

**Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2007
I: PREFACE AND INTRODUCTION**

	<u>Identifier</u>	<u>Page No.</u>
A. Message from the County Manager	Subsection I.A	3
B. List of Principal County Officials	Subsection I.B	8
C. Organizational Chart	Subsection I.C	9
D. Introduction from the County Finance Director	Subsection I.D	10

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**Cleveland County, North Carolina
Annual and Financial Compliance Report
For the Year Ended June 30, 2006
I: PREFACE AND INTRODUCTION
A. Message from the County Manager**

October 8, 2007

To the Cleveland County Board of Commissioners:

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 2007, the County contracted with the Hickory office of Martin Starnes & Associates, CPAs, P.A. to conduct the audit for the fiscal year ended June 30, 2007. The auditor was permitted access to all requested information and no material deficiencies have been noted. As of the date of this letter, the auditor's fieldwork is virtually completed.

The remaining text below is excerpted from a message concerning the recommended budget for fiscal year 2007-08. The recommended budget was adopted as recommended.

The fiscal year 2007-08 budgeted revenues and expenditures are balanced and maintain the current property tax rate of 58 cents per \$100 of property valuation. The major budget initiatives as agreed upon by the County Commissioners are (1) no [property] tax increase, (2) address Medicaid issue, (3) [improve Cleveland] Community College funding, and (4) [issue] 3% cost of living increase for county employees. This budget attempts to address your primary budget goals while maintaining sound fiscal practices.

General Fund Budget

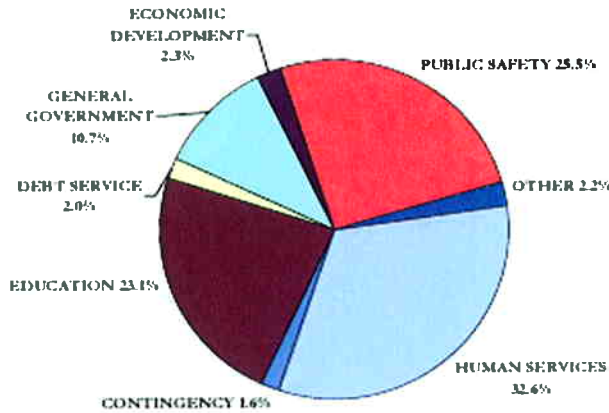
The projected tax base for fiscal year 2007-08 is \$6,025,000,000. This is a projected increase of \$175,000,000 in value over the previous year, which translates into \$974,400 in new revenue at a 58¢ tax rate and a 96% collection rate. We estimate sales tax revenues will increase by \$400,000 as consumer spending statewide continues to grow. Fees for services are expected to grow by approximately \$400,000. These items account for the vast majority of the general fund increase of \$1,988,865 or 3.65% over last year. With the property tax base growth at 2.99%, we will not be able to sustain this funding level in the future unless growth in the tax base increases to match our mandated spending requirements.

Human Services

The overall appropriation of county funding for Social Services, including public assistance, is \$14,042,989 for a 1.83% increase over the previous year. Two positions in this department which were previously temporary assignments will be converted to full time with a majority of the funding coming from the State.

The Health Department budget reflects an overall increase of 6.85% for a total county appropriation of \$3,498,136. A new employee is budgeted in this department which will be funded by enterprise funds.

**Cleveland County Expenditures
FY 2007-2008 Primary Fund By Function**



Public Safety

The Emergency Medical Services department is budgeted a total of \$4,789,790. Although this department budget reflects an increase of 7.17%, most of the funds are comprised of salaries, billing company fees, and minor equipment purchases.

The Sheriff's Office and the Detention Center appropriation totals \$7,461,157 for an increase of 4.75%. The only specific equipment costs compared to the previous year's budget is the addition of one more new vehicle.

Tax Administration

As stated in the introduction, this budget maintains the current property tax rate at 58 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. A three-quarter of 1% early payment discount will continue to be offered for those taxpayers who pay during the month of August.

In fiscal year 2008-09, the budget will include a property revaluation. The tax administration department has been diligently preparing to complete the adjustment numbers by November of this year to be effective January 2008.

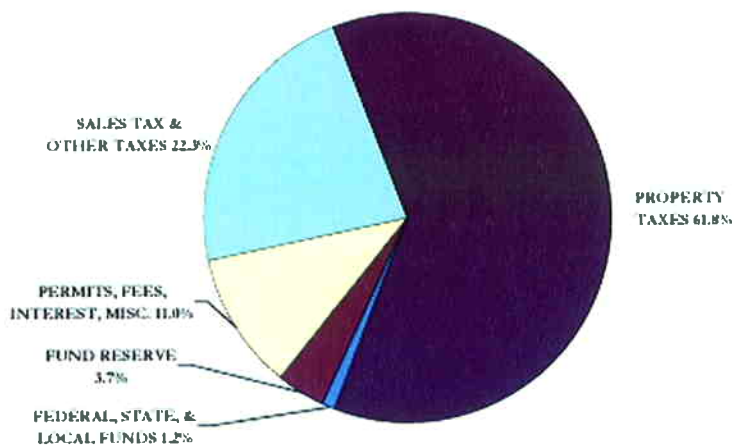
Fees

Our departmental fee schedule has been evaluated carefully and as a result several

departments have included a revised fee schedule in this year's budget. These fees are being recommended to maintain a competitive fee schedule in comparison with other counties and municipalities in the region. A copy of the detailed schedule is included in the budget.

- o Environmental Health - A fee schedule increase is proposed in several areas of service ranging from \$10.00 to \$50.00. In addition, there is a new fee schedule for the recently state mandated well regulation program.

**Cleveland County Revenues
FY 2007-2008 Primary Fund By Source**



- Building Inspection - This department's proposed fees are based primarily upon the type of construction (new, residential, or commercial) and the square footage of the structure.
- Emergency Medical Services - The proposed fee schedule is changing with most services increasing around \$25.00 due to increases in the Medicare allowable rate.
- Hazardous Materials Response - The Cleveland County Emergency Management Office coordinates the response of governmental agencies and the general public to natural and manmade disasters. These responses involve costly equipment and manpower. The proposed fees for a response will be charged to the owner or agent of the owner who is liable for the containment and removal of the hazard.

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. As implemented last year, the employees who are eligible for merit will be provided justification for why they received or did not receive a merit.

Earlier this year, staff met with healthcare consultants who advised us that our health insurance costs would be projected to increase by 15%. To slow this growth and provide more options for employees, a Health Savings Account (HSA) option was provided along with a traditional PPO. Employees will have the ability to manage their own accounts which roll over from year to year if unused. In conjunction with our health plan, we will continue to promote our employee wellness clinic and pharmacy program as affordable options. Our direct reimbursement dental plan has been operating effectively for many years. Premiums for this plan have increased only a couple of times in the past 20 years. There are no planned changes in our dental program.

Public Schools

CLEVELAND COUNTY SCHOOL FUNDING WORKSHEET (ACCRUAL BASIS) April 30, 2007						
FISCAL YEAR	2008 <i>estimate</i>	2007 <i>projected</i>	2006	2005	2004	2003
Current Expense	9,908,213	9,808,213	9,808,213	9,808,213	9,599,895	9,591,540
Capital Outlay	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000
Special Capital Projects	1,400,000	1,300,000	1,100,000	866,000	866,000	666,000
Supplemental Tax	9,300,000	9,075,000	8,972,776	8,743,152	8,229,246	8,069,183
Fines & Forfeitures	500,000	495,000	488,464	498,141	513,868	580,475
Sales Tax	4,022,000	3,905,000	3,828,164	3,634,624	3,561,726	3,307,847
Total Funding	27,130,213	26,583,213	26,197,617	25,550,130	24,770,735	23,215,045
Student Population	16,957	17,089	17,217	17,609	17,235	17,220
Per Pupil Funding	1,599.94	1,555.57	1,521.61	1,450.97	1,437.23	1,348.14
Amount Change	44.37	33.96	70.64	13.74	89.09	
Percentage Change	2.85%	2.23%	4.87%	0.96%	6.61%	

Cleveland County is providing an increase in the current expenditures for the Cleveland County School System by \$100,000 over the previous year. The total appropriation of \$27,130,213 equates to almost \$1,600 per pupil funding, which is an increase of 2.85% over the previous year. Restricted capital projects funding also increased by a total of \$100,000.

Community College

This budget includes increased funding of \$80,000 in current expenditures for the Cleveland Community College along with an increase in restricted capital of \$10,000. The increase in expenditures is a 7.55% increase over the previous year and will be helpful in moving the Community College up in the statewide comparison of county funding per budgeted FTE.

Volunteer Fire and Rescue

We are in the last year of a three year funding plan for the volunteer fire departments. The budget includes reduction in funding for the five volunteer rescue squads. All five rescue squads have expressed an interest in billing for services. This will shift a greater burden on payment for services versus funding from the general fund. 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.

Capital Projects

There are several capital projects included in the budget summarized below:

- Airport terminal - Matching funds with the City of Shelby for terminal improvements-\$160,000
- EMS Base Station - To be located in the southern end of the county
- City of Kings Mountain - Matching funds for boat docks for Chris-Craft Corporation
- Council on Aging/Senior Center - Provide a \$140,000 loan to be paid back interest free over a 10 year period
- Health Department - Complete building renovations, complete landfill cell on Fielding Drive, and animal shelter renovations

In addition, this budget will include a request for your adoption of a 5-year capital improvement plan.

Medicaid

We continue to remain optimistic that we will receive some relief from the Medicaid burden during this year's legislative session. {Editor's Note: Medicaid relief was approved by the state legislature on July 30, 2007 and signed by the governor on the next day.} Based upon projections through next year, the 15% of the non-federal share of Medicaid paid by Cleveland County will have grown by \$3,109,188, or 62%, in 5 years. The General Fund Property Tax Levy will have grown by \$4,007,739, or 13%, over the same time period. Whereas the property tax levy is increasing, on average, about 2.5% per year, the average growth of Medicaid expenditures has exceeded 10% per year. Likewise, the adopted budget for the General Fund has increased \$10,951,090, or 15.5%, in the past 5 years, or about 3% per year.