



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

JANET COWELL  
TREASURER

T. VANCE HOLLOMAN  
DEPUTY TREASURER

February 11, 2013

The Honorable Guy McCook, Chairman  
Scotland County  
P O Box 489  
Laurinburg, North Carolina 28353

Dear Chairman McCook:

The State and Local Government Finance Division in its role as staff to the Local Government Commission has analyzed the audited financial statements of Scotland County for the year ended June 30, 2012. We note that the County has made progress in a number of areas. Fund balance in the General Fund increased by \$823,529, reflecting lower expenditures compared to the prior year as well as expenditures less than appropriations in the current year. We commend the County's governing board, staff and citizens for these improvements. However, the County still has serious financial problems that must continue to be addressed in order to further your efforts to improve the County's financial condition.

In the General Fund, the percentage of fund balance available for appropriation relative to expenditures has increased, but continues to be substantially less than that of comparable units. As of June 30, 2012, the amount of available fund balance was \$3,562,671 or 9.81 % of total expenditures. We are encouraged the fund balance available for appropriation has increased from the 6.72% reported for the fiscal year ended June 30, 2011. However, your County could still experience sudden cash flow problems if unanticipated expenditures arise or revenues decrease. As was the case last year, the General Fund reserves not only support the General Fund operation but also support the needs of the Public Works Fund and its inability to cover its deficit. For cash flow purposes, local governments need to maintain adequate amounts of fund balance to finance their operations during periods of declining revenues. Also, fund balance available for appropriation represents a reserve that can be budgeted for emergencies and unexpected expenditures or for financial opportunities that arise. Statewide, the average fund balance available for comparably sized units is 26.24%. We encourage you to continue your efforts to increase the County's General Fund reserves over the long-term.

A couple of factors for increasing fund balance reserves is better management of revenue estimates and improved collections on back taxes. We noted that actual revenues in the General Fund, although less than estimated revenues, were much closer to the estimated level than the prior year. Continued efforts in monitoring actual revenues compared to

estimates will also assist in improving the level of fund balance in the General Fund. When it becomes apparent that estimated revenues will not be received, the budget should be amended to maintain proper control over the County's operations. Estimated revenues should only include those that are reasonably expected to be realized [G.S.159-13(b)(7)]. North Carolina has very specific guidelines regarding the preparation and adoption of the budget ordinance, and the County should take care to ensure that it complies with these regulations. In reviewing the past due taxes, the County has \$4,405,701 of uncollected taxes, \$2,792,500 of which are from prior years. If the County could improve on its collection efforts using attachment and garnishment collection procedures, rebuilding the reserve could be expedited.

The Public Works Fund continues to have financial issues. We noted various signs of financial weakness in the Fund indicating that the landfill may not be sustainable in its current form. The Fund reported a net loss on both the full accrual and budgetary basis of reporting, indicating that revenues do not provide sufficient resources to cover the cost of providing services to your customers. Current liabilities exceeded liquid assets, indicating that the Fund may not have sufficient liquid resources to meet its current obligations. There is a deficit fund balance which should be funded immediately according to state statute. In addition, there was only \$170 of cash on hand at year end meaning that the General Fund will continue to provide financial support to the Fund. The Board must evaluate the performance of this Fund and make the changes necessary to improve financial operations and sustainability. Rates and rate structures should be evaluated and adjusted to provide coverage for at least system operating costs and to begin funding closure and post-closure costs.

We continue to note signs of financial weakness in the Water District Phase II Fund indicating that the water system may not continue to be sustainable in its current form. Current liabilities exceeded liquid assets, indicating that the Fund may not have sufficient liquid resources to meet its current obligations. The Fund continues to report a deficit fund balance on modified accrual of a negative \$148,675 due to the advance of funds it has received from Water District Phase I Fund. The Board must evaluate the performance of this Fund and make the changes necessary to improve financial operations and sustainability. Rates and rate structures should be evaluated and adjusted to provide coverage for at least system operating costs. In fact, if the County is to be eligible for State grant or loan funding for water system expansion or growth, the rate structure must meet certain criteria, one of which is that it provides sufficient resources to meet or exceed operating expenditures plus debt service costs.

The problem areas addressed in this letter require **immediate** corrective action. Because of the serious financial and operational problems that exist, the governing board must continuously monitor these issues. Please provide to us the financial strategy for improving the Public Works Fund over the next five years within 30 days of receipt of this

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Scotland County Board of Commissioners  
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letter. We also request that you include in your response a copy of the 2012-2013 budget ordinance, any material amendments to that ordinance, and a copy of the most recent interim financial report that was presented to the Board. If you are planning to issue debt that requires the approval of the Local Government Commission, we must have a complete response to this letter on file prior to the Commission's consideration of your debt application. Our staff is available to help you develop your plans if you require assistance. If you have any questions, please contact me at 919-807-2380.

Sincerely



Sharon G. Edmundson, CPA  
Director, Fiscal Management Section

cc: Carol H. McCall, Vice Chairperson  
John T. Alford, Commissioner  
John C. Cooley, Commissioner  
Whit Gibson, Commissioner  
Bob Davis, Commissioner  
Clarence McPhatter, II, Commissioner  
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