

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Fiscal Year Ended June 30, 2009
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
B. Management's Discussion and Analysis

Via this subsection entitled "Management's Discussion and Analysis," management of Cleveland County, North Carolina, offers readers of this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2009* a narrative overview and analysis of the County's fiscal performance. This subsection follows "Subsection A: Report from the Independent Auditor" and serves as an introduction to "Section II: Financial Statements and Supplementary Information." To gain valuable insight, please read the following discussion in conjunction with the financial statements and supplementary information furnished in this section.

SIGNIFICANT FINANCIAL HIGHLIGHTS

- On a government-wide basis, assets exceeded liabilities at the close of the fiscal year by \$139,947,751. This amount is also referred to as total net assets.
- On a government-wide basis, total net assets decreased by \$1,587,573 from last year, primarily due to continued spending near normal amounts during a downturn in the economy that resulted in much lower revenues while still accumulating resources to finance acquisitions of planned assets.
- The ending fund balances of all governmental funds combined equals \$44,861,129, a decrease of \$206 from prior year. Of the total fund balance, \$35,600,294, or approximately 79.4%, is available for spending at the government's discretion (though a portion must be spent on restricted purposes). This amount is also referred to as unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$16,777,490, or 20.0% of total General Fund expenditures for the fiscal year.
- Total long-term liabilities increased by \$8,639,476 (42.3%) to \$29,058,034 during the current fiscal year due to 1) planning for the closure and post-closure care costs at the County's landfill facility, 2) issuing \$6,720,000 in new debt, and 3) newly estimated OPEB obligations, all of which was partially offset by making scheduled principal payments.

DESCRIPTION OF SECTION II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

This narrative, "Management's Discussion and Analysis," serves as an introduction to this section. Section II, which is the primary focus of the annual report, can be broken down into five subsections as follows:

- A. Report from the Independent Auditor
- B. Management's Discussion and Analysis,
- C. Basic Financial Statements,
- D. Required Supplementary Information, and
- E. Other Supplementary Information.

"Subsection C: Basic Financial Statements" can be further broken down into three primary parts:

1. Government-Wide Financial Statements,
2. Fund Financial Statements, and
3. Notes to Financial Statements.

The supplementary information that follows the Basic Financial Statements provides more details to enhance our understanding of the financial condition and recent financial performance of Cleveland County, North Carolina.

"Subsection D: Required Supplementary Information" has these six components:

1. Law Enforcement Officers' Special Separation Allowance Financial Schedules,
2. Retirees' Healthcare Coverage Financial Schedules,
3. Major Governmental Funds Financial Statements,
4. Nonmajor Governmental Funds Financial Statements,
5. Major Enterprise Fund Financial Schedule, and
6. Fiduciary Funds Financial Statement

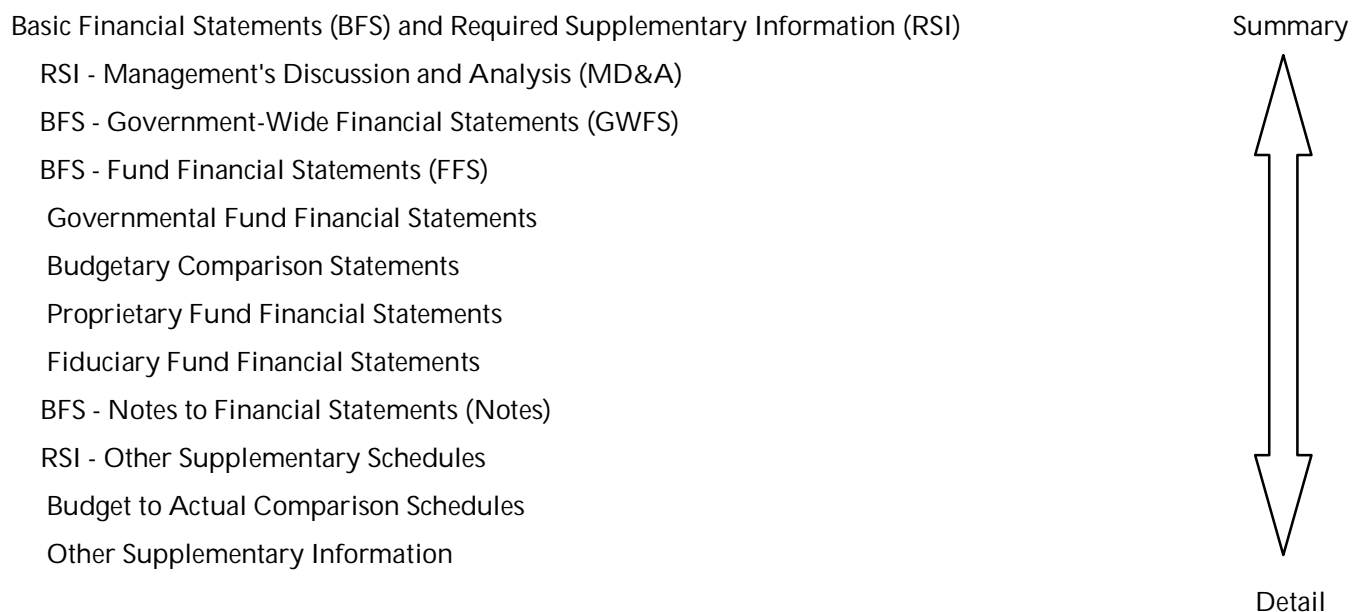


Figure 1. Level of Detail

Basic Financial Statements

Through the Government-Wide Financial Statements and the Fund Financial Statements, the Basic Financial Statements present two different views of the County. The Government-Wide Financial Statements provide both short-term and long-term information about the County's overall financial status. The Fund Financial Statements, however, focus exclusively on short-term information and provide more detail on the activities of the individual components of the County's operations. Following the Fund Financial Statements, the Notes to Financial Statements explain and add insight to the data contained in the Government-Wide Financial Statements and Fund Financial Statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements comprise governmental activities and business-type activities. Governmental activities, which are financed primarily through property taxes, local sales taxes, and intergovernmental revenues, include the County's basic services such as education funding, emergency services, law enforcement provision, public health and social services. Business-type activities, which are financed through charges to customers, include only the County's solid waste collection and disposal services. This segregation of activities provides a summarized analysis of the cost of various governmental services and simplifies comparisons to other local government entities.

Government-Wide Financial Statements report the amount of net assets of the County at the end of the fiscal year and how the net assets have changed over the fiscal year. In both the Government-Wide Statement of Net Assets (see Exhibit II.C.1.a) and the Government-Wide Statement of Activities (see Exhibit II.C.1.b), the County has applied accounting methods similar to those used by for-profit entities. For example, certain revenues and expenses are reported although related cash flows will occur in future periods (see Exhibit II.C.2.b.i). By using such methods, these two government-wide reports provide us with a business-like overview of the County's finances and both short-term and long-term information about the County's financial status as a whole.

Net assets, computed similar to net worth, is the difference between the County's total assets (or possessions) and total liabilities (or debts). Measuring net assets is one way to assess the County's financial condition. Through the for-profit perspective, changes in the net assets from year to year help one determine whether the County's financial status is improving or deteriorating. Other additional financial and non-financial factors will also help one assess the overall financial health of the County.

Fund Financial Statements

Whereas the Government-Wide Financial Statements comprise the consolidation of the County's governmental activities and business-type activities, the more familiar Fund Financial Statements provide much more detailed data about the County's individual funds. The Fund Financial Statements have four components:

1. Governmental Fund Financial Statements (Exhibits II.C.2.a, II.C.2.a.i, II.C.2.b, and II.C.2.b.i.),
2. Budgetary Comparison Statements (Exhibits II.C.2.c and II.C.2.d),
3. Proprietary Fund Financial Statements (Exhibits II.C.2.e, II.C.2.f, and II.C.2.g), and
4. Fiduciary Fund Financial Statements (Exhibit II.C.2.h).

Like all other governmental entities in North Carolina, Cleveland County uses the fund concept to ensure and reflect compliance with finance-related legal requirements. Such requirements typically are derived from the North Carolina General Statutes, the Local Government Commission of North Carolina, the County's budget ordinance, or other parties interested in the County's finances. Also, Cleveland County uses fund accounting to control resources that are restricted in purpose and/or time. A fund is a grouping of assets and related debts that are used to maintain control over resources that have been segregated for specific activities or objectives. For an example, review the balance sheet of one or more funds in this report. (Find the larger individual funds, labeled as major funds, within the "Fund Financial Statements" part and the nonmajor funds within "Subsection D: Required Supplementary Information.")

Governmental Fund Financial Statements – Governmental funds are used to account for the same functions reported as governmental activities in the Government-Wide Financial Statements. The majority of the County's basic services are accounted for in governmental funds. Governmental funds are reported using an accounting method called "modified accrual basis of accounting." This method focuses on current financial resources. Therefore, governmental funds focus on what resources are left at year-end that will be available for spending in the next year. Accordingly, these funds measure the current financial position and changes in the current financial position. As a result, the Governmental Fund Financial Statements give readers a detailed short-term view that helps to determine whether working capital is sufficient to finance the County's programs. To aid the reader in gaining a long-term perspective, the relationship between governmental funds and governmental activities (reported in the Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities) is described in a reconciliation that is a part of the Governmental Fund Financial Statements.

Budgetary Comparison Statements – As required by North Carolina General Statutes Chapter 159, Cleveland County adopts an annual balanced budget ordinance, except where a project ordinance has been adopted, for each governmental fund. The process by which the budget ordinance becomes reality incorporates input from citizens, the Board of County Commissioners, and County management as to which services to provide and what resources will be used to fund the services provided. Cleveland County's budget and budgetary comparison statements are presented on the modified accrual basis of accounting. The budgetary comparison statements, provided for each major governmental fund for which an annual balanced budget ordinance is adopted, demonstrates by fund whether the County complied with the budget ordinance and how well the County performed in providing the services as planned when the budget was adopted. Each fund shown has four columns:

1. Original budget as adopted by the board;
2. Final budget as amended by the board;
3. Actual resources, charges to appropriations, and ending balances; and
4. Difference or variance between the final budget and the actual resources and charges.

Proprietary Fund Financial Statements – Cleveland County uses one type of proprietary fund called the Enterprise Fund. The Fund Financial Statements of the Enterprise Fund are used to report more details of the same function, solid waste collection and disposal operations, that are presented as business-type activities in the Government-Wide Financial Statements. Since the activities accounted for in enterprise funds are similar to for-profit operations, enterprise funds use the full accrual basis of accounting rather than the modified accrual basis of accounting that is used by governmental funds. Therefore, enterprise funds and other types of proprietary funds provide both long-term and short-term financial information similar to that found in the Government-Wide Financial Statements.

Fiduciary Fund Financial Statements – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Cleveland County has numerous fiduciary funds, one of which is classified as a trust fund and the remaining fiduciary funds are classified as agency funds. Look for the Statement of Fiduciary Net Assets. Additional information on fiduciary funds can be found in “Subsection D: Required Supplementary Information.” Since fiduciary resources cannot be used to finance the County’s operations, fiduciary activities are not included in the Government-Wide Financial Statements.

Notes to Financial Statements

The notes provide a summary of significant accounting policies and additional details that are essential to a full understanding of the data provided in the Government-Wide Financial Statements and the Fund Financial Statements. For example, certain schedules provide details concerning capital assets and other schedules provide various details on long-term obligations. Other details and schedules regarding various items are also found.

Required Supplementary Information and Other Supplementary Information

These two subsections include certain information needed to discern Cleveland County’s current financial situation and its financial progress over recent years. The required supplementary information concerns, first, the County’s obligation to provide post-employment benefits, and, second, more detailed results for each individual fund, both major and nonmajor funds. Additional supplementary schedules concerning cash and investments, transfers between funds, and property taxes are also displayed to help reasonably estimate future progress.

GOVERNMENT-WIDE FINANCIAL HIGHLIGHTS

With the changes in the financial statement reporting model mandated by the Government Accounting Standards Board (GASB), Cleveland County was required to add two Government-Wide Financial Statements and implement other changes for the fiscal year ended June 30, 2003. The two net statements focus on net assets and the changes in net assets. As noted earlier, net assets and the changes therein may serve as useful indicators of a government’s financial condition. The tables included herein contain data that allow opportunities for comparative analysis of the two most recent fiscal years. See Table 1 below. Additional comparisons can be found in Section III: Statistical and Trend Information.

Net Assets and Changes in Net Assets

In the fiscal year ended June 30, 2009, net assets decreased by \$1,587,573 to \$139,947,751. Therefore, the County’s overall financial condition has suffered mildly after many years of increases.

Net assets have three components, namely: 1) unrestricted net assets, 2) restricted net assets, and 3) invested in capital assets, net of related debt. The figure given as the amount “invested in capital assets, net of related debt” reflects the County’s costs of acquiring capital assets (e.g. land, buildings, equipment, and vehicles) less accumulated depreciation that is annually recognized as expenditures over the life of depreciable assets and any related debt still outstanding that was issued to acquire those items. Although the investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. Since the County uses capital assets to provide services to citizens, the assets are not available for future spending.

Restricted net assets represent the portion of Cleveland County’s resources that are subject to external restrictions on how they may be used. The remaining balance of net assets is unrestricted and may be used to meet the government’s ongoing obligations to citizens and creditors.

Table 1. Condensed Statement of Net Assets

Category	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(amounts depicted in thousands of dollars)					
Current and other assets	\$ 53,188	\$ 52,359	\$ 7,498	\$ 10,644	\$ 60,686	\$ 63,003
Capital assets	99,410	93,230	13,483	11,005	112,893	104,235
Total assets	152,598	145,589	20,981	21,649	173,579	167,238
Current and other liabilities	4,173	4,256	400	1,029	4,573	5,285
Long-term liabilities	22,053	16,668	7,005	3,750	29,058	20,418
Total liabilities	26,226	20,924	7,405	4,779	33,631	25,703
Invested in capital assets, net	86,286	85,742	13,483	11,005	99,769	96,747
Restricted	11,131	11,915	-	-	11,131	11,915
Unrestricted	28,955	27,008	93	5,865	29,048	32,873
Total net assets	\$ 126,372	\$ 124,665	\$ 13,576	\$ 16,870	\$ 139,948	\$ 141,535

Table 2. Condensed Statement of Activities

Category	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(amounts depicted in thousands of dollars)					
Revenues:						
Program revenues						
Charges for services	\$ 22,433	\$ 22,771	\$ 4,683	\$ 4,762	\$ 27,116	\$ 27,533
Program grants and contributions	29,797	46,669	360	308	30,157	46,977
General revenues						
Property and other taxes	48,661	48,740	-	-	48,661	48,740
General grants and contributions	-	2,200	-	-	-	2,200
Investment earnings	1,104	1,605	160	616	1,264	2,221
Total revenues	101,995	121,985	5,203	5,686	107,198	127,671
Program expenses:						
General government	9,134	8,681	-	-	9,134	8,681
Public safety	20,436	20,236	-	-	20,436	20,236
Human services	39,265	39,511	-	-	39,265	39,511
Education	26,671	24,944	-	-	26,671	24,944
Economic and physical development	3,043	2,118	-	-	3,043	2,118
Cultural	1,272	1,287	-	-	1,272	1,287
Solid waste	-	-	8,267	5,285	8,267	5,285
Interest on long-term liabilities	697	669	-	-	697	669
Total expenses	100,518	97,446	8,267	5,285	108,785	102,731
Excess (deficiency) before transfers	1,477	24,539	(3,064)	401	(1,587)	24,940
Transfers	229	241	(229)	(241)	-	-
Change in net assets	1,706	24,780	(3,293)	160	(1,587)	24,940
Net assets, beginning	124,666	99,886	16,869	16,709	141,535	116,595
Net assets, ending	<u>\$ 126,372</u>	<u>\$ 124,666</u>	<u>\$ 13,576</u>	<u>\$ 16,869</u>	<u>\$ 139,948</u>	<u>\$ 141,535</u>

Table 3. Condensed Statement of Activities (Percentages)

Category	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues						
Charges for services	21.99%	18.67%	90.01%	83.75%	25.30%	21.57%
Program grants and contributions	29.22%	38.26%	6.92%	5.42%	28.13%	36.79%
General revenues						
Property and other taxes	47.71%	39.95%	0.00%	0.00%	45.39%	38.18%
General grants and contributions	0.00%	1.80%	0.00%	0.00%	0.00%	1.72%
Investment earnings	1.08%	1.32%	3.07%	10.83%	1.18%	1.74%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Program expenses:						
General government	9.09%	8.91%	0.00%	0.00%	8.40%	8.45%
Public safety	20.33%	20.76%	0.00%	0.00%	18.78%	19.70%
Human services	39.06%	40.55%	0.00%	0.00%	36.09%	38.46%
Education	26.53%	25.60%	0.00%	0.00%	24.52%	24.28%
Economic and physical development	3.03%	2.17%	0.00%	0.00%	2.80%	2.06%
Cultural	1.27%	1.32%	0.00%	0.00%	1.17%	1.25%
Solid waste	0.00%	0.00%	100.00%	100.00%	7.60%	5.15%
Interest on long-term liabilities	0.69%	0.69%	0.00%	0.00%	0.64%	0.65%
Total expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Each year-end balance of unrestricted net assets has been reduced by the outstanding bonded debt used to finance construction of school buildings. However, since school buildings are titled to the Cleveland County Board of Education, these assets are not recorded as the County's capital assets. As the principal of such debt increases or decreases, unrestricted net assets will decrease or increase, respectively. As a matter of fact, one of the primary positive influences on the County's total unrestricted governmental net assets resulted from meeting debt service requirements of existing debt that was used to finance construction of school buildings (\$1,461,887).

Of total revenues, about 45.39% stems from property and other taxes, 28.13% from program grants and contributions, and 25.30% from charges for services. Of total expenses, about 36.09% is spent toward human service programs, 24.52% toward education programs, and 18.78% on public safety programs. To summarize, the County's total revenues are about \$107.2 million and total expenses are about \$108.8 for the year ended June 30, 2009, subtracting about \$1.6 million from the total net assets of the County.

Governmental Activities

Governmental activities increased the County's net assets by \$1,705,914, thereby partially offsetting the decrease in total net assets of Cleveland County. See both Table 2 and Table 3 above. Key elements of this increase are as follows:

- Acquisition of capitalized assets, such as land, buildings, equipment, and building improvements, that were funded by grants, contributions, and other outside sources. For one, the County received a large donation of land from the State valued at \$1,024,267. This donated land is included as 'capital grants and contributions' for 'cultural and recreational' activities on the Government-Wide Statement of Activities and reported as additions to capital assets on the Government-Wide Statement of Net Assets. Total capital assets, before depreciation, increased by \$9,540,321 during the year. Part of this increase was offset by the increase of \$3,360,510 in accumulated depreciation.
- Accumulation of funds from the State for both future capital projects for education and future activities of the emergency telephone system.

Business-Type Activities

Business-type activities decreased the County's net assets by \$3,293,487, which was partially offset by the growth in net assets from governmental activities and resulted in the decrease of \$1,587,573 in total net assets of Cleveland County. See both Table 2 and Table 3 above. Key elements of this decrease are as follows:

- Setting aside \$3,150,208 of cash through an increase in expense and an increase in obligations for future closure and post-closure activities.
- Severe fall in investment earnings.
- Salaries and benefits for four additional full-time permanent employees, which brings the total number of full-time permanent employees to 36.

Due to the nature of the landfill business, we intend to return to building cash reserves following the closing of the older landfill site and opening of the newer landfill site. Generally, increases in assets beget increases in net assets. And, a large amount of cash reserves is needed to fund the construction of additional landfill sites. Since the older landfill site remained open longer than expected, the new site will begin accepting waste at the end of September 2009.

FUND HIGHLIGHTS

As noted earlier, Cleveland County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds with either large balances at year-end or a large amount of activity during the year are classified as "major" funds and receive special attention throughout this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2009*.

Governmental Funds. The focus of Cleveland County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Cleveland County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Across all governmental funds, the County has unreserved fund balance of about \$35.6 million. Also, as a measure of a fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For all governmental funds, unreserved fund balance amounts to 33.2% and total fund balance amounts to 41.8% of total expenditures.

Further, reservations and designations of fund balance for special purposes have not had a significant affect on the availability of fund resources for future use. Reserved and designated resources are typically restricted to a specific use and not a specific time period. However, some restricted resources do not promise a continuing revenue stream to support ongoing operations since the restricted resources were provided solely to complete a specific project. Such resources may be eventually depleted.

On June 30, 2009, the County reported \$44,861,129 as the combined fund balance of all governmental funds. The total decrease in the combined fund balance of all governmental funds of \$206 may be attributed to various causes. Primarily, the reason for this decrease results from 1) spending loan proceeds that were unspent last year offset by the unspent proceeds of a \$6,720,000 installment purchase this year, 2) continued accumulation of resources to fund future projects and to fund the purchase of planned assets, 3) larger than anticipated decreases in sales taxes and other revenues due to the sudden downturn in the economy, and 4) larger than anticipated increases in total expenditures in providing services to County citizens.

The General Fund is the chief operating fund of the County and a major fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$16,777,490, while total fund balance reached \$24,721,648. The total decrease in the fund balance of the General Fund of \$3,817,017 is primarily attributed to large transfers for current and future construction projects to the Capital Projects Fund and the County Capital Reserve Fund and larger than anticipated decreases in sales taxes and other revenues due to the sudden downturn in the economy. Unreserved fund balance represents 20.0% of total General Fund expenditures, while total fund balance represents 29.5% of that same amount, amounts much lower than the prior year.

Due to the continued accumulation of cash, both the Schools Capital Reserve Fund and the County Capital Reserve Fund remain to be major funds for the year ended June 30, 2009. The County plans to spend this cash to help finance future projects and the purchase of planned assets.

Proprietary Funds. Cleveland County's sole proprietary fund, an enterprise fund, provides the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Fund at the end of the fiscal year amounted to \$93,057 and total net assets of this fund is \$13,576,306. Factors concerning the finances of this sole enterprise fund have already been addressed in the discussion of Cleveland County's business-type activities.

CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

Capital assets. Cleveland County's capital assets for its governmental and business-type activities as of June 30, 2009 totals \$112,893,162 (net of accumulated depreciation). These assets include construction in progress, equipment and vehicles, buildings, land, improvements to both land and buildings, leasehold improvements, and infrastructure items. Major capital asset transactions during the year include:

- Acquisition of new equipment and vehicles (\$1,920,229 increase).
- Acquisition of capital assets other than equipment and vehicles through the purchase, major renovation, or received donation of land and buildings (\$11,687,240 increase)
- Increase in accumulated depreciation, including depreciation expense on equipment and vehicles of \$1,716,200 and on capital assets other than equipment and vehicles of \$3,066,687 (\$4,782,887 decrease to reported capital assets).
- Retirement and subsequent disposal of items sold, traded-in, made obsolete by newer equipment, or otherwise properly disposed (\$996,607 decrease for equipment and vehicles; \$101,177 decrease for capital assets other than equipment and vehicles; \$1,097,784 total decrease).

Table 6. Statement of Capital Assets, net of Accumulated Depreciation

Category	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
(amounts depicted in thousands of dollars)						
Land and land improvements	\$ 12,113	\$ 9,839	\$ 9,531	\$ 1,974	\$ 21,644	\$ 11,813
Construction in progress	7,922	1,626	30	5,804	7,952	7,430
Buildings and improvements	74,887	76,750	1,274	779	76,161	77,529
Equipment (including vehicles)	3,085	3,471	1,459	982	4,544	4,453
Leasehold improvements	264	278	10	11	274	289
Infrastructure	1,139	1,266	1,179	1,455	2,318	2,721
Total capital assets, net	<u>\$ 99,410</u>	<u>\$ 93,230</u>	<u>\$ 13,483</u>	<u>\$ 11,005</u>	<u>\$ 112,893</u>	<u>\$ 104,235</u>

The County's investments in capital assets increased over 7.67% from the previous year. Additional information on the County's capital assets can be found in the Notes to Financial Statements. See Note 1.E. and Note 3.A.

Long-Term Liabilities. As of June 30, 2009, Cleveland County had total indebtedness outstanding of \$16,968,209, all of which is debt backed by the full faith and credit of the County. During the year ended June 30, 2009, the change in total outstanding indebtedness was \$3,831,019 (or 29.2%). During the year, the County met all normal debt service requirements of (\$2,888,981) and issued new debt of \$6,720,000.

In 2003, when the County last issued debt by refinancing an existing general obligation bond issue, both Standard & Poor's and Fitch, Inc. reaffirmed the County's A bond ratings. The North Carolina Municipal Council issued a score of 83 out of 100 possible points.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. After calculating the County's legal debt limit (which is 8% of total assessed value) and subtracting current outstanding long-term debt, the legal debt margin for Cleveland County is \$492,397,349. See Subsection III.C within Section III for more information on the calculation of the legal debt margin and other information concerning long-term debt. Additional information regarding the County's long-term obligations can be found in the Notes to Financial Statements. See Note a.D.8 and Note b.B.7.

BUDGETARY HIGHLIGHTS

During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of four categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to continue incomplete projects from the prior fiscal year; 3) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 4) increases in appropriations that become necessary to maintain services. And, the Commissioners have granted the County Manager authority to carry-forward unspent donations and other designated proceeds for which budget was approved by the Commissioners in a prior year but some expenditures have not yet occurred. See Table 4 and Table 5 following the discussion below for a summary of budget amendments by fund.

General Fund: Total amendments to the General Fund increased budgeted revenues by \$4,050,067, appropriations of fund balance by \$4,061,477, and incoming transfers from other funds by \$1,360,683. The primary reasons for these increases were: (1) to carry-forward budget related to a) unspent grant awards and other restricted resources (such as donations), b) unpaid obligations (i.e. year-end outstanding encumbrances), and c) other incomplete projects, (2) to accept new grants and other new resources for the purchase of various supplies, equipment, and services, and (3) to make available transfers to the Capital Projects Fund and to the County Capital Reserve Fund related to the purchase and renovation of buildings and other property. Major types of budgetary increases were made to account for the following:

- Several outstanding incentive grants from the N.C. Department of Commerce for economic development activity (\$1,143,000),
- A Nurse Family Partnership Grant for public health activity (\$503,765),
- A withdrawal of proceeds from the State lottery for renovations made to classrooms at Kings Mountain High School (\$1,360,683),
- A transfer of funds to the County Capital Reserve Fund for use in the construction of a new education facility that includes the Early College High School (\$1,000,000),
- The purchase of two properties not included in the original budget (\$1,162,955 for land to attract new industry), and
- The transfer of funds to the County Capital Reserve Fund for use in the renovation and expansion of the County's Jail Annex facility (\$643,925).

Schools Capital Reserve Fund. The budget amendments to the Schools Capital Reserve Fund increased revenues and expenditures by \$1,360,683 to account for a withdrawal of proceeds from the State lottery for renovations made to classrooms at Kings Mountain High School and \$1,000,000 to transfer funds to the County Capital Reserve Fund for use in the construction of a new education facility that includes the Early College High School.

County Capital Reserve Fund. Budget amendments to the County Capital Reserve Fund increased revenues and expenditures by \$15,501,458 primarily to account for the proceeds from the installment purchase financing for the renovation and expansion of the County's Jail Annex facility, to accumulate resources for a new education facility that includes the Early College High School, to continue the installation of Public Safety 800 MHz Communications System equipment, and to continue other smaller projects initiated in prior years.

Solid Waste Fund. In the County's sole enterprise fund, total amendments to the Solid Waste Fund increased revenues and expenditures by \$2,768,582 primarily to account for incomplete projects and new projects. The

major amendments included the carry-forward budget for the continued construction of a new landfill site and accompanying offices (\$1,031,972), the purchase of two properties not included in the original budget (\$620,041), the purchase of equipment not included in the original budget (\$589,149), and allow for receipt and distribution of the State's \$2 add-on tax for each ton of collection which we had planned to receive and distribute through a liability account (\$277,184).

Nonmajor Funds. Total amendments to nonmajor funds include the carry-forward budget of incomplete special projects (including budget for items already spent to show total budget for the multi-year project), carry-forward budget of uncollected property taxes from prior years for the County-wide public schools district (\$955,243; collected taxes could not be distributed without sufficient budget), and budget for new special projects. Many of these projects are being reported in the Capital Projects Fund. See Exhibit II.D.4.i for a list of projects in the Capital Projects Fund where beginning budget was merely \$1,566,000.

In addition, the Community Development Fund is budgeted by project ordinance instead of the annual budget ordinance. The County budgeted \$600,000 in the Community Development Fund, which is reported as a special revenue fund. Since this fund is not included in the original adopted budget, all budgeted expenditures are shown as budget amendments.

Table 4. Schedule of Budget Amendment Amounts by Fund

Fund	Original Adopted Budget	Amendments to Budget	Final Amended Budget
General Fund	\$ 85,216,262	\$ 9,472,227	\$ 94,688,489
Schools Capital Reserve Fund	2,947,585	2,360,683	5,308,268
County Capital Reserve Fund	1,566,000	15,501,458	17,067,458
Enterprise Fund	5,954,901	2,768,582	8,723,483
Nonmajor Funds	15,726,991	26,915,052	42,642,043
Totals	<u>\$ 111,411,739</u>	<u>\$ 57,018,002</u>	<u>\$ 168,429,741</u>

Table 5. Schedule of Budget Amendment Percentages by Fund

Fund	Original Adopted Budget	Amendments to Budget	Final Amended Budget
General Fund	76.49%	16.61%	56.22%
Schools Capital Reserve Fund	2.65%	4.14%	3.15%
County Capital Reserve Fund	1.40%	27.19%	10.13%
Enterprise Fund	5.34%	4.86%	5.18%
Non-major Funds	14.12%	47.20%	25.32%
Totals	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

ECONOMIC HIGHLIGHTS AND OTHER IMPORTANT FACTS

The area's unemployment rate has been higher than the state average for several years. In the past year, many industries have either reduced or relocated their workforce. Many others have closed operations. These actions have a significant impact on the County's revenues and expenditures since many of those formerly employed reduce personal spending and now seek services provided by the County.

With the sudden downturn in retail sales in late September 2008, sales tax revenues were significantly below original estimates. Also, major expenditure categories (education, public safety, and human services programs) continue to rise substantially. However, the collection of property taxes remained consistent compared to prior years. The Cleveland County Board of Commissioners lowered the tax rates for fiscal year 2009 in the County-wide general district, County-wide school district, and County fire district, from a combined 76 cents per \$100 in assessed property value to 75 cents per \$100 in assessed property value, to help offset the increase in assessed

property values due to a revaluation of property values. The County's current cycle is to conduct property revaluations every four years.

The total County budget for fiscal year 2010 decreased by 1.87% from the prior year. Although many smaller funds had increases, the General Fund decreased by \$2,093,756, or 2.51%. For a look at the County's adopted budget for fiscal year 2010, review Subsection I.A, Message from the County Manager, found earlier in Section I.

Governmental Activities: An increase in assessed property values should lead to increased property tax revenues. And, due to changes by the State legislature, the County's share of Medicaid health costs has ended, partially offset by a decrease in revenues from the local option sales taxes that the State will keep for itself. Other decreases in revenues are also projected, leading to an overall estimated decrease in revenues of 2.51% in the General Fund. Budgeted appropriations (excluding intergovernmental transfers) in the General Fund fell to \$79,451,111 primarily due to the absence of Medicaid health costs. The County experienced normal increases in employee compensation, including funding compensation and benefits adjustments, and other planned expenditures.

Other governmental funds experienced relatively small increases or decreases in their total budget.

Business-Type Activities: The budget for landfill activities in fiscal year 2010 increased by 0.35% when compared to the prior year. This budget includes a new program to collect and dispose of abandoned mobile homes and the expansion of anti-littering campaigns, as well as normal increases in operations. When compared to fiscal year 2009, the budget for capital equipment is much less in fiscal year 2010.

In addition, due to reserves required by the State, the County will need to consider an increase to its annual household trash fee and other fees collected for landfill activities. To meet State requirements, the County must set aside nearly \$1,000,000 of cash in fiscal year 2010 for future expenses related to the closure and post-closure costs of the landfill.

REQUESTS FOR ADDITIONAL FACTS

For those with an interest, the remainder of this annual financial report provides a more detailed overview of the County's finances. For additional information or answers to questions concerning any of the information found in this report, please visit our website (<http://www.cncgov/FinanceD/index.html>), contact us by telephone (704-484-4807), submit your request via fax (704-484-4796), or address your request to:

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