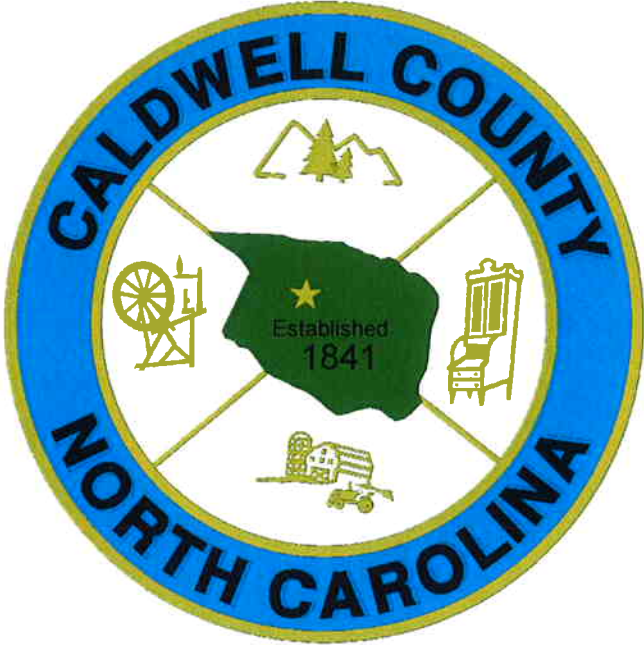


## **FINANCIAL SECTION**





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## Martin Starnes & Associates, CPAs, P.A.

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

### **INDEPENDENT AUDITORS' REPORT**

To the Board of Commissioners  
Caldwell County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Caldwell County, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Caldwell County's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Caldwell County Area Transit System which represents 25%, 49%, and 47% respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Caldwell County Area Transit System, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Caldwell County Area Transit System and the Caldwell County Economic Development Commission were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Caldwell County, North Carolina, as of June 30, 2007, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Required Supplementary Information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2007, on our consideration of Caldwell County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on financial statements that collectively comprise the basic financial statements of Caldwell County, North Carolina. The introductory information, combining and individual nonmajor fund statements and schedules, supplementary information, other schedules, and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules, supplementary information, other schedules and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us or the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
October 30, 2007

## **Management's Discussion and Analysis**

As management of Caldwell County, we offer readers of Caldwell County's financial statements this narrative overview and analysis of financial activities of Caldwell County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the financial statements, which follow this narrative.

### **Financial Highlights**

- The assets of Caldwell County exceeded its liabilities at the close of the most recent fiscal year by \$13,210,796.
- The negative unrestricted net asset figure (\$17,084,245) showing in the governmental activities is due to North Carolina statutory requirements that counties carry the debt on new structures on school property while schools carry the asset. Without this statutory provision in place, Caldwell County would have \$10,880,510 of unrestricted net assets available for use in meeting the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Caldwell County's governmental funds reported combined ending fund balances of \$42,022,972.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,836,040.
- The General Fund expenditures concluded the year within budget.
- The County successfully complied with all State and federal service mandates as prescribed by law.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Caldwell County's basic financial statements. Caldwell County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Caldwell County's finances in a manner similar to private-sector business.

The *statement of assets* presents information on all of Caldwell County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Caldwell County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Caldwell County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Caldwell County include general government, public safety, economic and physical development, environmental, and culture and recreation. The business-type activities of Caldwell County include a water operation.

The government-wide financial statements include not only Caldwell County itself (known as the *primary government*), but also a legally separate transportation system and a legally separate economic development commission for which Caldwell County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Caldwell County, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Caldwell County can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Caldwell County maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Capital Projects Fund, and Community College Capital Projects Funds which are considered to be major funds. Data from the other 15 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Caldwell County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C to F of this report.