

**Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2008
I: PREFACE AND INTRODUCTION**

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Cleveland County, North Carolina
Annual and Financial Compliance Report
For the Year Ended June 30, 2008
I: PREFACE AND INTRODUCTION
A. Message from the County Manager

October 1, 2008

To the Citizens, Cleveland County Board of Commissioners, and other interested readers:

North Carolina General Statute (NCGS) 159-34(a) requires the County to contract with a certified public accountant to 1) have the financial records audited as soon as possible after the close of each year and 2) evaluate the County's performance with regard to compliance with all applicable federal and state regulations. The statute also requires that the auditor be permitted access to all records and other information upon request. In February 2008, the County entered a contract with Martin Starnes & Associates, CPAs, P.A. to conduct the audit for the fiscal year ended June 30, 2008. The auditor was permitted access to all requested information and no significant deficiencies have been noted. As of the date of this letter, the auditor's fieldwork is virtually completed.

More importantly, as the foundation of the County's financial planning and control, the annually adopted budget gives direction to County departments. The remaining text below is excerpted from a message concerning the budget for the fiscal year ending June 30, 2009.

General Fund Budget

The projected tax base for fiscal year 2008-09 is \$6,335,000,000. This is a projected increase of \$252,456,924 in value over the previous year, which translates into \$1,395,834 in new revenue at a 57 cents tax rate and a 97% collection rate. Sales tax revenues are projected to remain flat as spending decreases due to a lack of consumer confidence associated with increasing gas prices, credit concerns, etc. Overall service fees are expected to also remain flat primarily due to a reduction in construction related activities. Emergency Medical Services fees on the other hand are projected to increase by \$200,000. With the property tax base increasing at only 1.68% each year over the past four years, our current allocated funding levels will be difficult to sustain unless growth in the tax base increases to match our mandated spending requirements.

Fees

A new State law requires that the tipping fee for municipal solid waste be increased by \$2.00 per ton. This increase will be remitted directly to the State, but the County's portion of the total tipping fee will remain unchanged.

The State has also mandated that local health departments charge a \$50 fee for the inspection of temporary food establishments effective July 1, 2008.

The calculation of building permit fees for new construction of residential property will be changing effective July 1, 2008. Fees will be based on total square footage times the square foot

multiplier (.87) times the regional costs multiplier (.548). Unfinished areas and garages will be calculated at 25% of this fee.

Revenue-Neutral Tax Rate - County

The revenue-neutral tax rate for Cleveland County is calculated at .5663 cents. The recommendation is to round the County property tax rate to 57 cents per \$100 of property valuation.

CLEVELAND COUNTY REVENUE-NEUTRAL TAX RATE FOR FISCAL YEAR ENDING JUNE 30, 2009							
Calculating Growth Factor							
Year	Total Valuation	Growth					
2004-2005	5,785,238,049						
2005-2006	5,906,607,912	2.0979%					
2006-2007	6,020,734,781	1.9322%					
2007-2008	6,082,543,076	1.0266%					
Growth Factor:		1.6856%					
Calculating Revenue-Neutral Tax Rate							
Year	Valuation	Tax Rate/\$100	Levy	Base Tax Rate	Growth Factor	RN Tax Rate	New Levy
2005-2006	5,906,607,912	0.5800	34,258,326				
2006-2007	6,020,734,781	0.5800	34,920,262				
2007-2008	6,082,543,076	0.5800	35,278,750				
2008-2009	6,335,000,000		35,278,750	0.5569	1.6856%	0.5663	35,875,105

Revenue-Neutral Tax Rate - Public Schools

The revenue-neutral tax rate for Cleveland County Schools is calculated at .1464 cents. The recommended public schools tax rate would remain unchanged at the current rate of 15 cents per \$100 of property valuation.

**CLEVELAND COUNTY
REVENUE-NEUTRAL TAX RATE
FOR FISCAL YEAR ENDING JUNE 30, 2009
PUBLIC SCHOOL COUNTY-WIDE DISTRICT**

Calculating Growth Factor

Year	Total Valuation	Growth
2004-2005	5,785,238,049	
2005-2006	5,906,607,912	2.0979%
2006-2007	6,020,734,781	1.9322%
2007-2008	6,082,543,076	1.0266%
Growth Factor:		1.6856%

Calculating Revenue-Neutral Tax Rate

Year	Valuation	Tax Rate / \$100	Levy	Base Tax Rate	Growth Factor	RN Tax Rate	New Levy
2005-2006	5,906,607,912	0.1500	8,859,912				
2006-2007	6,020,734,781	0.1500	9,031,102				
2007-2008	6,082,543,076	0.1500	9,123,815				
2008-2009	6,335,000,000		9,123,815	0.1440	1.6856%	0.1464	9,274,440

Medicaid

On October 1, 2007, the state legislature approved a reduction in the County Medicaid share by 25 percent, from 15 percent of the nonfederal share to 11.25 percent. The State will assume 50 percent of the County Medicaid costs beginning July 1, 2008. Counties and cities will also forgo ¼ cent per capita of Article 44 (1/2 cent sales tax) beginning October 1, 2008, but counties will be required to replace sales tax losses for cities, including growth.

Projecting forward in fiscal year 2009-2010, the State will assume 100% of County Medicaid costs beginning July 1, 2009. Counties and cities will forgo all of Article 44 (1/2 cent sales tax) beginning October 1, 2009, but counties must continue the requirement of replacing municipal sales tax losses, including growth.

Human Resources

In order to stay competitive in the region, this budget includes a 3% cost of living increase for County employees. The merit pay system will be distributed at a rate of 25% full merits for eligible employees or up to 50% if distributed as half-merits. The distribution of merits to employees will be determined at the discretion of the department heads. Employees who are

eligible for merits will be provided justification for why they received or did not receive a merit. For those employees listed in the first two steps of the pay range, they will be given a full step increase on or near their anniversary date.

Last year, in order to stabilize our rising health care costs, we implemented an option for our employees to select a Health Savings Account (HSA) or a traditional PPO. Employees who chose the HSA played an integral role in helping to keep our health insurance costs down this year. For next year, the premiums paid by the County on behalf of the employees will rise by 5.5%. With the implementation of a new wellness program, our upcoming emphasis will be to promote a lifestyle of healthy eating and exercise. Employees will be encouraged to make healthy choices which will have a more positive effect on their individual health as well as the overall stability of our health plan. In conjunction with our health plan, we have continued to promote our employee wellness clinic and pharmacy program as affordable options. Our direct reimbursement dental plan has been operating effectively for many years; therefore, there are no planned changes in our dental program.

Economic Development/Tourism

The budget appropriates \$242,000 to the Cleveland 20/20 Economic Development Partnership to be used in the recruitment of new businesses, as well as existing corporate expansions. We continue to receive calls and visits from potential businesses considering locating to our area. We will also explore new and innovative ways to be more marketable to current and future businesses.

We have continued our efforts emphasizing local travel and tourism within our community. This budget is allocating \$100,000 for travel and tourism with a majority of funding coming from the local occupancy tax. Last year, \$50,000 was earmarked out of the economic development budget for travel and tourism. This year, the earmark for travel and tourism is \$40,000 but with a greater share of the occupancy tax going to this effort, the overall budget is increasing by \$20,000. As a result, the economic development partnership will experience an increase in funding of \$20,000 also.

Human Services

The overall appropriation of County funding for the Department of Social Services is \$3,792,236 for an increase in funding of 6.40% over the previous year. Four new positions are added in the budget to the Department of Social Services. Two processing assistants will be employed to digitize departmental records and case files, which are 38% County funded; an Income Maintenance Caseworker, which will be funded at 100% by the State; and a Social Worker III, which is funded 36% by County funds.

The Health Department budget reflects an overall increase of 7.69% for a total County appropriation of \$3,767,015. The new landfill is scheduled to begin operations in the fall of 2008. The budget also includes the addition of two scalehouse operators and two heavy equipment operators during the time that both landfills are in operation in order to maintain services for both locations. To combat the County rabies problem and the unvaccinated animal

population, a new Animal Control Officer is included in the budget as agreed upon by the board in the fall of last year.

Public Safety

The Emergency Medical Services department budget is allocated a total of \$5,075,877. Although this department budget reflects an increase of 5.97%, most of the funds are comprised of salaries, billing company fees, and minor equipment purchases. A new ambulance is also included in the budget.

The Sheriff's Office and Detention Center appropriation totals \$7,915,150 for an increase of 6.08%. This budget includes the addition of 10 new Sheriff's vehicles to replace current high mileage vehicles. We are continuing our discussions with consultants on planning for the expansion of our jail annex and will submit a report and recommendation to you as soon as it is available.

Volunteer Fire Service Districts

The Number Seven Fire Service District is requesting to increase their tax rate from two cents to three cents. The Number Three Fire Service District is also asking to increase their tax rate from three cents to five cents. The Fallston Fire Service District tax rate will remain unchanged at five cents. The County Fire Service District tax rate will also remain unchanged at three cents. The new four year funding plan for the County Fire Service District will allow the fire district rate to remain unchanged for the next four years. Based upon current trends, we anticipate that in the future we may have to allocate some funding for paid fire personnel during the daytime hours. We will continue to explore ways to encourage more new volunteers as well as maintain our current base of volunteers. These efforts will include lobbying for state incentives and exploring ways to help at the County level.

Tax Administration

This budget proposes a one-cent reduction in the property tax to 57 cents per \$100 of valuation. The tax rates for the County-wide school district and the County fire district will also remain at 15 cents and 3 cents, respectively. The early payment discount for taxpayers who pay during the month of August is recommended to change from the current discount rate of three-quarter of 1% to the new discount rate of one-half of 1%.

A new Paralegal position has been added to the tax department to expedite the collection of delinquent property taxes. The addition of this position is the primary reason for increasing the overall projected collection rate from 96% to 97%.

Public Schools

Cleveland County is providing an increase in the current expenditures for Cleveland County Schools of \$500,000 over the previous year. The total appropriation of \$27,738,213 equates to almost \$1,658 per pupil funding, which is an increase of 3.60% over the previous year. Restricted capital projects funding will remain the same at a total of \$1.4 million.

CLEVELAND COUNTY SCHOOL FUNDING WORKSHEET (ACCRUAL BASIS) April 23, 2008						
FISCAL YEAR	2009 <i>projected</i>	2008 <i>estimate</i>	2007	2006	2005	2004
Current Expense	10,408,213	9,908,213	9,808,213	9,808,213	9,808,213	9,599,895
Capital Outlay	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Special Capital Projects	1,400,000	1,400,000	1,300,000	1,100,000	866,000	866,000
Supplemental Tax	9,655,000	9,215,000	9,091,504	8,972,776	8,743,152	8,229,246
Fines & Forfeitures	500,000	500,000	561,027	488,464	498,141	513,868
Sales Tax	3,775,000	4,115,000	4,014,005	3,828,164	3,634,624	3,561,726
Total Funding	27,738,213	27,138,213	26,774,749	26,197,617	25,550,130	24,770,735
Student Population	16,730	16,957	17,089	17,217	17,609	17,235
Per Pupil Funding	1,657.99	1,600.41	1,566.78	1,521.61	1,450.97	1,437.23
Amount Change	57.58	33.63	45.17	70.64	13.74	89.09
Percentage Change	3.60%	2.15%	2.97%	4.87%	0.96%	6.61%

Community College

The budget includes an increase of \$150,000 in current expenditures for Cleveland Community College. This appropriation equates to a 13.16% increase over the previous year and will prove helpful in our ongoing efforts to move the Community College up in the statewide comparison of County funding per budgeted FTE. The capital reserve allocation for the Community College is funded in the budget at \$60,000.

Capital Projects

This budget addresses several capital projects. These projects are summarized as follows:

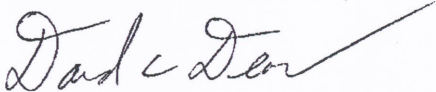
- Old Courthouse Renovation - Allocating approximately \$1.5 million over a 6 year period to renovate the interior of the old Courthouse.
- Early College High School - Collaborating with Cleveland County Schools and Cleveland Community College to fund a temporary facility for this program. The County contribution would total \$416,000 over 5 years.
- Gateway Trails - In conjunction with the City of Kings Mountain, the County agreed to provide \$180,000 over the next three years to this project.
- 800 MHz Communication System - In December 2007, the County approved \$6 million to fund this system over a 15-year period. This project is scheduled to begin operation in June 2009.
- Jail Annex Expansion - While a cost estimate has not been completed, this project is anticipated to cost approximately \$6 million.
- Number Three Volunteer Fire Department - In November 2007, the County agreed to purchase the existing fire station for \$275,000 to be converted into an EMS base station. Renovations should begin some time in March 2009.

Conclusion

The County property tax base has increased an average of only 1.68% per year over the past four years. With the challenges of our economy and inflation over 4%, we are faced with the difficult task of meeting the demands for public services with limited resources.

We look forward to continuing our focus on the recruitment of new businesses and the retention of our current businesses. Creating and retaining jobs for our citizens will help stabilize our local economy as well as assist with maintaining a stable tax rate. As always, our County departments and staff do an outstanding job containing costs while providing exceptional public services. We assure you that we will continue to be good stewards of our allocated resources.

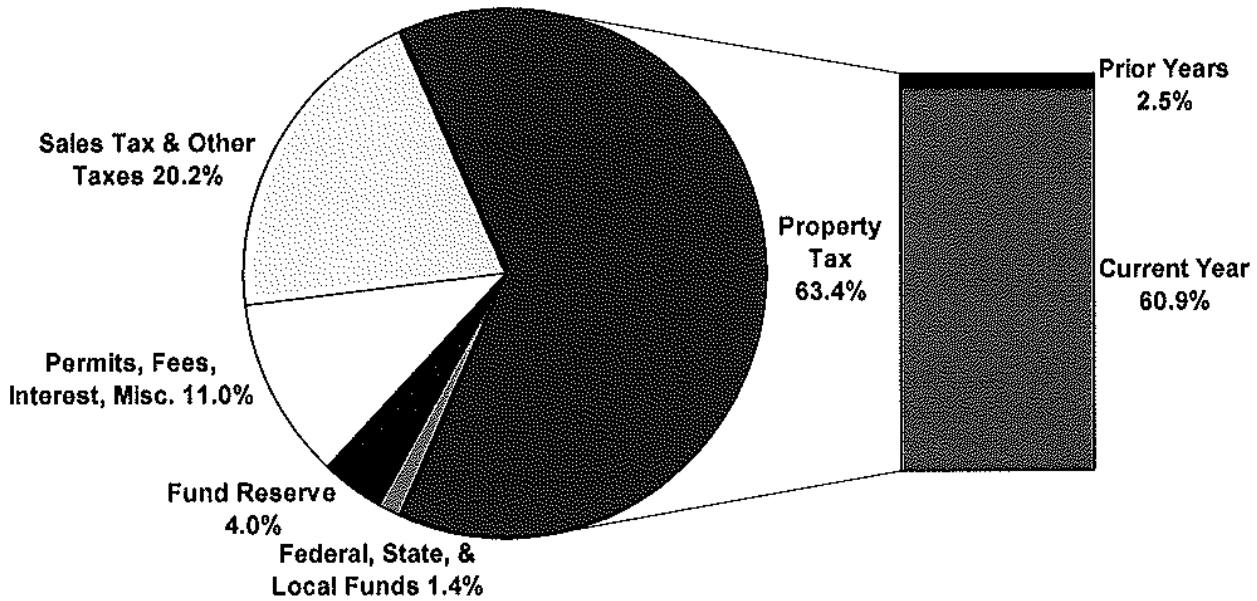
Respectfully submitted,

A handwritten signature in cursive script, appearing to read "David C. Dear", with a long, sweeping flourish extending to the right.

David C. Dear
County Manager / Budget Officer

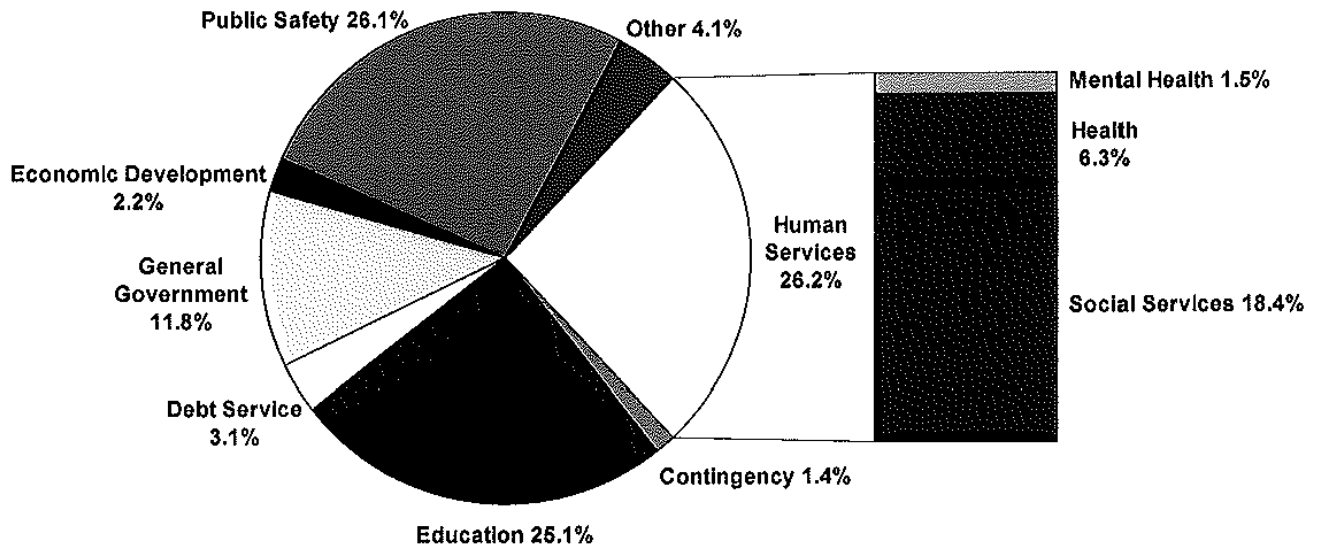
Cleveland County Revenues

FY 2008-2009 Primary Fund By Source



Cleveland County Expenditures

FY 2008-2009 Primary Fund By Function




DESCRIPTION	FY 2008 BUDGET ORDINANCE	FY 2009 BUDGET ORDINANCE	AMOUNT CHANGE	% CHANGE
<u>GENERAL FUND CLASSIFICATION:</u>				
Primary Government Services	59,194,091	60,169,389	975,298	1.65%
Social Services and Public Assistance	27,661,586	27,065,666	(1,595,562)	-5.57%
Public Health	10,707,370	11,587,299	879,929	8.22%
Employee Wellness	784,209	797,574	13,365	1.70%
Court Facilities	347,335	351,928	4,593	1.32%
Workers Compensation	375,000	380,000	5,000	1.33%
Health / Dental Insurance	<u>629,209</u>	<u>679,943</u>	<u>50,734</u>	<u>8.06%</u>
TOTAL, INCLUDING TRANSFERS	100,698,442	101,031,799	333,357	0.33%
LESS INTERFUND TRANSFERS:	<u>(20,078,836)</u>	<u>(17,510,210)</u>	<u>2,568,626</u>	<u>-12.79%</u>
TOTAL, EXCLUDING TRANSFERS	80,619,606	83,521,589	2,901,983	3.60%
<u>SPECIAL REVENUE FUND CLASSIFICATION:</u>				
Public Schools District	8,676,000	9,217,425	541,425	6.24%
Schools Capital Reserve	3,157,592	2,947,585	(210,007)	-6.65%
Property Revaluation	25,800	11,000	(14,800)	-57.36%
Emergency Telephone (E911)	382,984	306,510	(76,474)	-19.97%
County Fire Service District	<u>1,194,891</u>	<u>1,291,878</u>	<u>96,987</u>	<u>8.12%</u>
TOTAL, INCLUDING TRANSFERS	13,437,267	13,774,398	337,131	2.51%
LESS INTERFUND TRANSFERS:	<u>(11,000)</u>	<u>(11,000)</u>	<u>-</u>	<u>0.00%</u>
TOTAL, EXCLUDING TRANSFERS	13,426,267	13,763,398	337,131	2.51%
<u>DEBT SERVICE FUND CLASSIFICATION:</u>				
	5,143,429	3,334,178	(1,809,251)	-35.18%
LESS INTERFUND TRANSFERS:	<u>(2,877,429)</u>	<u>(3,334,178)</u>	<u>(456,749)</u>	<u>15.87%</u>
TOTAL, EXCLUDING TRANSFERS	2,266,000	-	(2,266,000)	-100.00%
<u>CAPITAL PROJECT FUND CLASSIFICATION:</u>				
Capital Projects	1,175,000	1,566,000	391,000	33.28%
Capital Reserve	<u>1,175,000</u>	<u>1,566,000</u>	<u>391,000</u>	<u>33.28%</u>
TOTAL, INCLUDING TRANSFERS	2,350,000	3,132,000	782,000	33.28%
LESS INTERFUND TRANSFERS:	<u>(1,175,000)</u>	<u>(2,710,000)</u>	<u>(1,535,000)</u>	<u>130.64%</u>
TOTAL, EXCLUDING TRANSFERS	1,175,000	422,000	(753,000)	-64.09%
<u>ENTERPRISE FUND CLASSIFICATION:</u>				
TOTAL, INCLUDING TRANSFERS:	<u>5,788,423</u>	<u>5,954,901</u>	<u>166,478</u>	<u>2.88%</u>
	5,788,423	5,954,901	166,478	2.88%
TOTAL, INCLUDING TRANSFERS	127,417,561	127,227,276	(190,285)	-0.15%
LESS INTERFUND TRANSFERS:	<u>(24,142,265)</u>	<u>(23,565,388)</u>	<u>576,877</u>	<u>2.39%</u>
TOTAL, EXCLUDING TRANSFERS	103,275,296	103,661,888	386,592	0.37%

**Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2008
I: PREFACE AND INTRODUCTION
B. List of Principal County Officials**

BOARD OF COUNTY COMMISSIONERS

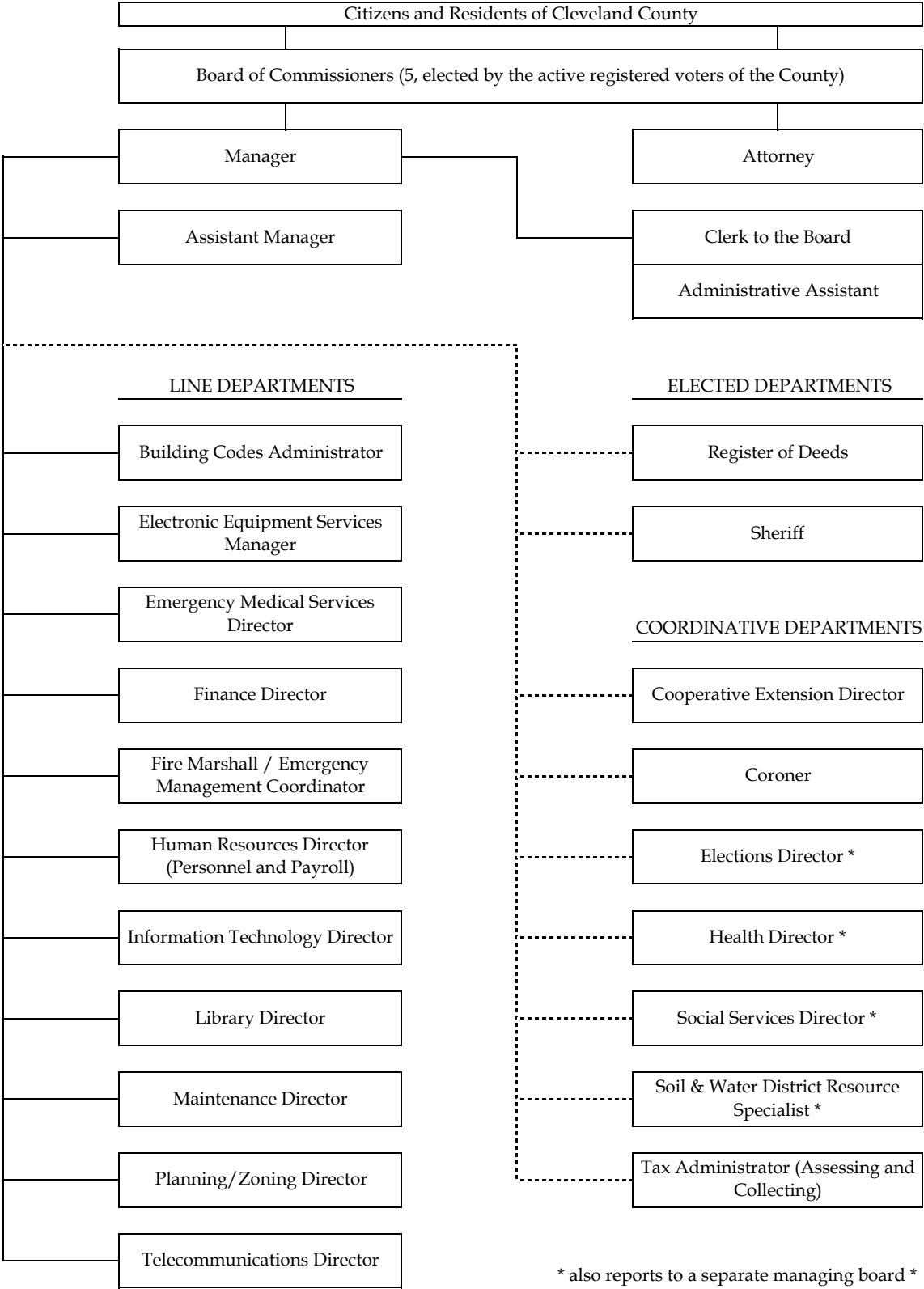
<p>MARY ACCOR Commissioner Term Expires 2008</p>		<p>JO BOGGS Commission Chair Term Expires 2010</p> 		<p>EDDIE HOLBROOK Commission Vice-Chair Term Expires 2010</p>
<p>RONNIE HAWKINS Commissioner Term Expires 2008</p>				<p>JOHNNY HUTCHINS Commissioner Term Expires 2008</p>

COUNTY OFFICIALS

<p>EDDIE BAILES Assistant Manager</p> <p>PAUL EZELL Building Codes Administrator</p> <p>MARK DELLINGER Electronic Equipment Services Manager</p> <p>JOE LORD Emergency Medical Services Director</p> <p>C. D. CREPPS Finance Director</p> <p>DEWEY COOK Fire Marshall / Emergency Management Coordinator</p> <p>ALEXIS PEARSON Human Resources Director (Personnel and Payroll)</p> <p>MARTY GOLD Information Technology Director</p> <p>CAROL WILSON Library Director</p> <p>PETE MCFARLAND Maintenance Director</p> <p>BILL MCCARTER Planning/Zoning Director</p> <p>DAVID DODD Telecommunications Director</p>	<p>DAVID C. DEAR Manager</p> 	<p>BOB YELTON Attorney</p> <p>KERRI MELTON Clerk to the Board</p> <p>APRIL CROTTS Administrative Assistant</p> <p>BONNIE REECE Register of Deeds</p> <p>RAYMOND HAMRICK Sheriff</p> <p>GREG TRAYWICK Cooperative Extension Director</p> <p>DWIGHT TESSNEER Coroner</p> <p>DEBRA BLANTON Elections Director *</p> <p>DENESE STALLINGS Health Director *</p> <p>JOHN WASSON Social Services Director *</p> <p>BEN ROBINSON Soil & Water District Resource Specialist *</p> <p>CHRIS GREEN Tax Administrator (Assessing and Collecting)</p>
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* also reports to a separate managing board *

**Cleveland County, North Carolina
 Annual Financial and Compliance Report
 For the Year Ended June 30, 2008
 I: PREFACE AND INTRODUCTION
 C. Organizational Chart**



* also reports to a separate managing board *

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2008
I: PREFACE AND INTRODUCTION
D. Introduction from the County Finance Director

October 1, 2008

To the Citizens, Cleveland County Board of Commissioners, and other interested readers:

County management hereby respectfully submits, and is responsible for the contents of, the *Annual Financial and Compliance Report For the Year Ended June 30, 2008* to the Cleveland County Board of Commissioners, residents of Cleveland County, and other readers. With this *Annual Financial and Compliance Report* of Cleveland County, North Carolina, management portrays the basic financial condition of the County government.

This introduction serves to present a brief description of the four sections that make up this annual report, describe that County management has sole responsibility for this year-end report, and to introduce interested readers to Cleveland County. "Section I. Preface and Introduction" begins with a message from the County Manager, includes organizational information, and ends with this introduction letter. Section II includes the bulk of the financial statements, including the "Notes to Financial Statements" and "Required Supplementary Information." For a narrative overview and analysis of the County's fiscal performance, see the "Management's Discussion and Analysis" in Section II. Section III displays statistical and trend information concerning major items such as property taxes, debts, revenues and expenditures, demographics, and economics. Finally, the County's status of compliance with grant-related federal and state rules and regulations is shown in Section IV.

County's Responsibilities

This report fulfills the County's responsibility to annually publish complete, accurate, and reliable financial statements and related schedules. Although an independent auditing firm of licensed certified public accountants is hired each year to conduct a financial and compliance audit, County management is responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the accounting principles that are generally accepted in the United States of America. We are also responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and federal and state programs. In addition, we have monitored sub-recipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal controls, and preventing and detecting fraud. Therefore, County management has established a comprehensive internal control framework that is designed

both 1) to help protect the County's assets from loss, theft, or misuse and 2) to compile sufficient reliable information presented in this report as the County's official financial statements and related schedules such that the presented information complies with U. S. generally accepted accounting principles. While County management conducts its continuing assessment, the County asserts reasonable assurance that its internal control over both 1) the effectiveness and efficiency of operations and 2) financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, as of June 30, 2008 was operating effectively.

The County Finance Department is tasked with investigating possible or alleged incidents of fraud, waste, and abuse. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity. If you notice any County employee acting unprofessionally during working hours or using County equipment or other County property for unofficial purposes, please report the event to either 1) the County Finance Department at 704-484-4807, 2) the County Manager at 704-484-4800, and/or 3) any one or more of your County Commissioners.

The financial statements herein are fairly presented in conformity with U. S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government required by U. S. generally accepted accounting principles to be included in the financial reporting entity. Except for items identified in another section within this report, the following statements are true:

- 1) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 2) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and State awards.
- 3) The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
- 4) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 5) There are no unasserted claims or assessments that are probable of assertion and no other liabilities or gain or loss contingencies that must be accrued and that must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies.
- 6) There are no reservations or designation of fund equity that were not properly authorized and approved.
- 7) All funds and activities are properly classified in the financial statements.

Description of Cleveland County

Thank you for your interest in Cleveland County, North Carolina. Established by the General Assembly of North Carolina, Cleveland County has a land area of approximately 465 square miles. In 1841, Tryon County was separated into Cleveland, Lincoln, and Rutherford counties. Cleveland County was originally named after Colonel Benjamin Cleaveland, a partisan leader of the western frontier and one of the heroes in the Battle of Kings Mountain during the Revolutionary War. In 1887, the original spelling of Cleaveland was changed to Cleveland.

The City of Shelby, chartered in 1884, is the County seat and the most populous municipality in the County. Shelby was named after Colonel Isaac Shelby, another war hero from the Battle of Kings Mountain. To travel to Shelby, one must venture about 45 miles west from the City of Charlotte or 75 miles east from the City of Asheville, both in North Carolina, or 50 miles north of the City of Spartanburg, South Carolina. In short, Cleveland County is strategically located between two of the largest metropolitan areas of the Carolinas. In fact, Charlotte Douglas International Airport is the fifth largest hub in the nation. And, the region offers major league sports, breathtaking mountains, and nearby sunny beaches.

The City of Kings Mountain is the second largest city in the County. About 90% of the City of Kings Mountain is located in Cleveland County and the remaining amount in Gaston County. Kings Mountain is situated near the intersection of I-85 and US 74. The city is located roughly midway between Shelby and Gastonia, the two seats of their respective counties.

Cleveland County has a commission-manager form of government, meaning that the County Board of Commissioners governs the County, is responsible for the County's policies and procedures, and appoints a County Manager to direct the routine administration of the County. The Board of Commissioners consists of five members elected at large whose terms of office are staggered to keep experienced persons on the Board at all times.

The County levies a property tax on both real and personal property located within its border. Through the annual budget ordinance, the property tax rate is set and provides resources for the County to provide a full range of governmental services, including law enforcement, fire protection, medical-related emergency transportation, public health and social services, solid waste collection, and others. The County also contributes to local public educational entities.

The County has established a unified countywide school district that is operated and administered by a separate non-partisan nine-member board of education whose members are elected by the citizens. Cleveland County Schools has about 17,000 students. The local board of education appoints a superintendent to direct the day-to-day management of the school system.

Further, high school sports in the County have a rich championship history. And, in recent years, three of the four high schools have had teams competing in state championship title matches in football, basketball, and softball. And, our teams won almost every time.

Also, a number of post-secondary institutions exist in and near the County. Cleveland Community College offers an associate degree program, diplomas and certificates, and a continuing education program. The Town of Boiling Springs hosts Gardner-Webb University, a four-year liberal arts college. Ambassador Baptist College trains men and women for full-time Christian service. Catawba Valley Community College in the City of Hickory, Central Piedmont Community College in the City of Charlotte, Gaston College in the City of Dallas, and Isothermal Community College in the City of Spindale also serve Cleveland County residents from the state's Community College System. Other nearby post-secondary institutions include Belmont Abbey, Converse College, Davidson College, Furman University, Johnson C. Smith University, Lenoir-Rhyne College, Limestone College, Queens College, the University of North Carolina at Charlotte, the University of South Carolina at Spartanburg, Winthrop University, and Wofford College.

The local economy is diverse and without dependence on any one industry. Truck cabs, compact discs, transmissions, aircraft parts, ceramic capacitor material, electric motors, and production equipment are just a few of the items fabricated in Cleveland County. Cleveland County is home to numerous ISO 9000 certified companies and over one-fourth of the work force is involved in manufacturing. And, the County offers a unique combination of assets to existing and new industry, such as an abundant and educated workforce, a highly diversified industrial base, a positive work ethic, cooperative educational programs from Cleveland Community College located in Shelby, organically grown food, ethanol (an alternative fuel for vehicles), and easy access to various types of transportation routes. The county has a broad diversity of manufacturing firms, of which more than 25 firms employ 100 or more persons.

Nestled in the rolling piedmont of the southwestern portion of North Carolina and bordering South Carolina, Cleveland County is situated in the foothills of the Blue Ridge Mountains. The County has easy access to virtually all of the mid-Southeast's major markets. Both Charlotte-Douglas International Airport and Greenville-Spartanburg International Airport are within an hour's drive. Major rail lines also track through the County. And, the port of Charleston is easily accessible via major interstate highways. The County is about 200 miles from Myrtle Beach, South Carolina, 200 miles from Atlanta, Georgia, 410 miles from Washington, D. C., and 650 miles from New York, New York.

The County has many attractions, such as the Shelby City Park train and carousel. The County also boasts the largest county fair in the state at the Cleveland County Fairgrounds. The Cleveland County Fair is usually held for more than a week and begins near the end of September. Plus, golfers enjoy the variety of quality golf courses in the County. In addition, the County partners with non-profit agencies that oversee operations at the Broad River Greenway and the Kings Mountain Trails Gateway. Activities such as horseback riding, backpacking, and canoeing are found at these facilities that boast over 2,000 acres. You will also find log cabins, picturesque scenes, and picnic areas at these facilities. Plus, the County is central to recreational facilities located in nearby national parks (i.e. Kings Mountain) and state parks (i.e. South Mountain and Crowders Mountain).

The locals are proud of the area's history and its natural beauty. Area attractions include:

Belwood Heritage Museum 704-538-6695	Lawndale Historical Museum 704-538-7212
Brackett Cedar Park 704-538-7124	Moss Lake, Kings Mountain 704-482-7926
Broad River Greenway, Boiling Springs 704-434-2357	Neisler Natatorium, Kings Mountain 704-734-5654
Carmike 10, Cleveland Mall, Shelby 704-482-6623	Pine Grove Golf Course, Shelby 704-487-0455
Carolina Foothills Handmade Association 704-484-2787	River Bend Golf Course, Shelby 704-482-4286
Challenger 3 Golf Club, Shelby 704-482-5061	Royster Memorial Golf Course, Shelby 704-484-6823
Cleveland County Arts Council, Shelby 704-484-2787	Shelby City Aquatic Center 704-484-6839
Cleveland Memorial Library, Shelby 704-487-9069	Shelby City Park Carrousel and Train 704-484-6839
Crowders Mountain State Park, Gastonia 704-853-5375	Shelby Farmers Market 704-484-9005
Deer Brook Golf Club, Shelby 704-482-4653	Shelby Parks and Recreation 704-484-6839
Gardner-Webb University Pool 704-406-4420	Spangler Branch Library, Lawndale 704-538-7005
Kings Mountain/Bessemer City Drive-In 704-739-2150	Sunset Drive-In, Mooresboro 704-434-7782
Kings Mountain Country Club 704-739-5871	Thunder Valley Speedway, Lawndale 704-538-9666
Kings Mountain Historical Fire Museum 704-74-0555	Woodbridge Golf Links, Kings Mountain 704-482-0353
Kings Mountain Historical Museum 704-739-6613	YMCA Boiling Springs 704-434-0441
Kings Mountain Library 704-739-2371	YMCA Kings Mountain 704-734-0449
Kings Mountain National Military Park 864-936-7921	YMCA Kings Mountain - Public Pool 704-734-0449
Kings Mountain State Park 803-222-3209	YMCA Shelby 704-484-9622

Throughout Cleveland County, you will find caring and highly trained physicians and nurses eager to provide quality healthcare and share their knowledge.

Long-Term Financial Planning

To improve the County's financial position, the County annually evaluates and plans long-term operating and capital needs for all provided services and programs. The formal plan is titled the "Capital Improvement Program" (CIP). The plan addresses both 1) the projected

costs of additional operating and capital needs and 2) the strategy to provide financial resources from which to pay the costs in the foreseeable future. Major items in the plan include an expansion of the adult detention center, improving public school facilities, and constructing a multi-purpose community complex. The first year of the plan reflects the items included in the County's capital budget for the year ending June 30, 2009.

In other efforts to maintain or improve the County's financial status, County management encourages the pursuit of the following goals:

- ✓ re-evaluate the CIP each year
- ✓ maintain at least 20% of annual operating expenditures in cash reserves
- ✓ avoid using one-time revenue resources for recurring expenditures
- ✓ aggressively seek financial support, such as federal or state grant monies, to attain a sufficient level of resources to finance capital projects
- ✓ pay for small capital projects without borrowing funds and borrow funds, as needed, for larger and more expensive capital projects

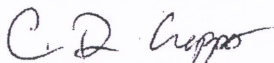
I express deep appreciation for the Board of Commissioners, County Manager, and other administrative staff for their interest and support in planning and conducting the financial affairs of the County.

Summary

This *Annual Financial and Compliance Report* was compiled by staff of the Cleveland County Finance Department, in cooperation with the County Manager and various staff of certain other departments, primarily Social Services, Property Tax Administration, Information Technology, and Human Resources. Martin Starnes & Associates, CPAs, P.A., an independent auditing firm of licensed certified public accountants, printed this report. The contributions of all participants are invaluable.

With 15 incorporated municipalities of varying sizes and many smaller communities in the County, you will find there are many great places to live and visit in Cleveland County. Most importantly, you will find that the people of Cleveland County are welcoming and friendly to neighbors and newcomers. And, the caring workers of Cleveland County businesses consistently out-give other communities to United Way and other community organizations. Cleveland County is a great place to live, work, play, and just enjoy life. You are always welcome in Cleveland County.

Respectfully submitted,



C. D. Crepps
County Finance Director