



COUNTY OF LINCOLN, NORTH CAROLINA

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FINANCE DEPARTMENT

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October 20, 2005

**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, 2005, 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. 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.

During fiscal year 2003, the County implemented the Governmental Accounting Standards Board's Statement No. 34, "The New Governmental Financial Reporting Model," and related statements as required by generally accepted accounting principals. This change in the governmental reporting resulted in sweeping changes in the County's CAFR. For the first time, the County reported government-wide focus using the full accrual basis of accounting.

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 2005 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 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 Gas's guidance in defining the governmental reporting entity.

The financial reporting entity includes all funds 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.

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 2005 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 and agricultural production contributes to the economy of the County. The main agricultural pursuits are poultry production, 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 and office furniture, and manufactured housing.

The County and the City of Lincolnton had their best industrial recruiting year in fiscal year 2001.

Over \$75 million in new industrial facilities were announced and over 350 new jobs created. The major new industrial facilities were RSI Home Products, with a \$7.5 million capital investment and 120 jobs, American Licensed Products, with a \$2 million capital investment and 100 jobs, Robb & Stucky, with a \$5 million capital investment and 15 jobs, and Cataler, with a \$60 million capital investment and 90 jobs. In fiscal year 2002 less growth was experienced, with only one new announcement, Dellinger Precast, a concrete products company, with a \$1.5 million capital investment and 10 jobs. New industrial investment for the year totaled only \$2.1 million with 32 new jobs. The County fared well compared to neighboring counties by not losing any major industries. In fiscal 2003, continuing emphasis was placed on recruiting new businesses and assisting existing business. During fiscal year 2003, three industrial expansions were announced: The Timken Company, with a \$16.3 million capital investment and 44 jobs, RSI Home Products, with a \$3.5 million capital investment and 30 jobs, and McMurray Industries, with a \$2.5 million capital investment and 20 jobs. The recently upgraded and expanded Lincoln County Industrial Park was recently awarded North Carolina Certified Industrial Site status, making it one of 14 such sites across the State. This designation is only given to the best industrial parks in the State. Furthermore, older industrial parks in the City and County will be reviewed for upgrade to make them more competitive. In April 2004, Haworth, Inc. closed its Lincolnton plant which manufactured high end office furniture. The operations were transferred to other Haworth manufacturing facilities, which resulted in a loss of 161 jobs in the County. R.W. Garcia Co., Inc. opened in October 2004 in the industrial park consisting of a 60,650 sq. ft. facility for the production of tortilla chips. This facility represents a capital investment of approximately \$9 million and is expected eventually to employ 75. Also in the summer of 2004, Doug Herbert Racing (Top Fuel drag racing, parts distribution and screen printing) and Fisher Engineering (NASCAR engines) bolstered the growing motor sports industry in the County. Doug Herbert Racing initially created 50 new jobs and plans to add an additional 50 jobs in 2005. Fisher Engineering relocated from Mooresville to Denver, which is in the eastern part of the County. The investment is approximately \$1.8 million and will create 10 new jobs. In September 2004 Julius Blum, Inc. announced a \$30 million expansion of its existing plant and the creation of 40 additional jobs. In October 2004, Crate & Barrel announced it would build a new 210,467 square foot distribution center in the Lincoln County Industrial Park. The company will invest over \$8.7 million in the distribution center and initially employ approximately 20 workers. In February 2005, Australian Manufacturing Inc. announced it would open its North American headquarters and manufacturing facility in the Lincoln County Industrial Park. The company will make an initial investment of over \$4 million and employ 20 workers. Headquartered in Revesby, Australia, just outside Sydney, Australian Manufacturing is a manufacturer of "Aussie Soft Licorice" under the trade name Lucky Country. In June 2005, American Converting announced it would invest \$1.2 million and move its operations to the County. The company purchased the 90,390 square foot Haworth building. The company expects to initially employ 20 workers. American Converting custom converts paper and paper board into various shapes and sizes.

In May 2005, Hof Testiles Inc. announced plans for a \$2.7 million machinery and equipment expansion at its Indian Creek Facility. Hof is a supplier to Toyota, Honda, BMW, Mercedes and others. In June 2005, Robb & Stucky announced that it would expand its distribution center in the Lincoln County Industrial Park. The company will invest \$4 million and add an additional 140,000 square feet and create 20 new jobs.

In July 2005, Winn Dixie announced it was closing all its grocery stores in North Carolina and several other southeastern states. The County has two Winn Dixie stores, one of which was purchased by Bi-Lo Inc. The future of the other store is uncertain at this time. RSI Home Products announced in July 2005, that it would expand its manufacturing facility in the Lincoln County Industrial 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. The expansion will represent an investment of \$9,250,000 and create at least 150 new jobs.

In addition, the County experienced commercial growth in the central area in Lincolnton, the major trade center, and the eastern area along Highway 16. Both areas are expected to continue to grow as national and local retailers target these high growth corridors. For 2005-06, 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 is looking at options which consist 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 July 2005 approved the purchase of a former bank building in downtown Lincolnton. When this building is purchased, County office currently located in the Courthouse will relocate to this building providing much needed space and freeing up space in the Courthouse for court functions. The cost of this building will be \$1.3 million. This will be paid from the CIP account with funds undesignated as of June 30, 2005 and budgeted during fiscal year 2005-06.

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 was issued in October 2005. These funds should complete the projects currently approved. The \$47 million approved in this referendum should fund the capital program for at least five years, after which another referendum may be scheduled.

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 East Lincoln County Water and Sewer District continued with the expansion of the Forney Creek Treatment plant. A new project that was approved was the 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.

Engineering work was also begun for the construction of a new sewer line to serve the Finger Mill Industrial park connecting it with the City of Lincoln. This will provide additional sewer capacity for future business expansions. This project will be a joint effort with the City of Lincoln 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 to a new elementary school which is currently under construction off highway 27, west of Lincoln.

OTHER ACCOMPLISHMENTS

Funding for education remains a large expenditure category in our budget with a total \$22,437,377 expended. This expenditure is composed of \$13,464,100 from the General Fund and \$8,973,277 of capital project expenditures. The General Fund portion increased the Schools Current Expense by \$782,747, or 6.2% over 2004.

In October 2005, as part our general obligation bond issue, \$9.795 million of school refunding bonds was also issued for a net savings of \$400,000 in interest costs.

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, 2004. This was the ninth 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.

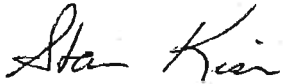
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

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, 2004

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.



Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director

LINCOLN COUNTY , NORTH CAROLINA

Principal Officials

June 30, 2005

Board of County Commissioners

Thomas R. Anderson, PE, Chairman

Carrol D. Mitchem, Vice-Chairman

James Funderburk

Marie Moore

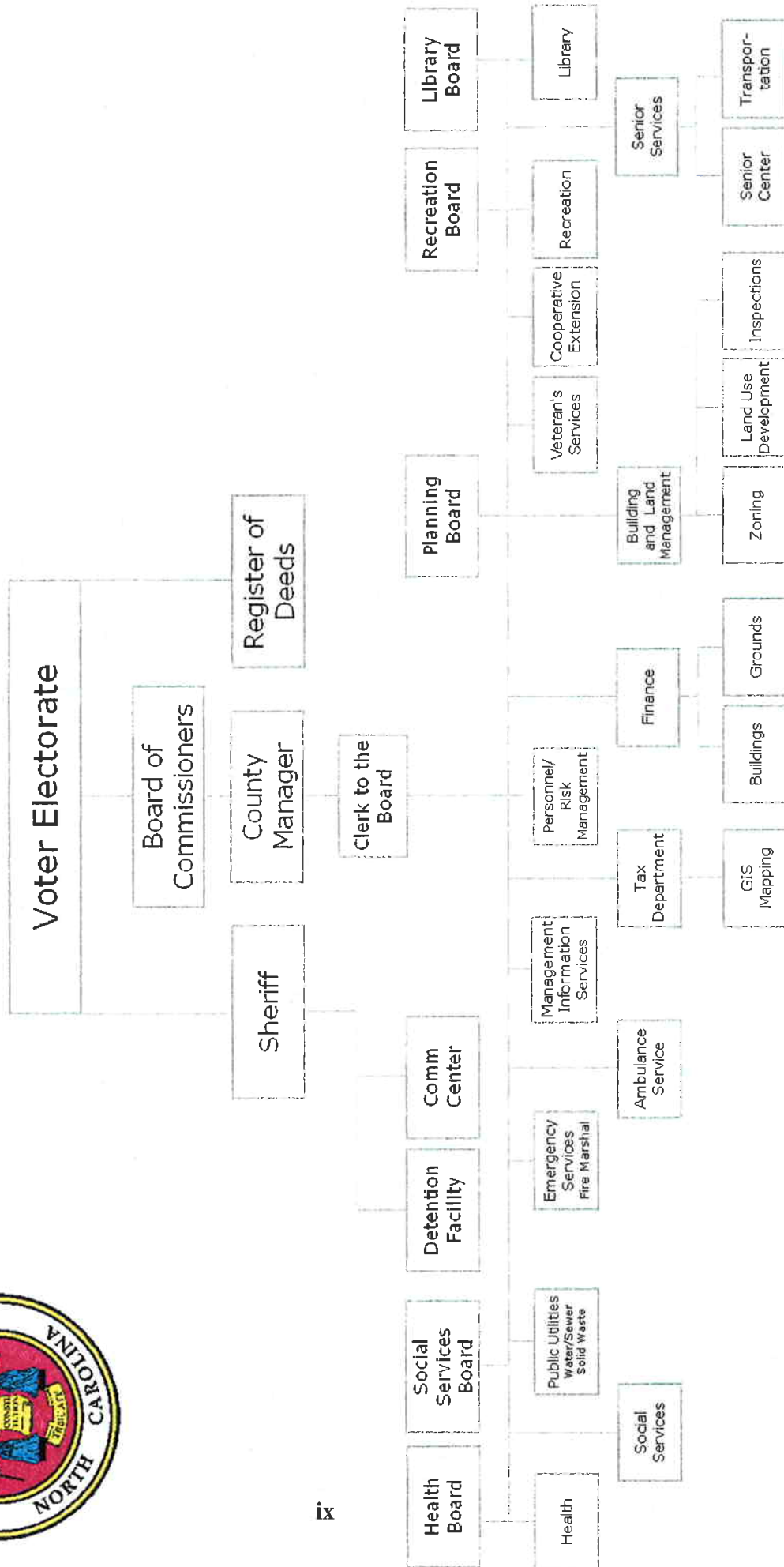
Alex E. Patton

County Officials

Stan Kiser	County Manager
Jeffrey Taylor	County Attorney
Elaine Harmon	Register of Deeds
Barbara Pickens	Sheriff
Donnie Fields	Buildings and Grounds
Kelly Atkins	Building and Land Development
Kevin Starr	Cooperative Extension
Judy Caudill	Elections
Susan Spake	Emergency Management
Leon Harmon	Finance Director
Margaret Dollar	Health
Lesley Levine	Library
Dante' Patterson	Management Information Systems
Steve Gilbert	Public Services
Erma Deen Hoyle	Recreation
Susan McCracken	Social Services
Elton Barber	Soil Conservation
Madge Huffman	Tax Administrator
Stephen McCurry	Veteran Service



Lincoln County Organizational Chart



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