures. The Finance Department strives for efficient and profitable use of the County's cash resources. A pooled cash concept is utilized to maximize funds available for investment. Cash temporarily idle during the

year is invested in Certificates of Deposit, various instruments guaranteed by the United States Government and the North Carolina Capital Management Trust Fund (North Carolina Local Government Investment Pool).

The County's investments for fiscal year 2005-2006 earned \$1,052,453. The balance of cash and investments was \$22,964,495 as of June 30, 2006 as compared to \$20,641,880 as of June 30, 2005. The county's undesignated fund balance as of June 30, 2006 was \$8,386,061 and \$1,150,667 in the General Fund and the Special Revenue Fund, respectively.

DEBT ADMINISTRATION

Rutherford County has efficiently managed its debt and has planned for future debt payment. General Long-Term Debt outstanding as of June 30, 2006 is comprised of the following:

- 2004 Certificates of Participation issued for school construction - \$7,140,000
- General Obligation Bonds issued for school construction - \$11,490,000
- General Obligation Bonds issued for water and sewer construction - \$1,520,000
- 2003 Refunding of 1994 Certificates of Participation issued for county facilities - \$7,400,000
- 2001 Private Placement for county building projects - \$2,625,000
- 2003 Certificates of Participation issued for school construction - \$18,575,000
- 2003 Certificates of Participation industrial development - \$940,000
- 2005 Private Placement for school construction - \$4,424,419
- Other Capitalized Leases - \$1,876,214
- Other commitments (accrued vacation, pension) - \$1,171,495

The general obligation bonds, certificates of participation, and private placement debt service are being funded with sales tax revenue (which is set aside in reserve funds). One hundred percent of the Article 40 one-half cent sales tax adopted in 1983 and sixty percent of the Article 42 one-half cent sales tax adopted in 1986 have been designated for school construction. These funds are being set aside to pay for construction of schools and the debt service on borrowed funds used to construct schools. The remaining 40% of the Article 42 one-half cent sales tax adopted in 1986 has been designated for county building construction. Six percent of Article 39 one cent sales tax has been designated for the water and sewer construction. The capitalized lease payments and other commitments are being funded by general and special revenue fund revenues as the commitments come due.

The county bond rating for the outstanding general obligation debt is "A2" with Moody Investor Service, "A+" with Fitch Ratings. The rating for the September 2002 COPS financing is "A3" with Moody Investor Service, "A-" with Standard and Poors Corporation and "A" with Fitch Ratings. The rating process normally rates COPS issues one rate lower than General Obligation issues.

The General Statutes control general long-term debts that local governments in North

Carolina can issue. Long-term debt cannot exceed 8% of the assessed valuation of the County which was \$4,101,537,258 as of January 1, 2005. Thus, the legal debt limit of the County as of June 30, 2006 is \$328,122,981 with a legal debt margin of \$272,132,348 considering the outstanding bond debt of \$13,010,000 and other debt of \$42,980,633.

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. To protect itself in these cases, the County participates in two self-funded risk financing pools administered by the Risk Management Agency of the North Carolina Association of County Commissioners. Through these two pools, the County obtains property, general, auto, professional liability, crime and worker's compensation coverage.

Until June 30, 2005, the County also participated in a self-insured pool with the Rutherford/Polk Mental Health District and the Rutherford/Polk/McDowell Public Health District to provide health and dental benefits to employees. The internal service fund is still operational to account for run out claims. Beginning July 1, 2005, the County participates in fully insured health and dental insurance plans. The Insurance Plan Administrators are the State Health Plan for medical and Securian for dental.

In December, 2003, a trust fund was established to continue health insurance benefits for twelve mental health retirees as defined by an agreement between the Rutherford Polk Mental Health Authority and the Rutherford County Board of Commissioners as a result of the Authority's dissolution in 2005.

THE ECONOMY OF RUTHERFORD COUNTY

Rutherford County's population is estimated to be 63,771 with a work force of 28,147. The population has grown by 6.5% during the last decade. The 2001 Census revealed that the greatest growth occurred in the Lake Lure area indicating retirees moving into this area. The goods producing work force declined over the last decade, while the service producing work force increased. The median age has increased to 38.3 as compared to 37.0 a decade ago. The county trend seems to be following the national trend in rural America.

Seventy-four manufacturing firms are located in Rutherford County led by textiles, valves, and plastics. Textiles and manufacturing continue to be the leader in jobs and wages. Recent trends show textiles declining, again following the national trend. In 2000, the industrial base in the County diversified with the introduction of composites and automotive components. The County has also developed industrial sites and buildings to sell. Riverstone Industrial Park contains 1,150 acres and is the largest certified industrial park in North Carolina. There are over thirty building sites proposed for this property. Over twelve million dollars of private funds have been invested and the Town of Forest City is providing water and sewer.

With grant assistance, the County is also developing an industrial park—Highway 74