

**Lincoln County, North Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007**

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COUNTY OF LINCOLN, NORTH CAROLINA

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FINANCE DEPARTMENT
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October 26, 2007

**Residents of Lincoln County
The Board of County Commissioners
Lincoln County, North Carolina**

Maintaining the fiscal strength and stability of the County government is a primary goal of the Board of County Commissioners. This Comprehensive Annual Financial Report (CAFR) of Lincoln County, North Carolina, for the fiscal year ended June 30, 2007, reflects the achievement of that goal. Each year this document is prepared to provide you with details about how the County receives, spends and accounts for its money as well as key indicators of its financial strength. The County's Finance Department prepares the CAFR, and responsibility for the accuracy of the data, the completeness and fairness of the presentation and all disclosures rests with the County. We believe the data and presentations are fair and accurate and that you will find everything necessary in this document to gain an understanding of the County's financial activities over the last fiscal year. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The financial statements and supplemental schedules contained herein have been audited by the independent, certified public accounting firm of Martin Starnes & Associates, CPAs and that firm's unqualified opinion is included in the Financial Section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with emphasis on administration of federal grants.

We are also presenting a Management's Discussion and Analysis (MD&A) as an introduction to the financial information. This section immediately follows the auditor's opinion and provides an overview and analysis of the County's significant transactions in fiscal year 2007 to aid readers in understanding their financial impact and relationship to the financial statements and schedules provided. This section is presented to comply with significant changes in governmental accounting standards in an attempt to provide more meaningful information to our readers and to demonstrate the County's accountability for its financial actions. This letter of transmittal is written to complement the MD&A.

FINANCIAL REPORTING ENTITY

The CAFR includes all funds and account groups of the County, including all activities considered to be part of (controlled by or dependent on) the County. Control by, or dependence on, the County was determined in accordance with the criteria established by the Governmental Accounting Standards Board (GASB) and included in the GASB's guidance in defining the governmental reporting entity.

The financial reporting entity includes all funds and account groups of Lincoln County, as well as its component units. Component units are legally separate entities for which Lincoln County is financially accountable.

The East Lincoln County Water and Sewer District Fund, Lincoln County ABC Board and the Lincolnton-Lincoln County Regional Airport Authority are component units of Lincoln County and presented as proprietary funds. Proprietary funds are used to account for a government's continuing business-type organizations and activities. Most of the generally accepted accounting principles of proprietary funds are those applicable to similar private businesses. Effective July 1, 2007 the assets of the East Lincoln County Water and Sewer District were transfer to the Lincoln County Water Fund to allow the sewer system to serve a larger area in a rapidly growing portion of the County. The Sewer District will remain in existence and levy a tax until the existing debt service of the District is repaid. The assets are shown separately in this financial statement but will be combined in next year's statements.

State Statutes require the adoption of an annual balanced budget for all funds, except the agency fiduciary funds and those authorized by project ordinance. The annual budget serves as the basis for the County's financial planning and control. Budgets are developed on a departmental basis by expenditure function within a fund. The budgets display all of the County financial operations including funding for various agencies outside the County's organizational structure. The County Manager submits the annual balanced budget to the Board of Commissioners before June each year. A public hearing on the budget is held in the middle of June with an expected budget adoption by June 30. In accordance with North Carolina statutes, the governing board shall adopt a budget not earlier than ten days after the budget is presented to the Board and no later than July 1. During the fiscal year, the County Manager is authorized to transfer budgeted amounts within objects of a department and up to \$20,000 between departments of the same fund; however any revisions that alter the total budget of any fund must be approved by the Board of Commissioners.

PROFILE OF LINCOLN COUNTY

The County is located in the western portion of the North Carolina Piedmont Plateau, approximately 165 miles west of Raleigh, the State Capital, and 30 miles northwest of Charlotte, the State's largest city.

The County was formed in 1779 and has a total land area of approximately 308 square miles.

The City of Lincolnton, with an estimated 2007 population of approximately 10,582, is the center of an urban area of 15,000, the County seat, and the only incorporated municipality in the County.

There is growing suburban development and extensive construction in the eastern portion of the County along and near Lake Norman, the state's largest man-made lake by surface area, with approximately 520 miles of shoreline. This area is within 30 minutes of uptown Charlotte and has experienced significant residential and commercial growth in recent years.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Diversity

A combination of diversified industries, agricultural production, and a growing distribution cluster contributes to the economy of the County. Agriculture in the County is very diverse and includes the production of poultry, beef, milk, field crops, fruits, vegetables, and ornamental crops. There is also a successful winery. The major industrial employers are in metal and ceramic manufacturing, textiles, food products and construction materials. The County has also experienced development in the State's growing motor sports industry. In March 2007, *Site Selection* magazine named Lincolnton and the County as a Top Ten Micropolitan Area in the nation – for the second year in a row - for its ability to secure new and expanded corporate facility projects.

The County is home to the Lincoln County Industrial Park (the "Park"). The Park is one of the original North Carolina Certified Industrial Sites and the most successful. Since development began in early 2001, the Park has attracted over \$225 million in investment creating almost 2500 jobs with construction of over 3 million square feet of manufacturing and distribution space. In the Park this past fiscal year, GE Security announced plans to occupy a 100,000 square foot shell building creating 200 new jobs and further diversifying our industrial base with electronics manufacturing. Two other new additions are Room & Board's \$7 million distribution center and the \$5 million United Plate Glass manufacturing facility. In addition, two companies expanded in the Park. Crate & Barrel spent \$8.5 million to add 200,000 square feet for a total of 400,000 and RSI spent \$14 million to add 325,000 square feet for a total of over 1,100,000 in the Park. In addition, Sabo USA, a Brazilian manufacturer of gaskets and seals, will open soon adding to the international mix of companies.

In addition to growth in the Park, there have been several significant announcements in the last year from manufacturers new to the County, as well as from those companies with an existing presence. Actavis will expand their pharmaceutical plant with a \$14 million investment and adding 50 jobs and Bosch Tools will expand their plant investing over \$3 million and adding 60 jobs. Two new companies to the county are Kirk & Matz investing \$3 million and Carolina Non-woven investing over \$4 million.

Additionally, the County has experienced commercial growth in the central area in Lincolnton and the eastern area of the County along Highway 16. Both areas are expected to continue to grow as national and local retailers target these high growth corridors. In 2007, infrastructure is expected to be installed in the eastern part of the County to allow the opening of an additional office and industrial park.

Capital Improvement Program

The Board of Commissioners is in the process of developing a Capital Improvement Program (CIP) for the County which will cover at a minimum five years of capital needs. One of the capital needs that is being addressed is the need for office space for court and County administrative functions. A committee considered options which consisted of purchasing and renovating existing facilities or the construction of a new facility. As a means to immediately address some of the office space needs, the Board of Commissioners in September 2006 approved the lease with option to purchase of a former bank building in downtown Lincolnton. County offices previously located in the Courthouse have relocated to this building providing much needed space and freeing up space in the Courthouse for court functions. At the same September 2006 meeting the Board of Commissioners also approved an agreement that allowed Lincoln Health System to enter into an agreement for Carolinas Healthcare System to apply for a certificate of need to construct a new hospital in Lincolnton. Carolinas Healthcare System is proposing to spend up to \$100 million to construct a new hospital facility. If

for some reason they are not granted the certificate of need, they plan on spending up to \$50 million to expand and renovate the existing facility. If this new hospital is constructed the current facility will revert back to Lincoln County which plans on using the facility for county office space.

The Lincoln County Board of Education at their September 2003 joint meeting with the Board of Commissioners presented a ten year capital facility plan which outlined school capital needs. This plan projected school enrollment versus capital needs over the next ten years. The list of capital needs includes renovations to existing facilities along with the construction of various new schools throughout the County. At their December 15, 2003 meeting, the Board of Commissioners approved the holding of a school bond referendum which was approved by voters on May 4, 2004. This \$47 million which was approved was to be issued over a two year period. The first installment of \$17 million was issued in October 2004 which allowed the construction to begin on two new schools, the expansion of three existing high schools and infrastructure improvements to an existing school. \$2.0 million of Qualified Zone Academy Bonds were issued in July 2005 along with another \$28 million of the \$47 million bond authorization which was issued in October 2005. Due to continued growth in the eastern portion of the County the Board of Commissioners approved the issuance of \$19.645 million of certificates of participation (COPS) to construct a new middle school. These COPS were issued June 29, 2006 with occupancy occurring in August 2007. The Board of Education has identified an additional \$44.6 million of capital needs which the Board of Commissioners have agreed to put before voters with a May 2008 referendum. These funds, if approved, would allow for the construction of a new elementary school along with system wide renovations and expansions of existing facilities.

During the fiscal year ending June 30, 2007, a minor expansion of the Water Treatment plant from 3.0 million gallons per day (MGD) to 3.99 MGD was approved. The proposed full expansion of the Plant to 6.0 MGD is in review by the State. Once environmental reports are approved the Water Plant will be expanded to six million gallons per day. The replacement of approximately five miles of substandard water lines in the Westport community has been completed. A joint effort with the Board of Education is the construction of a new water line along Highway 73 which will serve the Lincolnton Lincoln County Regional Airport along with serving East Lincoln Middle School. This project is being funded with a combination of local and school bond funds to provide service to both the school and to an area with potential for rapid growth in the next few years. New water lines and sewer lines are nearing completion to serve the new North Lincoln Middle School on Amity Church Road.

The East Lincoln County Water and Sewer District completed the expansion of the Forney Creek Treatment plant. Preliminary design and environmental reports are in review for the construction of a new wastewater treatment plant to provide the needed treatment capacity to accommodate the growth in eastern Lincoln County. This facility is to be funded with State Revolving Loan funds.

A contract has been awarded for the construction of a new pump station and sewer line to serve the Lincoln County Industrial Park connecting it with the City of Lincolnton. This will provide additional sewer capacity for future business expansions. This project will be a joint effort with the City of Lincolnton who will receive and treat the wastewater at their existing plant. Another joint project with the City was the construction of a new sewer line to serve the Norris Childers Elementary School on Rock Dam Road off NC 27, west of Lincolnton. This project is complete.

LONG TERM PLANNING

In February, 2006 the Board of Commissioners contracted with Centralina Council of Governments to re-write the Comprehensive Land Use Plan for Lincoln County. The planning process began in March 2006 was adopted by the BOC on August 20, 2007, with an effective date of September 1, 2007. Key components of the plan include:

1. Three Small Area Plans.
2. Enhance commercial, service and employment uses to enhance the tax base and create new jobs encouraging economic development.
3. Address responsible residential growth.
4. Coordinate current and future infrastructure with long range planning.
5. Make provision for appropriate mixed-use development.
6. Provision for adequate transportation infrastructure to support population growth, as transportation and land use plans are integrated.
7. Preserve the County's natural beauty and resources.

The Lincoln County Board of Commissioners and the department of Building and Land Development along with other departments met in January 2007 to discuss additional Long Range Planning goals and objectives. The following information was introduced as Long Range planning projects from Building and Land Development:

Unified Development Ordinance (UDO): The purpose of this ordinance would be to combine several ordinances into one. The zoning and subdivision ordinances will be re-written and several map amendments can be expected. These ordinances were written over 10 years ago and are due many revisions as infrastructure demands have increased due to the growth rate over the past decade, especially in Eastern Lincoln County. Additionally, the new comprehensive Land Use Plan has many changes from the previous plan; thus several changes are warranted in the zoning and subdivision ordinances in order to be consistent. The Board of Commissioners approved the selection of a consultant for the development of a UDO in September 2007. This process should take between 12 and 14 months to complete.

Adequate Public Facilities Program (APFP): The purpose of this program would be to ensure that public facilities needed to support new development meet adopted level of service standards. The County and other responsible agencies will maintain realistic Capital Improvements Programs to accommodate new development based on their ability to provide adequate public facilities to that development. The goals are to protect the character of the County and to conserve the value of buildings and encourage the most appropriate use of land throughout the County. An additional goal of the APFP is to ensure that no development proposal is approved that would cause a permanent reduction in the level of service for any public facilities, unless mitigation measures are proposed by the developer and approved by the responsible agency. Another goal is to ensure that proposed development will not adversely affect the public health, safety, and general welfare of existing and future residents of the County. This process began several years ago and various Boards have reviewed and revised the program. The Board of Commissioners adopted the APFP on August 20, 2007 with an effective date of September 1, 2007.

Transportation Policy/Ordinance: In order to maintain an effective road network along the county's roads and within its subdivisions, it is advantageous to provide standards by which road networks in subdivision must be constructed to and to also mandate the maintenance of acceptable levels of service along principal collector and arterial routes throughout Lincoln County. A public hearing on the ordinance is scheduled for November 1, 2007.

OTHER ACCOMPLISHMENTS

Funding for education remains a large expenditure category in our budget with a total \$34,525,949 expended. This expenditure is composed of \$15,671,351 from the General Fund and \$18,854,598 of capital project expenditures. The General Fund portion increased the Schools Current Expense by \$1,086,000, or 8.22% over 2006.

OTHER POSTEMPLOYMENT BENEFITS

Lincoln County maintains a retiree medical plan in which the County pays 100 percent of the employee-only coverage for retirees under age 65 and pays Medicare supplemental coverage for former employees age 65 and older. The benefit also applies to disabled employees. In general, retirees must be age 60 with 25 years of service, or have 30 years of service to retire from the retirement system to become eligible for this benefit. Cash outlays currently run approximately \$23,300 per month. Effective with the fiscal year ending June 30, 2008, the County will adopt procedures under Governmental Accounting Standards Board ("GASB") Statements No. 43 and 45.

At that time the County will determine the liability of the retiree medical plan using the requirements and procedures of these statements. The ultimate liability will be affected by funding methods and/or funding vehicles chosen to provide benefits in the future.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lincoln County for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the eleventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

We appreciate the assistance and dedication of the Finance Department staff throughout the year, especially during the preparation of the CAFR. We would like to thank all members of the Department who contributed to its preparation and the County's independent certified public accountants, Martin Starnes & Associates, CPAs, for their assistance. The cooperation of each County department is appreciated as we work together in conducting the County's financial operations. We also express our appreciation to the members of the Board of County Commissioners for their continued support, guidance, and advice in planning and conducting the financial activities of the County in a responsible and progressive manner.

Respectfully submitted,



Michael Talbert
Interim County Manager



Leon Harmon
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lincoln County
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

LINCOLN COUNTY , NORTH CAROLINA

Principal Officials

June 30, 2007

Board of County Commissioners

Thomas R. Anderson, PE, Chairman

Alex E. Patton, Vice-Chairman

Bruce Carlton

James A. Klein

Marie Moore

County Officials

**Stan Kiser
Jeffrey Taylor
Elaine Harmon
Timothy Daugherty
Donnie Fields
Kelly Atkins
Kevin Starr
Judy Caudill
Susan Spake
Leon Harmon
Margaret Dollar
Edward Trever
Dante' Patterson
Steve Gilbert
Erma Deen Hoyle
Susan McCracken
Rick McSwain
Madge Huffman
Eric Robinson**

**County Manager
County Attorney
Register of Deeds
Sheriff
Buildings and Grounds
Building and Land Development
Cooperative Extension
Elections
Emergency Management
Finance Director
Health
Library
Management Information Systems
Public Services
Recreation
Social Services
Soil Conservation
Tax Administrator
Veteran Service**