

READER'S GUIDE TO THE BUDGET

One of the primary goals in formatting this Budget has been to make it user-friendly. Government budgets by definition are confusing documents, particularly for the first-time reader.

County budgets in North Carolina are governed by three primary sources: a) Generally Accepted Accounting Principles (GAAP) for Governments, which are established nationwide by the Government Accounting Standards Board (GASB); b) the NC Local Government Budget and Fiscal Control Act (LGBFCA), codified as NCGS Chapter 159, Article 3; and c) the NC Uniform Chart of Accounts, which sets out a standard set of accounting codes statewide. GASB requires the use of multiple funds, grouped into seven categories, plus a Long-term Debt Account Group and a Fixed Asset Account Group. To further complicate it, some of those fund categories are budgeted, accounted for, and reported in audits using the modified accrual basis of accounting, and some the accrual basis of accounting. *It is very important to note that North Carolina's LGBFCA requires that all budgets be approved and accounted for during the fiscal year using the modified accrual basis of accounting.* Then, at year end, some funds are converted to full accrual accounting in the audit to comply with GASB's Generally Accepted Accounting Principles for Governments.

Most citizens are accustomed to private sector accounting, where a business has one balance sheet and one income statement, both kept on the accrual basis of accounting. Therefore, it is strongly recommended that you take a few moments to review this Reader's Guide before reading the Budget. It should help you better understand the framework of the County's fund structure and accounting system.

Lincoln County will operate with eighteen separate funds this year, which makes County budgeting and accounting considerably different from that in the private sector. Although the County may in most cases legally transfer money from one fund to another, each fund is a separate accounting entity with assets, liabilities, fund equity, revenues, and expenditures. Consequently, there will be eighteen separate balance sheets and income statements. Generally Accepted Accounting Principles set out seven different categories, or types of funds, for use by governmental entities. The funds by fund type that will be used in the fiscal year are as follows, and are summarized in the chart on the next page:

(1) Governmental Funds

General Fund – This is the principal fund of the county and is used to account for all activities of the county not included in other specified funds. The General Fund accounts for the normal recurring activities of the County (i.e., general government, sheriff, planning and zoning, finance, parks and recreation, EMS, public health, social services, support for education, and general debt service).

Special Revenue Funds – Funds used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Included in the Special Revenue Funds are the Law Enforcement Fund, the Federal Law Enforcement Fund, the Emergency Telephone System Fund, and the Fire Districts Fund. The Narrative Section at the front of each Fund explains in detail the purpose of that fund.

Capital Project Funds – Funds used to account for financial resources segregated for the acquisition or construction of major capital facilities. The Capital Project Funds include the School Capital Projects Fund, the School Capital Reserve Fund, and the General Capital Projects Fund. Again, the Narrative Section at the front of each Fund explains in detail the purpose of that fund.

Debt Service Funds – Funds used to account for financial resources accumulated for the repayment of principal and interest on long-term debt obligations of the county. The county has no debt service funds. The general long-term debt is budgeted for repayment from the General Fund. Debt of the enterprise funds is budgeted within those specific funds.

(2) Proprietary Funds

Enterprise Funds – Funds used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The County has three Enterprise Funds, with one capital project fund associated with them. They are all considered Enterprise Funds as the W&S Capital Projects Fund will be closed into the Water and Sewer Fund at year-end in the audit. The four funds are: the Water and Sewer Fund, the East Lincoln Water and Sewer District Fund, the Water and Sewer Capital Projects Fund, and the Solid Waste Fund (formerly titled the Landfill Fund). Again, the Narrative Section at the front of each Fund explains in detail the purpose of that fund.

Internal Service Funds – Funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to the other government units, on a cost reimbursement (internal fees and charges) basis. The county has two Internal Service Funds, the Health Insurance Fund and the Workers Compensation Insurance Fund. The Narrative Section at the front of these funds explains in detail their purpose.

(3) Fiduciary Funds

Agency Funds – Funds that account for monies collected on behalf of others, or for pension benefits. The county operates four agency funds to collect funds for other agencies. Under NC statutes, they are not budgeted, as the money collected is turned over to the other agencies for their use. *So, there are fourteen, not eighteen, fund budgets within this budget document.*

Appropriations for all funds lapse at year-end except for the Water and Sewer Capital Projects Fund and the General Capital Projects Fund.

All Governmental Funds are accounted for using the modified accrual basis, which is a hybrid of cash and accrual, where some revenues and expenses are accrued, and some are on a cash basis. These funds reflect only available resources. The fixed assets and the long-term debt are not on the balance sheets in these funds, but are kept in two account groups, entitled the General Fixed Assets Account Group and the General Long-term Debt Account Group. In addition, this Budget shows all the major capital expenditures for these types of funds in the School Capital Projects Fund, the School Capital Reserve Fund, or the General Capital Projects Fund. Major capital expenditures are defined as capital assets costing at least \$5,000 and having a useful life of at least two years. This includes not only land, buildings, and infrastructure, but also vehicles and equipment.

The funds budgeted here are serviced by several bank accounts. Five of those accounts are used for the agency funds of the County, with the other accounts being the property of Lincoln County. Some of these accounts are used for investment purposes, such as investments held in the North Carolina Capital Management Trust (NCCMT). Also, some of the bank accounts are required to be separated from all other bank accounts, such as the proceeds from the issuance of school bonds, which must be separated for the calculation of arbitrage earnings, as required by federal law. The chart on the following page shows which bank accounts service each of the funds.

Following this Reader's Guide to the Budget is the County Manager's Budget Message. This message includes a listing of the assumptions used in developing the Budget. It also includes a discussion of the major projects requiring financing that the Board of Commissioners considers, and how this Budget proposes to address them.

The next section, Summary Budget of All Funds, is a multi-sheet spreadsheet, which summarizes all budgeted funds of Lincoln County, and the projected available fund balances. This summary includes all revenues and transfers into a fund, and all expenditures and transfers out of a fund. *In short, it is the entire budget in a condensed format.* Should the Board of Commissioners wish to change any aspect of the proposed Budget contained herein, they would simply adopt the Budget Ordinance subject to those specific changes.

Updated February 2016

The next section contains a List of Authorized Full-time Personnel Positions funded by this Budget. This lists the number of budgeted positions within each department and division of the County for the last four years, and the County Manager's recommended number for FY 2017.

Following that are sections for each one of the funds that are budgeted.

After all funds are presented, there is an Appendix. It provides the following information:

- a) Debt Service Schedules. The County's debt service is divided into five separate debt service schedules as follows:
 - 1. Debt for General County Purposes.
 - 2. Debt for School Purposes.
 - 3. Debt for the Water and Sewer System.
 - 4. Debt for the East Lincoln Water and Sewer District.
 - 5. Debt for the Solid Waste System (Landfill and Convenience Sites).

- b) A Glossary of Terms used in governmental budgeting and accounting to assist the first-time reader. It should help clarify new terms that may not be familiar to the reader.

LIST OF FUNDS

Fund Number	Basis of Acc'ting	Types of Funds Actual Funds	FY 2016 Budget	FY 2017 Budget
GOVERNMENTAL FUND TYPES:				
GENERAL FUNDS:				
11	Modified	GENERAL FUND	Current	Current
SPECIAL REVENUE FUNDS:				
22	Modified	LAW ENFORCEMENT FUND	Current	Current
23	Modified	FEDERAL LAW ENFORCEMENT FUND	Current	Current
26	Modified	EMERGENCY TELEPHONE SYSTEM FUND	Current	Current
50	Modified	FIRE DISTRICTS FUND	Current	Current
CAPITAL PROJECTS FUNDS:				
20	Modified	SCHOOL CAPITAL RESERVE FUND	Current	Current
21	Modified	SCHOOL CAPITAL PROJECTS FUND	Current	Current
44	Modified	GENERAL CAPITAL PROJECTS FUND	Current	Current
DEBT SERVICE FUNDS:				
NONE				
PROPRIETARY FUND TYPES:				
ENTERPRISE FUNDS				
61	Accrual	WATER AND SEWER FUND	Current	Current
62	Accrual	EAST LINCOLN WATER AND SEWER DISTRICT FUND	Current	Current
64	Accrual	WATER AND SEWER CAPITAL PROJECTS FUND	Current	Current
66	Accrual	SOLID WASTE FUND	Current	Current
INTERNAL SERVICE FUNDS:				
80	Accrual	HEALTH INSURANCE FUND	Current	Current
81	Accrual	WORKERS COMPENSATION INSURANCE FUND	Current	Current
FIDUCIARY FUND TYPES:				
70	Accrual	INMATE TRUST FUND	N/A	N/A
71	Accrual	SOCIAL SERVICES FUND	N/A	N/A
72	Accrual	MISCELLANEOUS FUND	N/A	N/A
77	Accrual	TAX COLLECTOR FUND	N/A	N/A
			18 Funds	18 Funds

NOTES: Modified Budgeted and Audited on the Modified Accrual Basis of Accounting.
 Accrual Budgeted on the Modified Accrual Basis of Accounting,
 but Audited on the Accrual Basis of Accounting.

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Budget Message Fiscal Year 2017

The Budget Message summarizes the Lincoln County Fiscal Year 2016/17. The fiscal year begins July 1, 2016, and ends June 30, 2017. The Board of Commissioners began the budget process by establishing goals and objectives for the County to achieve in December 2015. Tonight, I present for your consideration the proposed FY 2017 Budget for Lincoln County.

Budget in Brief

An ad valorem property tax rate of \$.611 per \$100 of assessed valuation is recommended for FY 17.

The requested budget is \$95,634,214.00; this represents a budget that is in keeping with the goals and objectives that the Board of Commissioners set forth for FY 17.

- The tax rate of \$0.611 per \$100 of valuation is the 4th lowest tax rate of adjoining counties and we have the 3rd lowest tax rate among similar counties in North Carolina.
- It is projected that the economy will show similar improvement as observed during FY 16 throughout the fiscal year, somewhere in the 1.5 to 3% range.
- It is expected that inflation will remain similar to recent years with a slight increase.
- Revenues were projected from a conservative, but realistic, outlook.
- A property tax collection rate of 97.50%. Revenues from property taxes are expected to increase 3 to 5 percent, due to projected residential and commercial growth.
- The three local option sales taxes are projected to increase 1 – 2% over FY 2016.
- Assumes that adequate, available fund balances will be maintained in all operating funds.
- All Proprietary (Enterprise) Funds will be self-supporting without assistance from the General Fund.
- Fees & Miscellaneous Revenues will remain unchanged except for proposed increases to the Availability Fee and tipping fees. The additional revenues raised are needed to shrink the post closure deficit, allow for all convenience sites to be open Seven (7) days a week, to offset the additional debt incurred from a new landfill cell, and to replace needed equipment for the operation of the landfill.
- The tax rate for the East Lincoln Water & Sewer District will be discontinued as a result of the sewer debt being satisfied via the water and sewer fund balance, a year earlier than expected.
- Pay Increase: Assumes a 2% COLA or Merit increases for employees. Assumes that new employees will continue to be eligible for probationary increases of 2.5% during the fiscal year.
- Assumes that there will be no increase in the County's or Employee's portions of medical insurance premiums for the PPO and the HSA Plan for FY 2017.
- New employees hired after June 30, 2016 will only be offered HSA as their only insurance option.
- It is anticipated that fuel will average \$2.75 per gallon on the open market. The County pays about \$.56 less than that due to its sales tax exemption.
- It is believed that State support for the Board of Education, Department of Social Services, and the Public Health Department will vary little from the previous year.

Budget Highlights:

There were a variety of issues impacting the proposed FY 2017 Budget for Lincoln County. These included:

Capital Requests: There were numerous requests for CIP items in FY17 and some are being recommended while others are not. Facility, vehicle, building, and technology-related requests received the highest priority with even some of those needs being delayed if waiting was not seen as detrimental to the department or its service.

Personnel Requests: There were a total of Thirty-three (33) requested new positions across the County and two (2) requests for Part-time positions to be converted to Full-Time. There was one (1) request to take two sub-departments and place them under one new department. There were four (20) requests to reclassify current positions to titles that more closely resembles what job functions are currently being performed. **A total of 18 new positions are being recommended:**

Service Tech- Library (1)
Telecommunicator- Communication Center (2)
Tech Analyst- Information Technology (1)
Electrician- Building and Maintenance (1)
Child Support Agent- DSS (1)
Deputy Sheriff (4), Investigators (2)- Sheriff
Engineer Assistant (1)- Public Utilities
Maintenance Crew Leader (2)- Public Utilities
Maintenance Worker (1)- Public Utilities
Heavy Equipment Operator (2)- Solid Waste

A total of two (6) Part-Time to Full-Time are being recommended:

Senior Services (1)
Human Resources (1)
EMS (4)

A total of five (5) P-T to PTR
Animal Services (5) P-T to PTR

A total of three (3) requests to reclassify positions are recommended.
(3) TLC

Healthcare Costs and the Affordable Care Act: Lincoln County realized a 13% increase in Health coverage for FY 17; as a result, the plan was slightly altered to reduce the overall impact to the county and its employees. Effective July 1, 2017, Lincoln County will no longer offer the PPO option for new employees, they will only be given the option of HSA. Employees will not see a rate increase during FY 17; however, the county decided to use \$585,000.00 in the health reserve funds and an additional \$192,783.00 in order to deflect the increased cost from employees. Unfortunately, the future of healthcare will likely continue to rise and employees should expect cost-sharing in the future.

Solid Waste Landfill Cell Closure & New Cell Opening: The requirement of opening of new landfill cell, and the closure of a cell is estimated to cost approximately \$2.7 million and will be financed over the next several years. This amount will be funded through Certificate of Participation financing. Additionally, all convenience sites will be opened (7) seven days a week and each will offer C&D boxes for convenience. Also, there is currently a significant post closure deficit that will need to be corrected over time. It is recommended that an increase of \$13.00 in the Availability Fee

and an 8% increase in tipping fees be implemented to offset the additional conveniences and deficits.

Water and Sewer Capital: The proposed capital projects include St. James/Kidville Road water line, water treatment plant expansion, Shea Homes waterline construction, Water and Wastewater Hydraulic Models.

Education Funding: Staff again used the established funding formula agreed upon by the County and School Board. This resulted in a slight increase in local funding over the prior year. However, the Board of Commissioners decided to fund the schools approximately \$659,610.00 above the funding formula for mandated expenditures and an additional .25% for teacher supplements. In total, the operating and capital budget will increase over FY 16 by \$807,509.00. This increase does not change the baseline for FY 18; consequently, the baseline for FY 18 will be \$18,887,965.00. Local funding has been much more aggressive over the past two years, while funding from the State continues to diminish.

Fund Balance: By resolution the Board of Commissioners expects the Fund Balance to remain at or above 15%. The undesignated fund balance is 23%; however, it is anticipated that \$5,480,239.00 will be appropriated during FY 17. As a result, the fund balance will likely be approximately 15.5% at the end of FY 17.

Future Challenges: (1) "New" facility for Lincoln County Government, (2) School bond issuance possibility, (3) Health Care Cost, (4) Maintenance of existing buildings, (5) Landfill Cell, (6) Water Treatment Plant Expansion, (7) Sewer Treatment Plant Expansion, (8) Sewer Pump Station Upgrades (9) Rising Healthcare cost (10) Old Jail Renovation (11) Citizens Center Renovation (12) Court House Renovation (13) Airport Business Park (14) Worker's Comp (15) West Lincoln Library (16) Cronland Renovation

County Fire Districts: All of the fire districts are recommending their respective tax rates to be tax revenue neutral with the exceptions of East Lincoln VFD, Union VFD, and North 321 VFD; their tax rates are proposed to remain the same as the current fiscal year. Also, North Brook VFD is proposing a tax increase over tax revenue neutral.

The following denotes the proposed tax rates for the respective fire departments:

	<u>Proposed FY 17</u>	<u>Current Tax Rate FY 16</u>
Alexis-	11.65	11.65
Boger City-	9.99	9.99
Crouse-	6.40	6.40
Denver-	11.25	11.25
East Lincoln-	8.60	8.50
Howards Creek-	12.232	12.03
North 321-	4.00	4.00
North Brook-	10.00	10.00
Pumpkin Center-	9.70	9.70
South Fork-	12.50	12.50
Union-	9.00	9.00

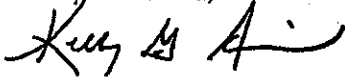
Conclusion:

I want to thank the Board of Commissioners for your support and guidance in the preparation of the FY 2017 Proposed Budget. Your comments and directions from all the budget workshops

were taken into consideration and incorporated into this budget proposal. I also want to recognize the numerous hours of staff time that have gone into the preparation of this Budget. Every department manager and their staffs are to be commended for their support and efforts during the budget process.

Copies of the proposed Budget and Capital Improvements Program will go on file in the County Clerk's Office on May 20, 2016. The Public Hearing on the Budget is scheduled for June 6, 2016, and the adopting Ordinance will be on the Board of Commissioners Meeting Agenda for June 6, 2016. It will go into effect on July 1, 2016, subject to any changes that you might make in its adoption. Please let me know if I can provide any further information as you review the proposed FY17 Budget and Capital Improvements Program.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kelly G. Atkins". The signature is fluid and cursive, with a prominent initial "K" and a long, sweeping underline.

Kelly G. Atkins, County Manager, Lincoln County

SUMMARY BUDGET FOR ALL FUNDS

The starting point in preparing each of the fund budgets is to determine the current financial position of that fund. One of the key issues is the amount of available fund balance on hand, whether it is adequate, and whether any of it could be used to balance the budget. The Local Government Budget and Fiscal Control Act, at NCGS 159-8 (a) defines available fund balance for appropriation as follows: “...Appropriated fund balance in any fund *shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year...*”

Obviously, we cannot know for certain what balances will be on June 30, 2016, which is the prior year to the proposed budget. Therefore, we started with the audited figures from June 30, 2015, then estimated how the FY 2016 budget would end. We did that on the chart on the next page for each of the budgeted funds. Note that in the audit, the Water and Sewer Fund and the Water and Sewer Capital Projects Fund were combined as one fund under accrual accounting. We broke out the Water and Sewer Capital Projects Fund information based upon the financial statements.

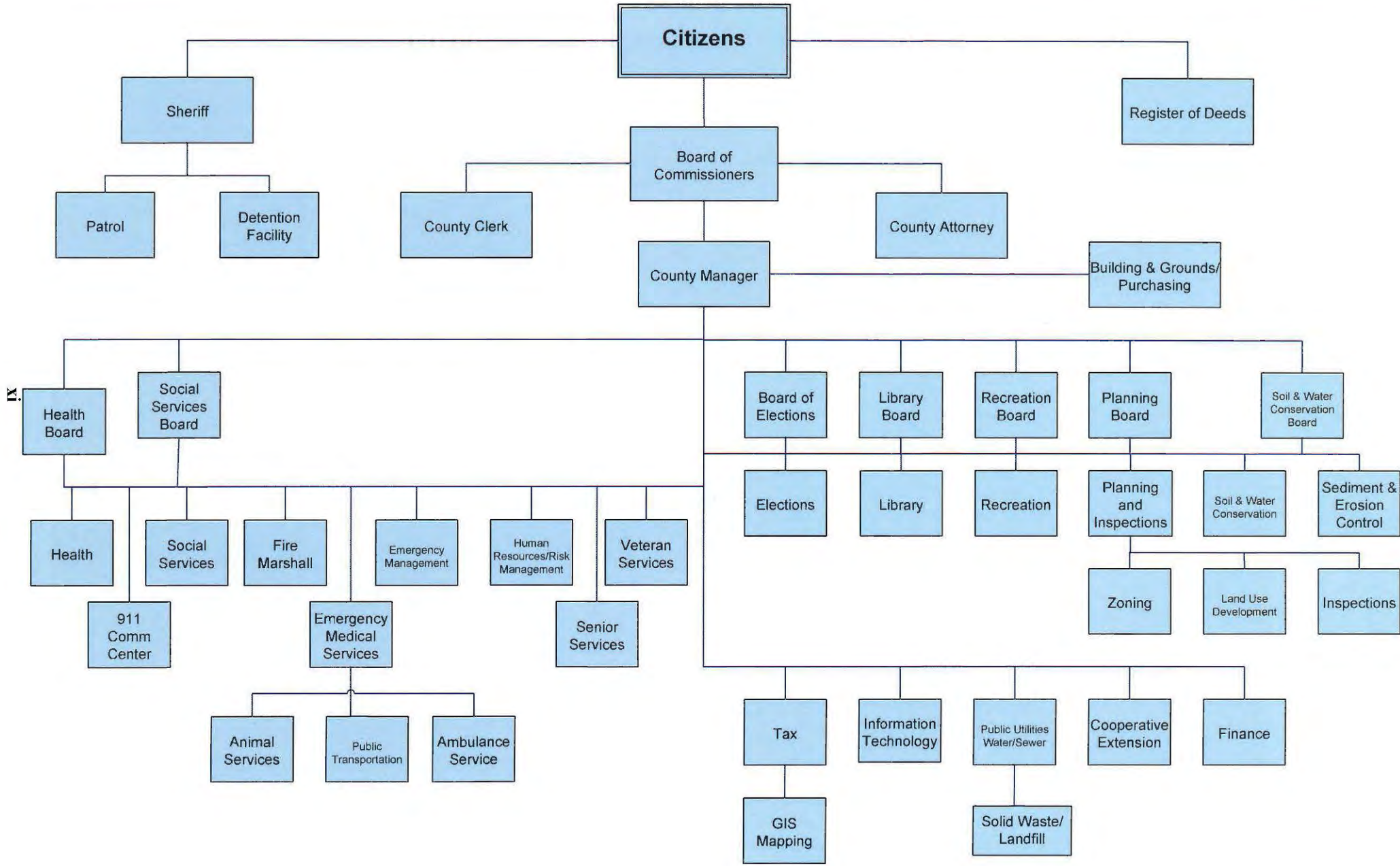
Once that starting point was determined per the audit, we then estimated how each fund would end the current year. That information was obtained as part of the budget review process for this budget. Once that information was entered, we had the Estimated Available Fund Balance at June 30, 2016. That is the starting point for what should be available at the beginning of FY 2017.

The third section then sets out the proposed FY 2017 Budget that you are now considering. It results in the projection of where the available fund balance would be at the end of FY 2016, on June 30, 2016. By comparing FY 2016 to FY 2015, you can see whether the trend is to use or add to the fund balance of each fund.

The final section shows what percentage the projected available fund balance would be, compared to the total of the proposed expenditures and transfers out of each fund for FY 2017. Capital projects funds, capital reserve funds, the two law enforcement funds, the emergency telephone fund, the fire districts fund, and the ELWSD Fund don't need to maintain fund balance, as they are intended to be spent down to zero. That is why there is no percentage calculation for them.

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Lincoln County



ix.

RESOLUTION #2013-25 : A RESOLUTION AMENDING THE FINANCIAL POLICY ON ADEQUATE FUND BALANCE AND WORKING CAPITAL IN THE OPERATING FUNDS

THAT WHEREAS, sound financial management requires that Lincoln County preserve adequate financial reserves to cover cash flow variations, economic downturns, loss of revenues from state or federal actions, and new mandated services; and

WHEREAS, adequate financial reserves are one of the major components that bond rating agencies study in determining the creditworthiness of a county government, which can impact the interest rate on any debt issuance; and

WHEREAS, the Local Government Commission, a division of the NC State Treasurer's Office, will not allow the issuance of debt if adequate financial reserves are not maintained; and

WHEREAS, the Lincoln County Board of Commissioners have previously approved a financial policy on adequate reserves, and the County Manager is now recommending an amendment to that policy to increase the reserve target in the Medical Insurance Fund and establish one in the Workers Compensation Fund;

NOW THEREFORE BE IT RESOLVED by the Lincoln County Board of Commissioners that the attached document entitled "Financial Policy on Adequate Fund Balance and Working Capital", and the financial reserve targets established therein, are hereby adopted as the financial policy for Lincoln County on adequate financial reserves.

This resolution shall become effective immediately upon its adoption.

Passed and adopted this 17th day of June, 2013.



Alex E. Patton, Chairman
Board of Commissioners

ATTEST:



Amy S. Atkins
Clerk to the Board

Financial Policy on Adequate Fund Balance and Working Capital

There are several reasons why a county should have an adequate amount of available fund balance in its major operating funds. First, some major revenue sources are not received uniformly over the twelve months. Also, there is a normal delay in converting accounts receivable to cash. Fund balance fills these gaps in cash flow. Second, the fund balance provides a contingency for unanticipated expenses. Third, it provides a means to temporarily replace revenues that may unexpectedly decline due to a poor economy, or that may be seized by the State to balance its budget in difficult times. Fourth, it provides a means to save money for a major project. Finally, it assures bond investors that the county can meet its debt service obligations. This is critical in obtaining favorable credit ratings for bond issues, thereby lowering interest costs.

There are five operating funds that should maintain adequate reserves: the General Fund, the Water and Sewer Fund, the Landfill Fund, the Health Benefits Fund, and the Workers Compensation Fund. NCGS 159-8 (a) defines “available fund balance for appropriation” as the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year. The Local Government Commission (LGC), a division of the NC Treasurer’s Office, requires that the General Fund’s available fund balance at fiscal year-end divided by the expenditures budgeted in the same fiscal year, must not be less than 8%. Any county trending toward a lower level will be contacted to correct this problem. Any county falling below the 8% will not be allowed to issue any further debt.

As recently as FY 2008, the average amount of available fund balance for General Funds in NC counties with populations between 50,000 and 99,999 was 24.81%. Lincoln County believes that 15% is sufficient to meet our statutory, cash flow, and emergency needs in the General Fund, and hereby sets 15% as the target amount of available fund balance to be maintained in the General Fund.

The enterprise funds are accounted for using full accrual accounting, therefore fund balance is not appropriate. The measure in those funds should be available working capital. Working capital is defined as current assets minus current liabilities.

The Water and Sewer Fund and the Landfill Fund need sufficient working capital to meet recurring monthly expenses. These funds have fairly consistent cash flows. Lincoln County has determined that three months of working capital should be sufficient to meet our financial obligation in these two funds, and hereby sets a target of 25% working capital as a percentage of the last fiscal year’s budgeted expenses.

The Health Benefits Fund can have a bad claims year in which total claims are not capped until 125% of estimated claims are paid. The 100% of estimated claims would be covered by the budget. Consequently, this fund should have working capital of at least 25%, but preferably at 50%, in order to cover this worst case scenario in a single year and not impact premiums.

Lincoln County hereby sets a target of 50% working capital as a percentage of the last fiscal year's budgeted expenses for this fund.

The Workers Compensation Fund can also have a bad claims year that could exceed the premiums transferred in from those departments covering their employees. The County does have the ability to transfer in additional money from those other funds if necessary, so working capital of 25% should be sufficient. Lincoln County hereby sets a target of 25% working capital as a percentage of the last fiscal year's budgeted expenses for this fund.

In any fund where the percentage of available fund balance or working capital falls below the established target, the County Manager shall limit the appropriation of fund balance or retained earnings to no more than 2% of the total fund budget. This should result in rebuilding the reserves to the targeted percentages.

In the event that a severe economic downturn, or the seizing of county revenues by the State, result in a significant loss of anticipated revenues, the County Manager may recommend, and the Board of Commissioners may waive adherence to the 2% appropriation limitation. In such a situation, the Board should be fully informed that it is falling below its targets, and will continue to remain below them for at least another year by waiving this limitation.

The County Manager, with the assistance and advice of the Finance Director, is responsible for seeing that this policy is carried out in annual budget preparation and administration throughout the year. The County Manager is responsible further to make recommendations as to whether any of the established fund targets should be changed.