

INTRODUCTORY SECTION





CALDWELL COUNTY
P. O. BOX 2200
LENOIR NC 28645

LETTER OF TRANSMITTAL

October 29, 2007

The Board of Commissioners
County of Caldwell
Lenoir, North Carolina

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of Caldwell County for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of Caldwell County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of Caldwell County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of Caldwell County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Caldwell County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Caldwell County's financial statements have been audited by Martin Starnes & Associates, CPA's, PA, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Caldwell County for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Caldwell County's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Caldwell County was a part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in Caldwell County's Single Audit Report which accompanies this report.

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

Description of the County

Caldwell County is located in scenic western North Carolina, approximately 70 miles northwest of Charlotte, 85 miles southwest of Winston-Salem and 90 miles northeast of Asheville. The altitude of the County ranges from 900 to 5,964 feet above sea level with topography ranging from rolling foothills to high-forested mountains. It has a land area of 471 square miles and an estimated population of 78,548. There are ten incorporated municipalities in Caldwell County. The City of Lenoir and the towns of Cahah's Mountain, Gamewell, Granite Falls, Hudson, Sawmills, and the Village of Cedar Rock are entirely within the County and the City of Hickory and the towns of Blowing Rock and Rhodhiss are partially within the County. The City of Lenoir is the largest municipality and serves as the county seat.

Caldwell County, carved from the counties of Burke and Wilkes, was actually formed in January 1841, several weeks after the bill was introduced in the legislature. The bill to establish the county was rejected in 1839 because a faction within the state legislature wished to form two Democratic counties instead of one Whig county. The bill was reintroduced by Representative Elisha P. Miller on November 19, 1840. The bill of 1840 proposed to establish a county from Burke and Wilkes to be named Boone. It was first read and rejected on December 5, 1840. It was

read a second time and passed by the casting vote of the Speaker, Robert B. Gilliam on December 14, 1840. There was some confusion over the selection of the name, however, but when Charles Manley, Clerk of the House, suggested to Representative Miller that the county be named for Dr. Joseph Caldwell, former President of the University of North Carolina and advocator of a public school system and a railroad system stretching from Morehead City through the questioned county to Tennessee, the bill was ratified and signed on January 11, 1841.

The County utilizes the commission/manager form of government. The five-member Board of Commissioners is elected at large on a partisan basis for staggered four-year terms of office. The Board represents the citizens by setting policy and a County manager hired by the Board administers the day-to-day business of government and carries out the policies of the Board.

The County provides its citizens with a wide range of services that include law enforcement, emergency medical services, register of deeds, water, animal control, upkeep of the courthouse and other public buildings, solid waste disposal, public libraries, cultural and recreational activities, health services, social services, general administration and others. This report includes all the County's activities in maintaining these services. The County also provides financial support to certain boards, agencies and commissions to assist their efforts in serving citizens. Among these are the Caldwell County Board of Education, Caldwell Community College, the Caldwell County Economic Development Commission, Foothills Area Programs, and the Western Piedmont Council of Governments.

Economic Conditions and Outlook

Our economy is continuing to recover from manufacturing job losses resulting from global competition for our traditional industries.

The residential development growth in "second-homes" or "retirement residences" continues to be strong. The number of permits issued for new residential construction remained fairly constant with those issued for the previous year (307-346); however, the collective value for new homes permitted increased \$5.6 million over the previous year.

Non-residential permits for new construction increased from 23 last year to 45 this year, and the collective value for the permits increased over \$62 million from the previous year.

Our Economic Development Department worked on manufacturing and industrial projects with investments totaling more than \$643 million and the creation of 1,025 jobs.

Google accounted for \$600 million of new investment and over 200 jobs. This was the largest project ever announced in our county and was the cornerstone of our efforts to start diversifying

our local economy. The recruitment of a company with the stature of Google gives a great deal of credibility to our county as a business destination.

While Google had by far the largest investment, VX Aerospace was the winner in job creation. They are projecting 486 new jobs within the next five years. These jobs will be created in the field of advanced composites and the manufacturing of single engine airplanes.

Another valuable addition to our county was Vantage Foods. In September of 2006, Vantage announced the creation of 186 new jobs and investment of \$25 million to build a case ready meat processing plant in Caldwell County. This is the first plant of its kind in the US. The company will be supplying meat to Lowes Foods and MDI. Having this company locate in our county strengthens our ties with MDI, currently the largest taxpayer in Caldwell County.

Our retail base is also in the process of expanding, as evidenced by two Wal-Mart Supercenters currently under construction in our county.

We continued our commitment to providing educational opportunities to our citizens this year by funding an \$8.5 million project to construct a facility on the campus of Caldwell Community College and Technical Institute to house an early college high school program. Students accepted into the program, attend this school beginning in the ninth grade and graduate in five years with a high school diploma and a two year college degree. We believe this will be a powerful supplement to the ASU Center we previously funded on the Caldwell Community College and Technical Institute campus which provides our citizens with the opportunity to obtain a university degree in teaching.

We also continued our commitment to providing police, fire and ambulance service in our county by initiating a \$6.5 million upgrade to our emergency communications system designed to expand our ability to communicate with hand-held radio users and page fire personnel, expand the number of channels available to reduce congestion on the system and to improve our interoperability with other local and State agencies.

We continued to support the revitalization of the City of Lenoir with a \$1.2 million project to renovate our courthouse and the Alden E. Starnes County Office Building.

We began a \$12.5 million project to construct a facility to house our Health Department and Social Services Department. This facility will be the second constructed on Caldwell County Government Center campus and will bring an end to over twenty years of facility rentals for these departments.

We have also partnered with the Economic Development Commission to construct a transload facility which will greatly expand the ability of local industry to transport products into and out of our area by rail.