

COUNTY OF LINCOLN, NORTH CAROLINA

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FINANCE DEPARTMENT

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October 13, 2006

**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, 2006, 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 2006 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.

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 2006 population of approximately 10,431, 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. The main agricultural pursuits are dairy farming, raising beef cattle, apple and peach production, field crops production and vegetable production. The major industrial employers are in metal and ceramic manufacturing, textiles, home products and manufactured housing. The County has also experienced development in the State's growing motor sports industry. In March 2006, *Site Selection* magazine named the Lincolnton area in the County as a Top Ten Micropolitan Area in the nation 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 was recently awarded North Carolina Certified Industrial Site status making it one of 14 such sites across the State. A mix of international and domestic manufacturers and distributors have located to the 550-acre site. Distributors in the Park include Crate & Barrel with a 210,476 square foot distribution center representing an \$8.7 million investment, R.W. Garcia Co., Inc. with a 60,560 square foot tortilla chip production facility representing a \$9 million investment and Robb & Stucky with a 180,000 square foot expansion to its existing distribution center representing a \$4 million investment. In February 2005, Australian Manufacturing Inc. announced it would locate its North American headquarters and manufacturing facility to the Park. This facility represents an initial investment of over \$4 million and is expected to employ 20 workers. In July 2005, LeeBoy announced a new manufacturing facility at the Park investing \$10.5 million and adding 100 jobs. In July 2005, RSI Home Products, the County's largest manufacturing employer, announced that it would expand its manufacturing facility located in the Park. The company will more than double the size of the current 200,000 square foot facility by adding an additional 225,000 square feet. This \$9,250,000 investment is expected to create at least 150 jobs and is the third expansion for RSI Home Products in the County since 2001. Additionally, in May 2006, Big Dog Holdings, Inc., a retail manufacturer, announced plans to relocate a distribution center from California to the Park. The company will invest approximately \$10.5 million and will initially provide approximately 100 jobs.

In addition to growth in the Park, there have been several significant announcements in the last year from manufacturers and distributors new to the County, as well as from those companies with an existing presence. In June 2005, American Converting, a paper converting company, announced it would invest \$1.2 million and move its operations to the County. The company purchased the 90,390 square foot Haworth facility and expects initially to employ 20 workers. In the fall of 2005, FMS, an Israeli company, started a new defense related manufacturing plant, investing \$4 million, and Active Concepts started a \$1 million cosmetics facility. In 2006, Sabo, a Brazilian company, which manufactures gaskets and seals, announced it would build a new \$10 million manufacturing plant with 100 jobs in the County. In the winter of 2006, Cataler, a Japanese company with existing facilities in the County, announced a \$38 million expansion with 80 jobs, and The Timken Company, the County's second largest manufacturing employer, announced a \$17 million expansion with 40 jobs. The Timken expansion is the company's second in the last three years.

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 2006-07, 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 currently located in the Courthouse will relocate 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 and construction is under way on this new school. The Board of Education has identified an additional \$38 million of capital needs over the next six years that will probably be addressed with an additional school bond referendum.

During the fiscal year ending June 30, 2005, a capital project was approved for the expansion of our water treatment plant in the amount of \$1,395,106 along with a water line replacement project for the Westport community in the amount of \$1,069,900. The current phase of the water treatment plant expansion project is nearly complete and this phase of the Westport water line is also nearing completion. Once environmental reports are approved the Water plant will be further expanded increasing the capacity from three to six million gallons per day. The next phase of the Westport water line replacement should begin this spring, replacing an old system by the fall of 2007. 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 an existing 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.

The East Lincoln County Water and Sewer District continued with the expansion of the Forney Creek Treatment plant. Approval was given for engineering services to develop plans and specifications for the construction of a new wastewater treatment facility to provide the needed treatment capacity for this fast growing portion of the County. The engineering and environmental work continues for the new plant. This facility is to be funded with State Revolving Loan funds.

Engineering work is almost complete for the construction of a new sewer line to serve the Finger Mill 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 is the construction of a new sewer line. This sewer line is serving a new elementary school which was just completed off highway 27, west of Lincolnton.

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 and should be completed in the spring of 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.

OTHER ACCOMPLISHMENTS

Funding for education remains a large expenditure category in our budget with a total \$49,001,212 expended. This expenditure is composed of \$14,375,502 from the General Fund and \$34,625,710 of capital project expenditures. The General Fund portion increased the Schools Current Expense by \$911,402, or 6.77% over 2005.

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 \$22,000 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, 2005. This was the tenth 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,



Stan Kiser
County Manager



Leon Harmon
Finance Director

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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, 2005

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, 2006

Board of County Commissioners

Thomas R. Anderson, PE, Chairman

James Funderburk, Vice-Chairman

Carrol D. Mitchem

Marie Moore

Alex E. Patton

County Officials

Stan Kiser

Jeffrey Taylor

Elaine Harmon

Barbara Pickens

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

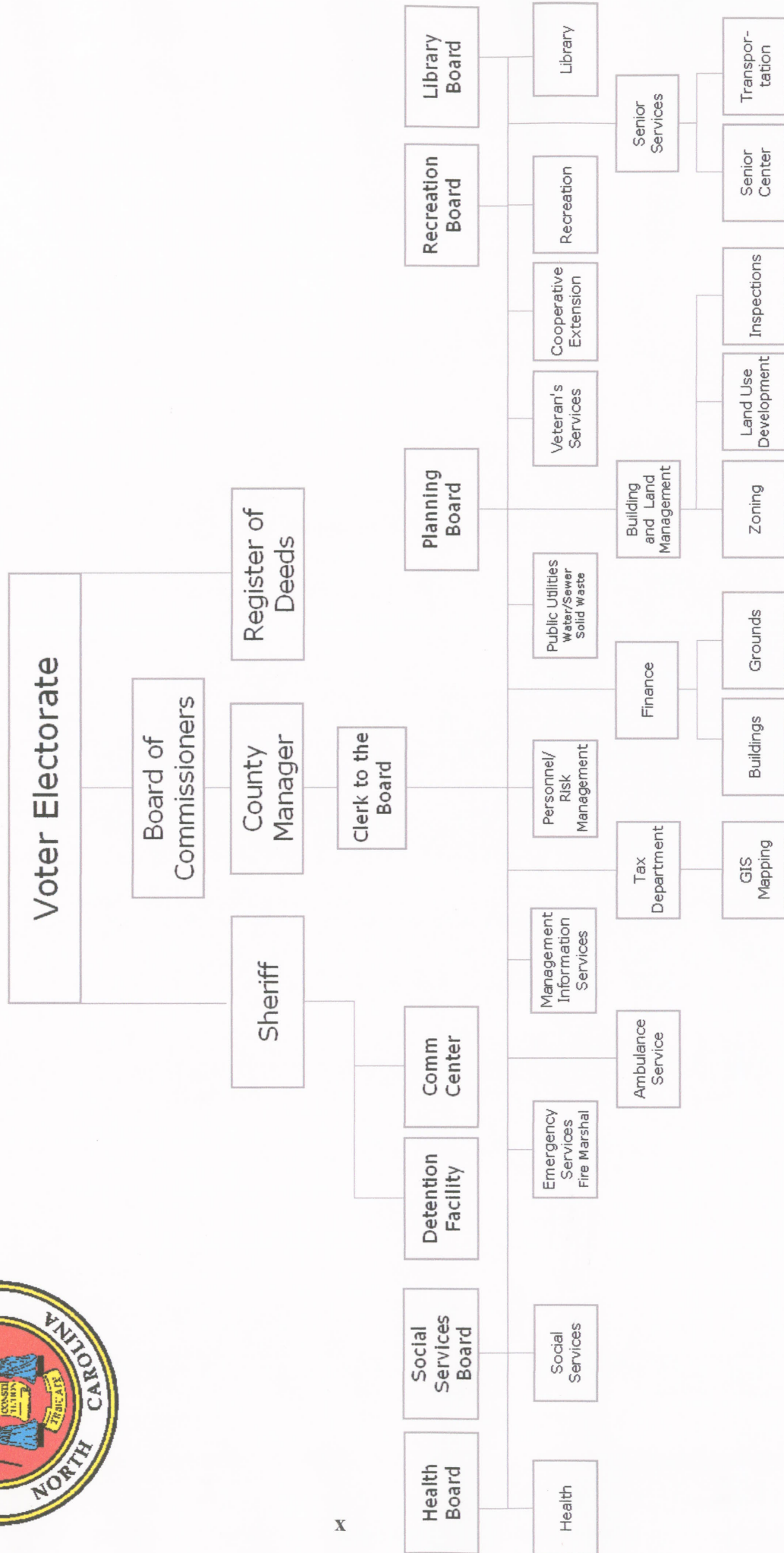
Tax Administrator

Veteran Service



Lincoln County

Organizational Chart



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