

**Cleveland County, North Carolina**  
**Annual Financial and Compliance Report**  
**For the Year Ended June 30, 2007**  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**C. Basic Financial Statements (includes Notes to Financial Statements)**

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The Basic Financial Statements provide a dual perspective summary overview of the financial position and operating results of the government as a whole (government-wide financial statements) and of all funds (fund financial statements). They also serve as a condensed introduction to the more detailed statements and schedules that follow. And, the "Notes to the Financial Statements" are an integral part of these exhibits.

**Cleveland County, North Carolina**  
**Annual Financial and Compliance Report**  
**For the Year Ended June 30, 2007**  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**C. Basic Financial Statements (includes Notes to Financial Statements)**  
**1. Government-Wide Financial Statements**

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Cleveland County, North Carolina  
a. Government-Wide Statement of Net Assets

June 30, 2007

With Comparative Totals as of June 30, 2006

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 34,019,660	\$ 10,945,590	\$ 44,965,250	\$ 43,761,315
Taxes receivable, net	2,827,605	-	2,827,605	2,753,561
Accounts receivable, net	8,220,120	401,220	8,621,340	8,046,658
Inventories	168,177	-	168,177	139,599
Prepaid items	196,714	1,923	198,637	70,148
Restricted cash	-	3,269,213	3,269,213	2,952,289
Deferred charges - issuance costs	32,290	-	32,290	43,336
Deferred charges - refunding	459,491	-	459,491	614,674
Capital assets				
Land and construction in progress	7,860,681	2,437,261	10,297,942	9,746,734
Other capital assets, net of accumulated depreciation	65,137,881	3,138,158	68,276,039	64,986,810
Total capital assets	72,998,562	5,575,419	78,573,981	74,733,544
<b>Total Assets</b>	<b>\$ 118,922,619</b>	<b>\$ 20,193,365</b>	<b>\$ 139,115,984</b>	<b>\$ 133,115,124</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	2,591,645	\$ 112,450	\$ 2,704,095	\$ 2,747,533
Unearned revenues	1,261,325	2,682	1,264,007	1,578,904
Accrued interest payable	45,634	-	45,634	48,681
Due to other taxing units	203,122	-	203,122	226,479
Premium on bond issuance	7,566	-	7,566	59,319
Long-term liabilities				
Current portion of long-term liabilities	5,903,120	35,971	5,939,091	6,225,195
Noncurrent portion of long-term liabilities	9,024,538	3,332,821	12,357,359	16,421,556
Total Long-term liabilities	14,927,658	3,368,792	18,296,450	22,646,751
<b>Total Liabilities</b>	<b>19,036,950</b>	<b>\$ 3,483,924</b>	<b>\$ 22,520,874</b>	<b>\$ 27,307,667</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 68,762,375	\$ 5,575,419	\$ 74,337,794	\$ 67,424,937
Restricted net assets:				
Education	4,960,626	-	4,960,626	2,863,382
Human Services	2,856,899	-	2,856,899	2,523,149
Public Safety	2,237,765	-	2,237,765	2,379,065
Other purposes	242,972	-	242,972	254,167
Total restricted net assets	10,298,262	-	10,298,262	8,019,763
Unrestricted net assets	20,825,032	11,134,022	31,959,054	30,362,757
<b>Total Net Assets</b>	<b>\$ 99,885,669</b>	<b>\$ 16,709,441</b>	<b>\$ 116,595,110</b>	<b>\$ 105,807,457</b>

The "Notes to Financial Statements" are an integral part of this exhibit.

Cleveland County, North Carolina  
b. Government-Wide Statement of Activities

(continued on next page)

For the Year Ended June 30, 2007

With Comparative Totals as of June 30, 2006

PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Expenses	Charges for services	Program Revenues		Net program revenues (expenses)
			Operating grants and contributions	Capital grants and contributions	
<b>EXPENSES, PROGRAM REVENUES, AND NET RESULTS</b>					
<b>Governmental activities:</b>					
General government	\$ (8,102,560)	\$ 2,429,620	\$ 827,817	\$ 50,373	\$ (4,794,750)
Public safety	(18,572,762)	4,413,692	2,035,114	88,538	(12,035,418)
Human services	(38,398,880)	4,407,313	16,411,564	5,153,258	(12,426,745)
Education	(23,309,846)	9,091,504	24,458	5,359,018	(8,834,866)
Economic and physical development	(3,527,997)	81,421	302,598	4,226	(3,139,752)
Cultural and recreational	(1,101,380)	29,949	251,214	-	(820,217)
Interest on long-term liabilities	(662,667)	-	134,100	-	(528,567)
<b>Subtotal governmental activities</b>	<b>(93,676,092)</b>	<b>20,453,499</b>	<b>19,986,865</b>	<b>10,655,413</b>	<b>(42,580,315)</b>
<b>Business-type activities</b>					
Solid Waste Collection and Disposal	(4,567,905)	4,927,433	326,760	-	686,288
<b>Total primary government</b>	<b>\$ (98,243,997)</b>	<b>\$ 25,380,932</b>	<b>\$ 20,313,625</b>	<b>\$ 10,655,413</b>	<b>\$ (41,894,027)</b>

The "Notes to Financial Statements" are an integral part of this exhibit.

(continued from previous page)

Primary Government				
PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Governmental Activities	Business-Type Activities	Totals 2007	Totals 2006
<b>NET PROGRAM REVENUES (EXPENSES)--FROM PRIOR PAGE</b>				
<b>Governmental activities:</b>				
General government	\$ (4,794,750)	\$ -	\$ (4,794,750)	\$ (3,925,691)
Public safety	(12,035,418)	-	(12,035,418)	(12,433,735)
Human services	(12,426,745)	-	(12,426,745)	(9,091,838)
Education	(8,834,866)	-	(8,834,866)	(10,405,730)
Economic and physical development	(3,139,752)	-	(3,139,752)	(147,758)
Cultural and recreational	(820,217)	-	(820,217)	1,989,570
Interest on long-term liabilities	(528,567)	-	(528,567)	(501,598)
<b>Subtotal governmental activities</b>	<b>(42,580,315)</b>	<b>-</b>	<b>(42,580,315)</b>	<b>(34,516,780)</b>
<b>Business-type activities</b>				
Solid Waste Collection and Disposal	-	686,288	686,288	915,619
<b>Total primary government</b>	<b>(42,580,315)</b>	<b>686,288</b>	<b>(41,894,027)</b>	<b>(33,601,161)</b>
<b>GENERAL REVENUES AND TRANSFERS:</b>				
Property taxes	35,297,651	-	35,297,651	34,646,125
Local option sales taxes	12,037,091	-	12,037,091	11,372,497
Other taxes and licenses	844,704	-	844,704	793,545
Grants and contributions, general	2,270,000	-	2,270,000	2,205,000
Investment earnings, general	1,529,276	702,957	2,232,233	1,577,171
Miscellaneous revenues, general	-	-	-	-
Transfers:	175,347	(175,347)	-	-
<b>Total general revenues and transfers</b>	<b>52,154,069</b>	<b>527,610</b>	<b>52,681,679</b>	<b>50,594,338</b>
<b>CHANGE IN NET ASSETS</b>	<b>9,573,754</b>	<b>1,213,898</b>	<b>10,787,652</b>	<b>16,993,177</b>
<b>Net assets -- beginning</b>	<b>90,311,915</b>	<b>15,495,542</b>	<b>105,807,457</b>	<b>88,814,280</b>
<b>Net assets -- ending</b>	<b>\$ 99,885,669</b>	<b>\$ 16,709,440</b>	<b>\$ 116,595,109</b>	<b>\$ 105,807,457</b>

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**For the Year Ended June 30, 2007**  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**C. Basic Financial Statements (includes Notes to Financial Statements)**  
**2. Fund Financial Statements**

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Cleveland County, North Carolina  
a. Governmental Funds: Balance Sheet

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June 30, 2007  
With Comparative Totals as of June 30, 2006

	Governmental Funds				Totals	2006
	General	Schools Capital Reserve	Other Non-major Funds			
<b>ASSETS</b>						
Cash and cash equivalents	\$ 25,701,306	\$ 4,479,445	\$ 3,838,909	\$ 34,019,660	\$ 33,970,589	
Taxes receivable, net	1,955,856	-	552,778	2,508,634	2,464,868	
Accounts receivable, net	7,209,403	877,968	132,749	8,220,120	7,514,240	
Due from other governmental funds	112	103,691	307,991	411,794	135,651	
Inventories	168,177	-	-	168,177	139,599	
Prepaid items	196,564		150	196,714	70,023	
<b>Total assets</b>	<b>\$ 35,231,418</b>	<b>\$ 5,461,104</b>	<b>\$ 4,832,577</b>	<b>\$ 45,525,099</b>	<b>\$ 44,294,970</b>	
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable and accrued expenses	2,431,502	\$	151,403	\$ 2,582,905	\$ 2,685,416	
Contract retainage	-		8,740	8,740	37,105	
Unearned revenues	1,199,908		61,417	1,261,325	1,574,465	
Deferred revenues	1,964,793		552,778	2,517,571	2,498,233	
Due to other governmental funds	411,682		112	411,794	135,651	
Due to other taxing units	203,122			203,122	226,479	
<b>Total liabilities</b>	<b>6,211,007</b>		<b>774,450</b>	<b>6,985,457</b>	<b>7,157,349</b>	
<b>Fund balances</b>						
<b>Reserved fund balance:</b>						
Encumbrances	257,463		62,034	319,497	193,637	
Inventories	168,177			168,177	139,599	
Prepaid items	196,564		150	196,714	70,023	
Register of deeds	14,834			14,834	21,361	
State Statute	7,200,865	981,659	150,086	8,332,610	7,537,036	
<b>Unreserved designated fund balance:</b>						
for future insurance claims	1,591,412	-	-	1,591,412	1,711,492	
for subsequent year's expenditures	2,729,017	-	1,189,800	3,918,817	4,565,169	
<b>Unreserved undesignated fund balance:</b>						
Non-major Special Revenue funds	16,862,079	4,479,445	-	21,341,524	18,317,211	
Non-major Capital Projects funds		-	2,656,057	2,656,057	4,111,559	
				-	470,534	
<b>Total fund balances</b>	<b>29,020,411</b>	<b>5,461,104</b>	<b>4,058,127</b>	<b>38,539,642</b>	<b>37,137,621</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 35,231,418</b>	<b>\$ 5,461,104</b>	<b>\$ 4,832,577</b>	<b>\$ 45,525,099</b>	<b>\$ 44,294,970</b>	

The "Notes to Financial Statements" are an integral part of this exhibit  
See 'Exhibit II.C.2.a.i' for a list of items that differ in treatment between the governmental activities column on the government-wide statement and totals for governmental funds on this statement.



Cleveland County, North Carolina

a.i. Reconciliation of the 'Governmental Funds: Balance Sheet' to the 'Government-Wide Statement of Net Assets'

(continued from previous page)

June 30, 2007

With Comparative Totals as of June 30, 2006

	2007	\$	2006
Total fund balances of governmental funds	38,539,642	\$	37,137,621
<p>The amount reported as total net assets of governmental activities in the Government-Wide Statement of Net Assets (Exhibit II.C.1.a) differs from the amount reported as total fund balances of governmental funds on the Governmental Funds: Balance Sheet (Exhibit II.C.2.a) due to the use of different measurement foci and bases of accounting, specifically relating to the following reasons:</p>			
1 Interest and penalties on overdue receivables are recognized as revenues when payment is received in the governmental funds, whereas an accrued receivable (asset), net of an allowance for uncollectible interest and penalties, is recognized on the Statement of Net Assets. The accrued receivable (asset) balance is:	318,971		288,693
Since the County refinanced existing debt in March 2003, the difference between the old and new debt on the Statement of Net Assets will be amortized over the remaining life of the new debt (or, if shorter, the remaining life of the old debt). The unamortized balance	484,215		598,691
Governmental funds report expenditures for items that are treated as additions to capital assets on the Statement of Net Assets. Total capital assets before accumulated depreciation is:	106,330,087		100,029,990
4 ion expense over the estimated f Activities. Total accumulated	(33,331,525)		(30,594,710)
5 nue (liability) for uncollected cted receivables are recognized onies are earned. The deferred	2,517,571		2,498,233
penditure when due in the is recognized on the Statement	(45,634)		(48,681)
urrent period are not recognized reductions are recognized as r than reductions in the liability	(14,927,658)		(19,597,922)
Total net assets of governmental activities	99,885,669	\$	90,311,915

The "Notes to Financial Statements" are an integral part of this exhibit

Cleveland County, North Carolina

b. Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances

(continued on next page)

For the Year Ended June 30, 2007

With Comparative Totals as of June 30, 2006

	General	Governmental Funds		Totals	
		Schools Capital Reserve	Other Non-major Funds	2007	2006
<b>REVENUES</b>					
Ad valorem taxes	\$ 35,217,319	\$ -	\$ 9,876,069	\$ 45,093,388	\$ 44,483,730
Other taxes	12,881,974	3,467,859	746,503	17,096,336	16,123,160
Unrestricted intergovernmental revenues	101,559	-	-	101,559	112,949
Restricted intergovernmental revenues	18,294,363	1,626,074	2,793,371	22,713,808	20,599,720
Licenses, fees, and permits	1,139,917	-	-	1,139,917	1,174,717
Sales and services	8,351,036	-	-	8,351,036	8,351,003
Investment earnings	1,538,052	265,085	197,637	2,000,774	1,366,276
Miscellaneous	630,573	-	12,196	642,769	1,021,584
<b>Total revenues</b>	<b>78,154,793</b>	<b>5,359,018</b>	<b>13,625,776</b>	<b>97,139,587</b>	<b>93,233,139</b>
<b>EXPENDITURES</b>					
General government	8,019,607			8,019,607	7,852,209
Public safety	15,324,893		2,193,680	17,518,573	18,113,744
Human services	36,526,688		469,106	36,995,794	35,250,454
Education	10,868,342		9,091,504	19,959,846	19,841,118
Economic and physical development	3,234,068		358,128	3,592,196	1,676,751
Cultural and recreational	971,465			971,465	1,295,403
Schools capital outlay	3,300,000		50,000	3,350,000	3,792,372
Debt service - principal reduction	62,365		4,801,800	4,864,165	4,045,200
					)
					)
					)
					-

The "Notes to Financial Statements" are an integral part of this exhibit.

See 'Exhibit II.C.2.b.i' for a list of items that differ in treatment between the governmental activities column on the government-wide statement and totals for governmental funds on this statement.

Cleveland County, North Carolina

b.i. Reconciliation of the 'Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances' to the 'Government-Wide Statement of Activities'

(continued from previous page)

For the Year Ended June 30, 2007

With Comparative Totals as of June 30, 2006

	2007	2006
Net change in fund balances of governmental funds	1,402,021	\$ (82,214)
<p>The amount reported as net change in net assets of governmental activities in the Government-Wide Statement of Activities (Exhibit II.C.1.b) differs from the amount reported as net change in fund balances of governmental funds on the Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit II.C.2.b) due to the use of different measurement foci and bases of accounting, specifically relating to the following reasons:</p>		
1. Whereas all cash proceeds from the disposal of capital assets are recognized as revenues in governmental funds, both cash and non-cash gains and losses from the disposal of a capital asset are recorded on the Statement of Net Assets. Net gains (losses) are:	4,972,656	10,249,822
2. Governmental funds report expenditures for items that are treated as additions to capital assets on the Statement of Net Assets. The current year's expenditures are:	1,973,648	4,360,603
3. Instead, the cost of capital assets is allocated to depreciation expenses over the estimated useful life of the items and reported on the Statement of Activities. The current year's depreciation expenses are:	(3,383,022)	(2,968,508)
4. Accrued payables for compensated absences are recognized as expenditures when paid in governmental funds. The net decrease (increase) in accrued payables from prior year is recognized as prior (current) expenses.	(300,341)	(334,692)
5. Whereas governmental funds record a deferred revenue (liability) for uncollected receivables because the monies are not available, uncollected receivables are recognized as revenues on the Statement of Activities when the monies are earned. The net increase (decrease) in deferred revenues of governmental funds from prior fiscal year is recognized as a change in current revenues of governmental activities.	49,615	(326,582)
6. Governmental funds do not recognize long-term liabilities that are not due and payable in the current period. Thus, principal reductions are recognized as expenditures in the period that the payment is made rather than reductions in the liability as reflected on the Statement of Net Assets. The current year's principal payments made are:	4,970,606	4,928,451
7. Interest on long-term liabilities is recognized as an expenditure when due in the governmental funds, whereas accrued expense (liability) is recognized on the Statement of Net Assets. An increase (decrease) in the liability's balance is recognized as a decrease (increase) in reported interest expense on the Statement of Activities. Also, since the County refinanced existing debt in March 2003, the difference between the old and new debt on the Statement of Net Assets will be amortized over the remaining life of the new debt (which has the same remaining life as the old debt). This amortized cost is reported as an adjustment to interest expense.	(111,429)	(77,663)
Total net change in net assets of governmental activities	9,573,754	\$ 15,749,217

The "Notes to Financial Statements" are an integral part of this exhibit.

## Cleveland County, North Carolina

## c. General Fund: Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget to Actual

For the Year Ended June 30, 2007

	General Fund			Variance - Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Ad valorem taxes	33,920,878	\$ 33,920,878	\$ 35,217,319	\$ 1,296,441
Other taxes	12,140,000	12,158,000	12,881,974	723,974
Unrestricted intergovernmental revenues	117,000	117,000	101,559	(15,441)
Restricted intergovernmental revenues	17,790,615	19,305,815	18,294,363	(1,011,452)
Licenses, fees, and permits	1,010,000	1,012,000	1,139,917	127,917
Sales and services	6,625,685	6,788,668	8,351,036	1,562,368
Investment earnings	1,100,000	1,100,000	1,538,052	438,052
Miscellaneous	329,839	1,094,026	630,573	(463,453)
<b>Total revenues</b>	<b>73,034,017</b>	<b>75,496,387</b>	<b>78,154,793</b>	<b>2,658,406</b>
<b>EXPENDITURES</b>				
General government	8,656,106	9,178,572	8,019,607	1,158,965
Public safety	14,465,131	15,805,499	15,324,893	480,606
Human services	38,063,423	38,477,352	36,526,688	1,950,664
Education	10,868,342	10,868,342	10,868,342	-
Economic and physical development	1,176,727	3,329,091	3,234,068	95,023
Cultural and recreational	940,849	1,009,074	971,465	37,609
Schools capital outlay	3,300,000	3,300,000	3,300,000	
Debt service, principal reduction	62,465	62,465	62,365	100
Debt service, interest and fees	7,732	7,732	7,730	2
<b>Total expenditures</b>	<b>77,540,775</b>	<b>82,038,127</b>	<b>78,315,158</b>	<b>3,722,969</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(4,506,758)</b>	<b>(6,541,740)</b>	<b>(160,365)</b>	<b>6,381,375</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,472,557	1,475,347	1,475,347	-
Transfers out	(1,162,570)	(1,914,342)	(1,814,136)	100,206
Fund balance appropriated	4,196,771	6,980,735	-	(6,980,735)
<b>Total other financing sources (uses)</b>	<b>4,506,758</b>	<b>6,541,740</b>	<b>(338,789)</b>	<b>(6,880,529)</b>
<b>Net change in fund balance</b>			<b>(499,154)</b>	<b>\$ (499,154)</b>
<b>FUND BALANCES</b>				
Beginning fund balances			29,519,565	
Ending fund balances			<u>\$ 29,020,411</u>	

The "Notes to Financial Statements" are an integral part of this exhibit.

Cleveland County, North Carolina  
d. Schools Capital Reserve Fund: Statement of Revenues, Expenditures, and  
Changes in Fund Balances -- Budget to Actual

For the Year Ended June 30, 2007

	Public Schools Fund			Variance -
	Original	Final	Actual	Favorable
	Budget	Budget		(Unfavorable)
<b>REVENUES</b>				
Other taxes	\$ 2,368,595	\$ 1,484,904	\$ 3,467,859	\$ 1,982,955
Restricted intergovernmental revenues	800,000	1,683,691	1,626,074	(57,617)
Investment earnings	-	-	265,085	265,085
<b>Total revenues</b>	<b>3,168,595</b>	<b>3,168,595</b>	<b>5,359,018</b>	<b>2,190,423</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(3,168,595)	(3,168,595)	(3,168,595)	-
<b>Total other financing sources (uses)</b>	<b>(3,168,595)</b>	<b>(3,168,595)</b>	<b>(3,168,595)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>2,190,423</b>	<b>\$ 2,190,423</b>
<b>FUND BALANCES</b>				
Beginning fund balances			3,270,681	
Ending fund balances			<u>\$ 5,461,104</u>	

The "Notes to Financial Statements" are an integral part of this exhibit.

Cleveland County, North Carolina  
e. Enterprise Fund: Statement of Fund Net Assets

June 30, 2007

With Comparative Totals as of June 30, 2006

Solid Waste Collection and Disposal

	Totals	
	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,945,590	\$ 9,790,726
Accounts receivable, net	401,220	532,418
Prepaid items	1,923	125
Total current assets:	11,348,733	10,323,269
Non-current assets:		
Restricted cash	3,269,213	2,952,289
Capital assets		
Land, land improvements, and construction in progress	2,437,261	2,125,574
Other capital assets, net of accumulated depreciation	3,138,158	3,172,690
Total capital assets	5,575,419	5,298,264
Total non-current assets	8,844,632	8,250,553
Total assets	20,193,365	18,573,822
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	93,443	25,012
Contract retainages	19,007	
Unearned revenues / customer deposits	2,682	4,439
Compensated absences	35,971	38,088
		67,539
Total net assets		15,495,542

The "Notes to Financial Statements" are an integral part of this exhibit.

## Cleveland County, North Carolina

f. Enterprise Fund: Statement of Revenues, Expenses, and Changes in Fund  
Net Assets

For the Year Ended June 30, 2007

With Comparative Totals as of June 30, 2006

## Solid Waste Collection and Disposal

<b>OPERATING REVENUES</b>		
Household user fees	1,402,512	1,394,824
Departmental fees	3,524,921	3,654,543
Other operating revenue	108,884	169,509
<b>Total operating revenues</b>	<b>5,036,317</b>	<b>5,218,876</b>
<b>OPERATING EXPENSES</b>		
Salaries / benefits	1,519,998	1,436,886
Other expenses	2,108,833	2,135,414
Depreciation	622,150	615,728
Landfill closure and postclosure care	316,924	281,488
<b>Total operating expenses</b>	<b>4,567,905</b>	<b>4,469,516</b>
<b>Operating income (loss)</b>	<b>468,412</b>	<b>749,360</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Share of state's white goods and scrap tire taxes	145,736	138,020
Intergovernmental revenues, restricted	72,140	109,599
Investment earnings	702,957	470,625
Gain on disposal of capital assets	-	(81,360)
<b>Total nonoperating revenues and expenses</b>	<b>920,833</b>	<b>636,884</b>
<b>Income before contributions and transfers</b>	<b>1,389,245</b>	<b>1,386,244</b>
<b>Transfer to/from governmental funds (General Fund)</b>	<b>(175,347)</b>	<b>(142,784)</b>
<b>Change in net assets</b>	<b>1,213,898</b>	<b>1,243,460</b>
<b>Net assets, beginning</b>	<b>15,495,542</b>	<b>14,252,082</b>
<b>Net assets, ending</b>	<b>16,709,440</b>	<b>15,495,542</b>

The "Notes to Financial Statements" are an integral part of this exhibit.

Cleveland County, North Carolina  
g. Enterprise Fund: Statement of Cash Flows

For the Year Ended June 30, 2007  
With Comparative Totals as of June 30, 2006

Solid Waste Collection and Disposal

	Totals	
		2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from household user fees	\$ 1,402,512	\$ 1,394,824
Cash received from customers	3,655,770	3,562,961
Cash received from sale of waste and recyclable materials	105,574	169,439
Cash received from other operations	3,310	70
Cash paid to employees for services	(1,516,959)	(1,433,724)
Cash paid for goods and services	(2,024,601)	(2,137,357)
<b>Net cash flows from operating activities</b>	<b>1,625,606</b>	<b>1,556,213</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Government grants	72,140	109,599
Transfer to governmental funds (General Fund)	(175,347)	(142,784)
<b>Net cash flows from noncapital financing activities</b>	<b>(103,207)</b>	<b>(33,185)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(899,304)	(306,391)
Share of state's white goods and scrap tire taxes	145,736	138,020
<b>Net cash flows from capital and related financing activities</b>	<b>(753,568)</b>	<b>(168,371)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments	702,957	470,625
<b>Net cash flows from investing activities</b>	<b>702,957</b>	<b>470,625</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,471,788</b>	<b>1</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: beginning balance</b>	<b>12,743,015</b>	<b>10</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: ending balance</b>	<b>14,214,803</b>	<b>12</b>
<b>Schedule of Noncash Capital and Related Financing Activities</b>		
Net capital assets transferred from (to) the General Fund		
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	468,412	\$ 749,360
The amount reported as operating income (see Exhibit II.C.2.f) differs from the amount reported as net cash flows from operating activities due to the following reasons:		
1. Decrease (increase) in accounts receivable, net	131,198	(91,203)
2. Decrease (increase) in prepayments	(1,798)	(53)
3. Increase (decrease) in accounts payable and contract retainages	87,438	(3,312)
4. Increase (decrease) in customer deposits	(1,757)	1,043
5. Increase (decrease) in accrued compensatory leave	3,039	3,162
6. Depreciation	622,150	615,728
7. Accrued landfill costs	316,924	281,488
<b>Net cash flows from operating activities</b>	<b>1,625,606</b>	<b>1,556,213</b>

The "Notes to Financial Statements" are an integral part of this exhibit.



Cleveland County, North Carolina  
 h. Fiduciary Funds: Statement of Fiduciary Net Assets

June 30, 2007  
 With Comparative Totals as of June 30, 2006

	Agency Funds
	Totals
	2007
Cash and cash equivalents	
Taxes receivable, net	
Accounts receivable, net	
Intergovernmental receivable	
<b>Total assets</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	257,853
Due to other taxing units	2,125,193
<b>Total liabilities</b>	<b>2,383,046</b>

*The "Notes to Financial Statements" are an integral part of this exhibit.*

**Cleveland County, North Carolina**  
**Annual Financial and Compliance Report**  
**For the Year Ended June 30, 2007**  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**C. Basic Financial Statements (includes Notes to Financial Statements)**  
**3. Notes to Financial Statements**

	Identifier	<u>Page No.</u>
a. Summary of Significant Accounting Policies	Note a	51
b. Detail Notes on Important Items	Note b	58
c. Joint Ventures	Note c	74
d. Jointly Governed Organization	Note d	75
e. Hospital Lease Agreement	Note e	75
f. Benefit Payments Issued by the State	Note f	76

**Cleveland County, North Carolina**  
**Annual Financial and Compliance Report**  
**For the Fiscal Year Ended June 30, 2007**  
**C. Basic Financial Statements**  
**3. Notes to Financial Statements**

**Note a: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Cleveland County and its component unit conform to generally accepted accounting principles as applicable to governments in the United States. For the year ended June 30, 2007, the County newly reports a pension trust fund in accordance with Governmental Accounting Standards Board (GASB) Statements No. 25 ("Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans") and 27 ("Accounting for Pensions by State and Local Governmental Employers"). For the year ended June 30, 2006, the County newly implemented Governmental Accounting Standards Board (GASB) Statement No. 44 entitled "Economic Condition Reporting: The Statistical Section" and Statement No. 42 entitled "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." The effects of implementing GASB Statement No. 44 can be found by reviewing the changes in Section III of this report compared to previous reports. The results of implementing GASB Statement No. 42 may become apparent if and when large capital assets are damaged in the future. All previously issued statements from GASB and other standard-setting bodies have been implemented to the extent applicable. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

Cleveland County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute (NCGS) 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component unit, which is a legally separate entity for which the County is financially accountable. Cleveland County Industrial Facility and Pollution Control Financing Authority (the *Authority*) is the County's sole component unit. The Authority exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances and, therefore, is not presented in the Basic Financial Statements of the County. As well, the Authority does not issue separate financial statements. The Authority is considered a component unit of the County because Cleveland County's Board of County Commissioners appoints all seven members of the board of commissioners that oversee the Authority and can remove any member with or without cause.

**B. Basis of Presentation, Basis of Accounting**

**1. Basis of Presentation**

*a. Government-Wide Financial Statements:* The Statement of Net Assets and the Statement of Activities display information about the primary government (the County). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed primarily, in whole or in part, by fees charged to external parties. Nonetheless, fees for certain activities for which governments have a legal responsibility are included in governmental activities regardless of whether fees are charged to external parties.

The Statement of Activities presents a comparison between the direct expenses and the program revenues for each business-type activity of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including the general property tax, are presented as general revenues.

*b. Fund Financial Statements:* The Fund Financial Statements provide information about the County's funds, including its fiduciary funds that were eliminated from the Government-Wide Financial Statements. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of Fund Financial Statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. All fiduciary funds are presented in a separate statement by type.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

*General Fund.* This fund, the County's primary operating fund, accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, other taxes, and federal and state grants. The primary expenditures are for education, emergency services, health services, law enforcement functions, and social services (including public assistance).

*Schools Capital Reserve Fund.* This fund accounts for various proceeds that are restricted by certain laws of the State of North Carolina to support buildings, renovations, and other capital needs of the County school district.

The County reports the following nine non-major governmental funds: the Public School Fund, the Community College Bond Fund, the Revaluation Fund, the Emergency Telephone Fund, the Fire District Fund, the Community Development Fund, the Debt Service Fund, the Capital Project Fund, and the Capital Reserve Fund. These funds have been combined and reported as non-major funds in the Fund Financial Statements. Combining and individual fund statements may be found on the pages following these Notes to Financial Statements.

Also, the County reports the following major enterprise fund:

*Solid Waste Fund.* This fund accounts for the operation, maintenance, and development of the County landfills and each collection/recycling center.

In addition, the County reports the following fiduciary fund types:

*Agency Funds.* Agency funds are custodial in nature (where assets equal liabilities) and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: 1) the Social Services Fund, which accounts for monies deposited with the Department of Social Services for the benefit of certain individuals; 2) the Inmate Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain inmates; 3) the Rescue Squad Fund, which accounts for monies that the County holds for the benefit of five rescue squads entities (Boiling Springs Rescue Squad, Grover Rescue Squad, Kings Mountain Rescue Squad, Shelby Rescue Squad, and Upper Cleveland Rescue Squad); 4) the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the County is required to remit to the County school district and for the three percent interest penalty on the first month of delinquent registered motor vehicle property taxes that the County is required to remit through the North Carolina Department of State Treasurer to the Division of Motor Vehicles of the North Carolina Department of Transportation; and 5) the Property Tax Fund, which accounts for property taxes that are billed and collected by the County on behalf of three fire districts, one sanitary district, and twelve municipalities within the County (three other municipalities do not levy property taxes).

## **2. Measurement Focus, Basis of Accounting**

In accordance with NCGS 159, all funds of the County are maintained during the year using the modified accrual basis of accounting. However, year-end adjustments are made to proprietary funds to report the funds on a different basis of accounting called the full accrual basis of accounting.

*a. Government-Wide, Proprietary, and Fiduciary Fund Financial Statements.* The Government-Wide, Proprietary, and Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the full accrual basis of accounting, except that agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes, grants, entitlements, and donations. On a full accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, depreciation on capital assets, and landfill closure and post-closure care costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*b. Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues applicable to the fiscal year, except for ad valorem property taxes, as available if they are collected within 90 days after year-end. Ad valorem property taxes are not accrued as revenues because the amount is not susceptible to accrual. At June 30, ad valorem property taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore, ad valorem property taxes receivable are offset by deferred revenues which are reported as a liability on the balance sheet. Prepayments on unbilled taxes that are not due until the following fiscal year are reported as unearned revenues.

Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cleveland County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County.

For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due.

In addition, as of January 1, 2006, state law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, motor vehicles were renewed and billed under the annual system, annual registration expired on December 31, and taxes were due on May 1 of the following year. To transition from the staggered into the annual registration, registration renewals will vary from 7 to 18 months after December 31, 2005. As of June 30, 2007, all vehicles that were previously annually registered will be in the staggered system. Therefore, taxes for vehicles registered from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. The taxes for vehicles registered from March 2007

and afterward and due on or after July 1, 2007 that were collected as of year-end are reflected as unearned revenues because they are intended to finance the County's operations during the ensuing fiscal year.

Any property taxes collected by the County for municipalities or special tax districts prior to June 30 which are not remitted to those governmental entities until after the fiscal year end should be reported as property tax revenues and as an intergovernmental receivable at year end by those entities. The County reports amounts of such tax collections due from the County as a year end payable to the other taxing districts.

Sales taxes collected and held by the State for year-end on behalf of the County are recognized as revenue. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Otherwise, intergovernmental revenues and sales and services are not susceptible to accrual because they are generally not measurable until received in cash.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. Unless the grantor stipulates otherwise, it is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Since the governmental funds apply the modified accrual basis of accounting during the year and in the Fund Financial Statements, yet report using the full accrual basis of accounting in the Government-Wide Financial Statements, a reconciliation is included in the Fund Financial Statements. The reconciliation itemizes the differences between the total fund balances of the governmental funds and the total net assets of the governmental activities. Both of these items constitute equity, yet are measured differently.

### **C. Budgetary Data**

The County's budgets are adopted as required by NCGS 159. The annual budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual budget ordinance can be adopted. An annual budget ordinance sets equal amounts for estimated revenues and for appropriations by fund and is adopted for all annually budgeted funds, which includes the General Fund, the Public School Fund, the Schools Capital Reserve Fund, the Revaluation Fund, the Emergency Telephone Fund, the Fire District Fund, the Debt Service Fund, the Capital Projects Fund, the Capital Reserve Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for large projects that overlap multiple fiscal years, such as for the Community College Bond and Community Development Funds, some capital projects, and certain grant funded projects. All budgets, project ordinances, and amendments are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for the General Fund, at the department level for the special revenue, debt service, and enterprise funds, and at the object level for the multi-year funds. The County Manager is authorized to transfer appropriations between any and all funds and departments without affecting the County's total budget. However, the governing board must consider for approval any amendments that alter the total appropriations of the budget. During the year, several immaterial amendments to the original budget were necessary.

### **D. Assets, Liabilities, and Fund Equity**

#### **1. Deposits and Investments**

All deposits of the County are made in board-designated official depositories and are secured as required by NCGS 159-31. The County may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

NCGS 159-30(c) authorizes the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The County's non-money market investments and investments that mature more than one year after acquisition are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

## **2. Cash and Cash Equivalents**

The County pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all deposits and investments are essentially demand deposits and are considered cash and cash equivalents.

## **3. Restricted Assets**

State and federal laws and regulations require that the County establish a capital reserve fund to provide for future obligations of the landfill for closure costs (such as the placement of a final cover on the solid waste landfill facility once waste is no longer accepted) and post-closure care costs (such as maintenance and monitoring functions for thirty years after closure). The assets of the capital reserve fund are presented as restricted assets of the enterprise fund. An equal amount is also reported as liabilities of the enterprise fund.

## **4. Ad Valorem Property Taxes Receivable**

In accordance with NCGS 105-347 and NCGS 159-13(a), the County levies ad valorem taxes on property other than motor vehicles on July 1, which is the beginning of the fiscal year. These taxes are based on the assessed values as of the January 1 that immediately precedes the July 1 levy. The taxes are due on September 1, which is called the lien date; however, penalties and interest do not accrue until the following January 6. As allowed by State law, the County has established a schedule of discounts that apply to such taxes that are paid prior to the due date. In the County's General Fund, ad valorem tax revenues are reported net of such discounts.

## **5. Allowances for Uncollectible Accounts**

All receivables that historically experience significant uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance amount is estimated by analyzing the percentage of receivables that were written off in prior years.

## **6. Inventories and Prepaid Items**

The inventories of the County are valued at cost (first-in, first-out). The County's General Fund inventory consists of pharmaceuticals and certain pharmaceutical supplies that are recorded as expenditures when purchased. In the Fund Financial Statements, the amount of inventory is offset by a fund balance reserve on the balance sheet. A fund balance reserve indicates an amount of resources that is not available for liquidating fund liabilities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both Government-Wide and Fund Financial Statements. The consumption method of accounting for prepaid items is used. In the Fund Financial Statements, the amount of prepaid items is offset by a fund balance reserve to indicate that these resources are not available for liquidating fund liabilities.

## **7. Capital Assets**

The County's capital assets are shown as assets in the Government-Wide Financial Statements and financial statements of the enterprise fund. In the financial statements of the governmental funds, these purchases are shown as expenditures. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: infrastructure, \$100,000; improvements, \$50,000; computer equipment, electronic items, firearms, furniture, other equipment, utility trailers, and vehicles \$2,000; and land and buildings at \$0. The cost of normal maintenance and repairs that do neither add to the value of the asset nor materially extend the estimated life of the asset are not capitalized.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives:

<b>Capital Asset Category</b>	<b>Useful Life</b>
Computer equipment	3 years
Electronic items, utility trailers, and vehicles	5 years
Firearms, furniture, and other equipment	7 years
Infrastructure and depreciable improvements	15 years
Buildings	39 years

## **8. Long-term Obligations**

In the Government-Wide Statement of Net Assets and in the Enterprise Fund's Statement of Net Assets in the Fund Financial Statements, long-term debt and other long-term obligations are appropriately reported as liabilities of the applicable governmental activities, business-type activities, or enterprise fund. Bond premiums and discounts, as well as refunding and issuance costs, are not expensed. Instead, these items are reported on the balance sheet and amortized (or expensed) over the life of the bonds using the straight-line method that approximates the effective interest method.

In the Fund Financial Statements for governmental fund types, the face amount of debt issued is reported as Other Financing Sources in the fiscal year that debt is issued and corresponding payments of principal, interest, and underwriter fees are shown as expenditures in the appropriate fiscal year. Related bond premiums and discounts, as well as refunding and issuance costs, are recorded as Other Financing Uses in the year that the debt is issued. No balance sheet recognition is made for outstanding debt or other long-term obligations.

## **9. Compensated Absences**

The vacation policy of the County provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County's Government-Wide and enterprise fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the vacation leave is earned.

The holiday leave policy of the County provides for the accumulation of earned holiday leave with such leave being fully vested when earned. For the County's Government-Wide and enterprise fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the holiday leave is earned.

The overtime policy of the County provides for the accumulation of up to sixty days for public safety employees and up to thirty days for all other non-exempt employees. Non-exempt employees will earn compensatory hours at the rate of one and one-half times the number of hours worked above forty hours during a specific week. Exempt employees earn an hour of compensatory leave for each hour worked above forty hours during the workweek, yet no maximum is set since compensatory hours earned by exempt employees will not be paid upon termination of employment. For the County's Government-Wide and enterprise fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the overtime is earned by public safety employees and all other non-exempt employees.



The sick leave policy of the County provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be added in the determination of length of service for retirement benefit purposes. Since the County has no obligation for accumulated sick leave until it is actually taken, an accrual for sick leave has not been made.

The County has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the Government-Wide Financial Statements.

## **10. Net Assets/Fund Balances**

### *a. Net Assets*

Net assets in the Government-Wide Financial Statements and enterprise Fund Financial Statements are classified as "unrestricted," "restricted," or "invested in capital assets, net of related debt." Restricted net assets represent constraints on resources that are either a) imposed by law through state statute or b) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. The component called "invested in capital assets, net of related debt" reports the total amount of capital assets as reduced by accumulated depreciation and remaining outstanding debt used to finance the purchase or construction of any capital assets. Unrestricted net assets is the remainder of net assets not classified as either restricted or invested in capital assets, net of related debt. More information can be found in the detail notes that begin on the next page.

### *b. Fund Balances*

In the governmental Fund Financial Statements, reservations or restrictions of fund balance represent amounts that either are legally segregated for a specific purpose or are not appropriable. NCGS 159-13(b)(16) restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as calculated at the end of the fiscal year preceding the appropriation. After accounting for all other reservations of fund balance, Reserved by State Statute is the remaining non-appropriable portion of fund balance. Unreserved fund balances may be designated and designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

#### Reserved:

Reserved for Inventories - portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable (i.e. not available) resources.

Reserved for Prepaid Expenditures - portion of fund balance not available for appropriation because it represents the year-end fund balance of prepaid expenditures, which are not expendable resources.

Reserved for Encumbrances - portion of fund balance available to liquidate any commitments related to purchase orders and contracts that remain unperformed at year-end.

Reserved for Register of Deeds - portion of fund balance available and legally restricted to pay for computer and imaging technology in the Register of Deeds' office, also called the Automation Enhancement and Preservation Fund, which is funded by 10% of the fees collected and maintained by the Register of Deeds.

Reserved by State Statute - portion of fund balance, in addition to reserves for encumbrances, reserves for prepaid expenditures, and reserves for inventories, that is not available for appropriation under NCGS 159-8(a). This amount is typically comprised of receivables that are not offset by deferred revenues.

#### Unreserved:

Designated for subsequent year's expenditures - portion of fund balance that is available for appropriation and has been appropriated in the adopted budget ordinance of the following fiscal year.

Designated for future insurance claims - portion of fund balance that is available for appropriation and has been designated for future liabilities arising from both current and future workers' compensation, health insurance, and dental insurance claims.

Undesignated - portion of fund balance that is available for appropriation and uncommitted at year-end.

## **E. Reconciliation of Government-Wide Financial Statements and Fund Financial Statements**

A schedule of reconciliations is required to explain the differences both 1) between total net assets of governmental activities of the Government-Wide Statement of Net Assets and total fund balance of governmental fund Balance Sheet and 2) between changes in net assets of governmental activities of the Government-Wide Statement of Activities and changes in total fund balances of the governmental funds of the Statement of Revenues, Expenditures, and Changes in Fund Balance.

Following the governmental fund Balance Sheet, 'Exhibit II.C.2.a.i' in Part 2 of Subsection C of Section II provides the reconciliation between 1) total fund balance of governmental funds as reported in the governmental fund Balance Sheet and 2) total net assets of governmental activities as reported in the Government-Wide Statement of Net Assets. The primary differences result from the treatment of capital assets and long-term liabilities.

Following the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances, 'Exhibit II.C.2.b.i' in Part 2 of Subsection C of Section II provides the reconciliation between 1) changes in total fund balances of the governmental funds as reported in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and 2) changes in net assets of governmental activities as reported in the Government-Wide Statement of Activities. The primary differences result from the treatment of capital assets and long-term liabilities.

### **Note b: DETAIL NOTES ON ALL FUNDS**

#### **A. Assets**

##### **1. Deposits**

All of the County's deposits are either insured or collateralized by using one of two methods, dedicated and pooling. Under the dedicated method, all deposits exceeding the federal depository insurance coverage (FDIC) level are collateralized with securities held by the County's agents in the County's name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by an agent of the North Carolina Department of State Treasurer in the name of the North Carolina Department of State Treasurer (DST). Since DST is acting in a fiduciary capacity for the County, these deposits are considered as held by the County's agent in the County's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report to the DST on the adequacy of their pooled collateral covering uninsured deposits. DST does not confirm this information with the County or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under the pooling method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, DST enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method.

For bank deposits, custodial credit risk is the risk that, in the event of the failure of a financial institution, the County will not be able to recover its deposits or collateral securities that are in the possession of the financial institution or another counterparty. In an effort to minimize the County's exposure to custodial credit risk, the County's policy states that periodic evaluations will be conducted to determine the creditworthiness of each financial institution. Also, the County complies with the provisions of NCGS 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2007, the County's deposits had a carrying amount of \$32,921,478 and a bank balance of \$34,013,021. Of the bank balance, \$218,414 was covered by federal depository insurance, \$32,988,129 in certificates of deposit was covered by collateral held under the dedicated method, and the remaining \$806,478 in interest bearing deposits was covered by collateral held under the pooling method. Also at June 30, 2007, Cleveland County had \$21,338 cash on hand.

The County had a carrying amount of \$32,988,129 in certificates of deposit. Of this balance, \$16,647,038 was scheduled to mature within 3 months, \$13,289,102 was scheduled to mature within 3 to 12 months, and \$3,051,989 was scheduled to mature within 1 to 2 years.

## 2. Investments

For a schedule of cash and investment balances by fund and other information, see 'Exhibit II.E.01' in Subsection E of Section II of this report. At June 30, 2007, the County's investment balances and maturities were as follows:

Investment type	Fair Market Value	Due to Mature Within:		
		0 to 3 months	4 to 12 months	1 to 2 years
Federal government agencies	4,521,707	\$ 4,521,707	\$	
NCCMT -- Cash Portfolio	10,894,043	n/a	n/a	n/a
<b>Total investments</b>	<b>15,415,750</b>	<b>\$ 4,521,707</b>	<b>\$</b>	

Together, deposits and investments represent significant resources that are exposed to certain common risks. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County limits at least half of the County's investment portfolio to maturities of less than 12 months. Also, the County's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than three years. Both of these methods serve to reduce the County's interest rate risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to relinquish the County's assets in a timely manner. State law limits investments to certain types of instruments and credit ratings. For example, investments in commercial paper must have the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the County's investments in the North Carolina Capital Management Trust (NCCMT) Cash Portfolio carried a credit rating of AAAM by Standard & Poor's. The County's investments in US Agencies (Federal Home Loan Bank and Federal National Mortgage Association) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. To further hedge against credit risk, the County's policy on investments requires diversification among financial instruments and requires the investment officer to routinely monitor financial market conditions.

During the year ended June 30, 2007, all investments sold were held to maturity with no recognized (realized or unrealized) gains or losses. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. The calculation of the net increase in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year. The net increase in the fair value of investments and the unrealized loss on investments held at year-end for the year ended June 30, 2007 was \$46,562 and \$8,303, respectively.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's policy specifies various limits that may be invested at any one financial institution. For example, the County's policy limits the County's investments with the North Carolina Capital Management Trust at 33% of the total portfolio. At June 30, 2007, the County held 22.53% of its deposits and investments with the North Carolina Capital Management Trust, 66.17% in certificates of deposits at various financial institutions, 9.31% in federal government agencies, and the remaining deposits reside with a variety of issuers.

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover its investments or collateral securities that are in the possession of an outside party. In

an effort to minimize the County's exposure to custodial credit risk, the County complies with the provisions of NCGS 159-30 when choosing investments and verifying that investments are properly secured.

### 3. Property Tax - Use-Value Assessment on Certain Lands

In accordance with NCGS, the County may assess agriculture, horticulture, and forest land at the present-use value rather than market value for taxing purposes. When property loses its eligibility for present-use value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with accrued interest from the original due date. The recomputed property tax that is based on market value would be immediately due and payable. The amount of lost revenue from assessing certain properties at the present-use value has not been recorded in the financial statements. The following chart displays the amount of property taxes that would have become due if present-use value eligibility was lost before June 30, 2007:

Year Levied	Additional Tax	Interest	Total
2007	1,278,828 \$	73,533 \$	1,352,361
2006	1,278,828	73,533	1,352,361
2005	1,367,744	201,742	1,569,486
2004	965,373	229,276	1,194,649
<b>Total \$</b>	<b>4,890,773 \$</b>	<b>578,084 \$</b>	<b>5,468,857</b>

### 4. Receivables

Receivables reported on the Government-Wide Financial Statements and Fund Financial Statements at June 30, 2007 are reported net of an allowance for uncollectible accounts as follows:

	Accounts	Taxes & Other Assessments	Total
<b>Governmental activities:</b>			
General Fund	15,582,231 \$	3,334,007 \$	18,916,238
Schools Capital Reserve Fund	877,968		877,968
Nonmajor governmental funds	132,749	932,688	1,065,437
Accrued interest (government-wide reporting)		946,161	946,161
<b>Total receivables</b>	<b>16,592,948</b>	<b>5,212,856</b>	<b>21,805,804</b>
General Fund	(8,372,828)	(1,378,151)	(9,750,979)
Public School Fund			
Nonmajor governmental funds		(379,910)	(379,910)
Accrued interest (government-wide reporting)		(627,190)	(627,190)
<b>Total allowances for uncollectible accounts</b>	<b>(8,372,828)</b>	<b>(2,385,251)</b>	<b>(10,758,079)</b>
<b>Total governmental activities</b>	<b>\$ 8,220,120</b>	<b>\$ 2,827,605</b>	<b>\$ 11,047,725</b>
<b>Business-type activities:</b>			
Solid Waste Fund	\$ 417,700	\$ 272,017	\$ 689,717
Allowances for uncollectible accounts	(16,480)	(272,017)	(288,497)
<b>Total business-type activities</b>	<b>\$ 401,220</b>	<b>\$ -</b>	<b>\$ 401,220</b>

### 5. Capital Assets

The table below displays the changes in capital assets, including accumulated depreciation, by expenditure functions/programs of governmental activities. Depreciation expense was charged to functions/programs as shown under "Additions" to accumulated depreciation. Other changes in accumulated depreciation were offset by changes in capital assets or by recording gains/losses on the disposition of capital assets.

	Beginning				Ending
	Balance	Additions	Retirements	Transfers	Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
General government	\$ 7,326,118	\$ 234,751	\$ (200,763)	\$ 20,342	\$ 7,380,448
Public Safety	18,898,338	1,139,590	(355,680)	(45,359)	19,636,889
Human Services	66,740,552	5,751,040	(323,085)	(2,006)	72,166,501
Economic and Phys. Development	2,254,115	88,739	(7,609)	(12,526)	2,322,719
Cultural and Recreational	4,810,867	27,058	(14,395)		4,823,530
<b>Total capital assets</b>	<b>100,029,990</b>	<b>7,241,178</b>	<b>(901,532)</b>	<b>(39,549)</b>	<b>106,330,087</b>
Less accumulated depreciation on:					
General government	(2,125,755)	(300,808)	170,901	(2,581)	(2,258,243)
Public Safety	(9,776,540)	(1,232,242)	327,625	42,456	(10,638,701)
Human Services	(17,823,053)	(1,701,100)	95,738	2,006	(19,426,409)
Economic and Phys. Development	(77,522)	(4,841)	7,609	(2,332)	(77,086)
Cultural and Recreational	(791,840)	(144,031)	4,785	-	(931,086)
<b>Total accumulated depreciation</b>	<b>(30,594,710)</b>	<b>(3,383,022)</b>	<b>606,658</b>	<b>39,549</b>	<b>(33,331,525)</b>
<b>Total capital assets, net</b>	<b>\$ 69,435,280</b>	<b>\$ 3,858,156</b>	<b>\$ (294,874)</b>	<b>\$ -</b>	<b>\$ 72,998,562</b>

Capital asset activity, by asset class, for the year ended June 30, 2007 was as follows for governmental activities:

	Beginning				Ending
	Balance	Additions	Retirements	Transfers	Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated:					
Land and land improvements	\$ 7,619,180	\$ 240,661	\$ (131,057)	\$ -	\$ 7,728,784
Construction in Progress	1,980	131,897	-	(1,980)	131,897
Subtotal	7,621,160	372,558	(131,057)	(1,980)	7,860,681
Capital assets being depreciated:					
Buildings and improvements	79,682,877	5,428,051	(113,147)		84,997,781
Equipment (including vehicles)	11,162,669	1,082,735	(657,328)	(39,549)	11,548,527
Leasehold improvements	425,178				425,178
Infrastructure	1,138,106	357,834		1,980	1,497,920
Subtotal	92,408,830	6,868,620	(770,475)	(37,569)	98,469,406
<b>Total capital assets</b>	<b>100,029,990</b>	<b>7,241,178</b>	<b>(901,532)</b>	<b>(39,549)</b>	<b>106,330,087</b>
Less accumulated depreciation on:					
Buildings and improvements	(22,968,719)	(2,017,177)	13,165	-	(24,972,731)
Equipment (including vehicles)	(7,451,706)	(1,275,144)	593,493	39,549	(8,093,808)
Leasehold improvements	(119,017)	(14,172)	-	-	(133,189)
Infrastructure	(55,268)	(76,529)	-	-	(131,797)
<b>Total accumulated depreciation</b>	<b>(30,594,710)</b>	<b>(3,383,022)</b>	<b>606,658</b>	<b>39,549</b>	<b>(33,331,525)</b>
<b>Total capital assets, net</b>	<b>\$ 69,435,280</b>	<b>\$ 3,858,156</b>	<b>\$ (294,874)</b>	<b>\$ -</b>	<b>\$ 72,998,562</b>

All business-type activities relate to the environmental protection expenditure function. Capital asset activity, by asset class, for the year ended June 30, 2007 was as follows for business-type activities.

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets not being depreciated:					
Land and land improvements	\$ 1,614,409	\$ -	\$ -	\$ -	\$ 1,614,409
Construction in Progress	511,165	311,687			822,852
Subtotal	2,125,574	311,687			2,437,261
Capital assets being depreciated:					
Buildings and improvements	389,052				389,052
Equipment (including vehicles)	3,650,344	587,617	(20,836)	39,549	4,256,674
Leasehold improvements	16,518				16,518
Infrastructure	4,130,636				4,130,636
Subtotal	8,186,550	587,617	(20,836)	39,549	8,792,880
<b>Total capital assets</b>	<b>10,312,124</b>	<b>899,304</b>	<b>(20,836)</b>	<b>39,549</b>	<b>11,230,141</b>
Less accumulated depreciation on:					
Buildings and building improvements	(62,090)	(9,976)		-	(72,066)
Equipment (including vehicles)	(2,822,372)	(336,247)	20,836	(39,549)	(3,177,332)
Leasehold improvements	(4,624)	(550)		-	(5,174)
Infrastructure	(2,124,774)	(275,376)	-	-	(2,400,150)
<b>Total accumulated depreciation</b>					
<b>Total capital assets, net</b>	<b>\$ 5,298,264</b>	<b>\$ (277,155)</b>	<b>\$</b>		

## 6. Construction Commitments

The County is involved with the following incomplete construction/renovation projects as of June 30, 2007:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitments</u>
New Scalehouse	186,596	185,624
Health Department Renovations	87,400	10,300

## B. Liabilities

### 1. Payables

Payables at the Government-Wide and Fund level at June 30, 2007 were as shown in the following table.

\* The estimated liability for outstanding losses from health insurance, dental insurance, and workers' compensation includes \$575,515 for incurred but not reported claims.

	Vendors	Employee Benefits	Cash Held in Trust	Insurance Claims *	Total
<b>Governmental activities:</b>					
General Fund	\$ 1,516,255	\$ 339,732		575,515	\$ 2,431,502
Schools Capital Reserve Fund					
Nonmajor governmental funds	160,143				160,143
<b>Total governmental activities</b>	<b>\$ 1,676,398</b>	<b>\$ 339,732</b>		<b>575,515</b>	<b>\$ 2,591,645</b>
<b>Business-type activities:</b>					
Solid Waste Fund	112,450	\$		-	\$ 112,450
<b>Fiduciary activities:</b>					
Agency Funds	145,240	\$	-	\$ 124,103	\$ - \$ 269,343

## 2. Pension Plan Obligations

### a. Local Governmental Employees' Retirement System

*Plan Description.* The statewide Local Governmental Employees' Retirement System (LGERS) provides retirement and disability benefits to plan members and beneficiaries. Cleveland County contributes to LGERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. According to Article 3 of NCGS 128, the North Carolina General Assembly has the authority to establish and amend benefit provisions. The State of North Carolina's annual financial report includes financial statements and required supplementary information for LGERS. You may obtain the State's annual financial report by submitting your request to the Office of the State Controller, (919) 981-5454, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.89% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of Cleveland County are established and may be amended by the North Carolina General Assembly. The County's normal benefit contributions to LGERS for the year ended June 30, 2007 is \$1,163,090. The contributions made by the County equaled the required contributions for each year. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

*Death Benefit.* The County has elected to provide death benefits (also known as term life insurance) to employees through the Death Benefit Plan for members of the LGERS, a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in LGERS, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the LGERS at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, subject to a minimum of \$25,000 and a maximum of \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.09% and 0.14% of covered payroll, respectively. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2007, the County made contributions to the State for death benefits of \$23,382. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount. The County considers these contributions to be immaterial. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

**b. Law Enforcement Officers' Special Separation Allowance**

*Plan Description.* Cleveland County administers a public employee retirement system named the *Law Enforcement Officers' Special Separation Allowance* (LEOSSA). The LEOSSA is a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. According to Article 12D of NCGS 143, the North Carolina General Assembly has the authority to establish and amend benefit provisions. The retirement benefit is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Since no assets have been set aside to provide for future benefit payments, the LEOSSA is not reported as a pension trust fund in the County's annual financial report. See details in Part II.D.1 of this annual financial report. A separate report has not been issued for this pension plan.

All full-time County law enforcement officers are covered by the LEOSSA. At June 30, 2007, the LEOSSA's membership consisted of:

<b>Member Category</b>	<b>No.</b>
Retirees currently receiving benefits	10
Terminated plan members entitled to but not yet receiving benefits	
Active plan members:	
Vested	48
Non-vested	35
<b>Total members</b>	<b>93</b>

*Summary of Significant Accounting Policies.* Financial statements are prepared using the accrual basis of accounting. The County's contributions to the plan are recognized when due and when a formal commitment has been made to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. However, no funds are set aside to pay benefits and administration costs; instead, these expenditures are paid as they come due.

*Contributions.* Article 12D of NCGS 143 requires the County to provide these retirement benefits. Cleveland County funds the LEOSSA benefit payments and administration expenses on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Members made no contributions. The County's contribution for the year ended June 30, 2007 is \$105,507. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

*Annual Required Contribution.* The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included projected salary increases of 4.5% to 12.3% per year, including an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2005 was 25 years. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

*Annual Pension Cost and Net Pension Obligation.* The County's annual pension cost and net pension obligation to the Separation Allowance for the current year ended June 30, 2007 are \$103,641 and \$284,823, respectively. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

**c. Supplemental Retirement Income Plan for Law Enforcement Officers**

*Plan Description.* The County contributes to the Supplemental Retirement Income Plan (SRIP), a defined contribution pension plan administered by the North Carolina Department of State Treasurer and a Board of Trustees. SRIP provides retirement benefits to law enforcement officers employed by the County. According to



Article 5 of NCGS 135, the North Carolina General Assembly has the authority to establish and amend benefit provisions.

*Funding Policy.* Article 12E of NCGS 143 requires the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$193,290, which consisted of \$153,610 from the County and \$39,680 from the law enforcement officers. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report..

**d. Deferred Compensation Plan (401(k)) for Employees Other Than Law Enforcement Officers**

*Plan Description.* The County offers all employees, other than law enforcement officers, a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). Through the plan, employees may defer a portion of their salary until future years. The deferred compensation will become available upon the employee's termination, retirement, death, or unforeseeable emergency. Branch Banking and Trust Company administers the plan.

*Funding Policy.* The County contributes each month an amount equal to five percent of qualified salary. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$1,421,657, which consisted of \$1,061,542 from the County and \$360,115 from the employees. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

**e. Registers of Deeds' Supplemental Pension Fund**

*Plan Description.* Cleveland County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer (DST). RODSPF provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. According to Article 3 of NCGS 161, the North Carolina General Assembly has the authority to establish and amend benefit provisions.

*Funding Policy.* On a monthly basis, the County remits to DST an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of NCGS 161. When the law changed effective July 1, 2007, the County began remitting to DST an amount equal to one and one-half percent (1.5%) of the monthly receipts. Immediately following January 1 of each year, DST divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by DST in administering the Fund. For the fiscal year ended June 30, 2007, the County's required and actual contributions were \$22,426. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

**f. Other Post employment Benefits - Cleveland County**

*Retirees Health Care Benefits.* According to a County resolution, the County provides health care benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and have twenty or more years of creditable service with the County until they attain the age for Medicaid eligibility. Retirees and all employees can purchase coverage for their dependents at the County's group rates. At June 30, forty-three retirees were receiving postretirement health benefits. The County has contracted with a private insurer to administer the payment of claims and the County reimburses the insurer each week. For the fiscal year ended June 30, 2007, the County made payments for postretirement health benefit premiums of \$174,720. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

**3. Closure and Post-closure Care Costs - Solid Waste Landfill Facility**

State regulations require the County to establish a reserve fund to accumulate resources for the payment of closure and post-closure care costs. This reserve fund is reported as part of the Solid Waste Collection and Disposal Enterprise Fund. During the fiscal year ended June 30, 2007, the County added \$316,924 to the reserve

fund. The County has met the requirements of a local government financial test that is one option under State and federal laws and regulations that helps determine if a unit is financially able to meet closure and post-closure care requirements.

State and federal laws and regulations require the County to place a final cover on its landfill facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period in advance of any cash payments. The \$3,269,213 reported as landfill closure and post-closure care liability at June 30, 2007 represents a cumulative amount reported to-date. The County is required to contribute to the reserve at least \$316,924 annually hereafter until the total balance accumulated reaches \$3,903,062. These figures are adjusted each year for inflation and changes in technology. These reported amounts are based on what it would cost to perform all closure and post-closure care in 2007 and the fact that the County expects to close the current facility in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### 4. Deferred / Unearned Revenues

Deferred revenues are reported in the fund financial statements, but not in the Government-Wide Financial Statements. The balance in unearned and deferred revenues on the fund statements and unearned revenues on the Government-Wide Statement of Net Assets at year-end is composed of the following elements:

Reporting Fund / Revenue Item	Unearned Revenues	Deferred Revenues
<b>General Fund:</b>		
Prepaid taxes not yet earned	127,954	
Other accounts, net	857,223	8,937
Taxes receivable, net	214,731	1,955,856
Subtotal	1,199,908	1,964,793
<b>Public Schools Fund, taxes receivable, net</b>	<b>55,533</b>	<b>505,974</b>
<b>Fire District Fund, taxes receivable, net</b>	<b>5,884</b>	<b>46,804</b>
<b>Total governmental activities</b>	<b>\$ 1,261,325</b>	<b>2,517,571</b>
<b>Solid Waste Collection and Disposal Fund:</b>		
Prepaid fees not yet earned	2,682	
<b>Total business-type activities</b>	<b>2,682</b>	

#### 5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participated in a self-funded risk-financing pool administered by the North Carolina Association of County Commissioners. Through this pool, the County obtained property coverage equal to replacement cost values of owned property subject to a limit as outlined in the contract per occurrence with an annual aggregate of \$55 million for flood and earthquake, with other sub-limits for other coverage per the County's contract. The County also purchased general, auto, public officials, law enforcement, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, and crime coverage of \$250,000 per occurrence. The pool is audited annually by certified public accountants, and the audited financial statements are available to the County upon request. For liability and property, the pool is reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 per occurrence and an additional \$1,500,000 annual aggregate up to a \$2 million limit for liability coverage, \$150 million of aggregate annual losses in excess of \$100,000 per

occurrence and an additional \$1 million annual aggregate for property, auto physical damage, and crime coverage, and single occurrence losses of \$500,000 per occurrence.

Effective July 1, 2002, the County became self-insured for health insurance coverage on a cost-reimbursement basis. Under this program, the County is obligated for claims payments. As of July 1, 2007, employees have the option of choosing either a P.P.O. plan or H.S.A. plan. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$75,000 per person. The estimated liability for outstanding losses includes \$507,099 for incurred and unpaid claims as of June 30, 2007. The County has contracted with a private insurer to administer the payment of claims and the County reimburses the insurer each week.

The County also operates a dental plan on a cost-reimbursement basis up to \$1,025 per person per year. The estimated liability for outstanding losses includes \$25,865 for incurred and unpaid claims as of June 30, 2007. The County reimburses qualified claims to employees and their eligible dependents each month.

The County has also established a Workers' Compensation Self-Insurance program for the purpose of providing medical and indemnity payments as required by law for on-the-job related injuries. The County purchases workers' compensation coverage up to the statutory limits. Under the program, the County has obtained reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the policy for the year ended June 30, 2007 is \$300,000 per occurrence. The estimated liability for outstanding losses includes \$42,551 for incurred and unpaid claims as of June 30. The County has contracted with a private insurer to administer the payment of claims and the County reimburses the insurer each week.

In accordance with NCGS 159-29, County employees that have access to County funds are performance bonded through a commercial surety bond. The Finance Director and Tax Collector are individually bonded for \$50,000 and \$25,000, respectively. Also, all employees are bonded under a blanket bond for \$250,000 per incident. The County carries commercial coverage for other risks of loss, including limited coverage for floods and other natural disasters as set by the insurance carrier. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

## **6. Claims, Judgments, and Contingent Liabilities**

The County has received proceeds from several federal and state grant awards. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any refunds required as a result of such audits will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant revenue.

At June 30, 2007, the County was a defendant to various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

## **7. Long-Term Obligations**

### **a. Capital Leases**

The County has entered into agreements to lease certain computer equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The present value of the future minimum lease payments is equal to the current outstanding principal of the capital lease.

An agreement to lease computer equipment for the Information Technology department was executed in July 2003 and requires 60 monthly payments of \$2,986. Another agreement to lease imaging and related computer equipment for the Register of Deeds' office was executed in November 2004 and requires 60 monthly payments of \$2,864.

In each of these agreement, title passes to the County at the end of the lease term. These payments are recorded as debt service expenditures in the General Fund. The outstanding principal payments are recorded in the Government-Wide Statement of Net Assets, along with interest payments scheduled for the ensuing year.

At June 30, 2007, the County's leased equipment had a value of:

Governmental Activities	Recorded Value of Asset	Accumulated Depreciation	Net Book Value
Type of property:			
Imaging equipment	162,769	(78,211)	84,557
Computer equipment - Info. Tech.	146,374	(109,635)	36,739
Total \$	309,143	\$(187,847)	\$ 121,296

More information on the annual requirements of these leases are found under *d. Total Indebtedness*.

**b. General Obligation Bonds**

All general obligation bonds serviced by the County are collateralized by the full faith, credit, and taxing power of the County. When due, principal and interest payments are appropriated in the County's Debt Service Fund. The face value of the outstanding bonds are recorded in the Government-Wide Statement of Net Assets, along with any accrued interest payable at year-end. More information on these bonds are found under *d. Total Indebtedness*.

**c. Contractual Obligation Bonds**

The County entered a contract with the City of Shelby to help finance the costs of constructing the Broad River Waterline. In FY 2005, the City of Shelby issued \$12,225,000 of debt to finance this project and other projects. The County's portion of that original principal debt is \$634,599. When due, principal and interest payments are appropriated in the County's Debt Service Fund. The face value of the outstanding bonds are recorded in the Government-Wide Statement of Net Assets, along with any accrued interest payable at year-end. More information on these bonds are found under *d. Total Indebtedness*.

**d. Total Indebtedness**

The County's general obligation and contractual bonds payable at June 30, 2007 are comprised of the following individual issues:

	Outstanding at June 30, 2006
<b>General Obligation Bonds</b>	
\$3,100,000 - Community College Bonds, Series 1998; due in annual installments of \$100,000 to \$250,000 through June 1, 2017; interest from 4.6% to 4.7%	2,200,000
\$29,920,000 - Refunding Serial Bonds, Series 2003; due in annual installments of \$2,075,000 to \$4,875,000 through June 1, 2010; interest from 2.6% to 3.1%	8,865,000
Subtotal \$	11,065,000
<b>Contractual Obligation Bonds</b>	
\$12,255,000 - City of Shelby Enterprise System Revenue Bonds, Series 2004; due in annual installments of \$315,000 to \$810,000 through May 1, 2029; County's portion of revenue bonds per contract with City of Shelby are due in annual installments of \$16,312 to \$41,944 through May 1, 2029; interest at 5.0%	601,458
Total \$	11,666,458

In addition to the County's own needs, the County issues general obligation bonds on behalf of both the public schools and the community college and makes the necessary and related debt service payments. The public schools and the community college, however, hold title to these constructed assets. A portion of the original issue from the 1990 Public Improvement Series that is included in the 2003 Refunding Serial Bonds Series relates to construction of public school facilities. At June 30, 2007, \$4,479,760 of the \$8,865,000 remaining balance relates to financing the construction of public school facilities.

At June 30, 2007, Cleveland County had an amount of bonds authorized but un-issued of \$0 and a legal debt margin of \$451,035,931.

Annual debt service requirements to maturity for the County's general obligation bonds, contractual obligations, and capitalized leases are as follows:

	<i>General Obligation Bonds:</i>		<i>Contractual Obligations:</i>		<i>Capitalized Leases:</i>		<i>Grand Total Debt Service:</i>	
	Totals		City of Shelby 2004		Totals		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 4,715,000	\$ 368,500	\$ 17,347	\$ 26,582	66,227	\$ 3,968	\$ 4,798,574	\$ 399,050
2009	2,425,000	225,450	17,866	26,060	35,939	1,114	2,478,805	252,624
2010	2,325,000	148,700	18,642	25,168	14,197	121	2,357,839	173,989
2011	250,000	74,950	19,677	24,236			269,677	99,186
2012	250,000	63,450	20,196	23,620			270,196	87,070
Sum 5 y	9,965,000	881,050	93,728	125,666	116,363	5,202	10,175,091	1,011,918
Next 5 yrs								
(2013-201	1,100,000	141,000	112,628	107,140			1,212,628	248,140
Next 5 y								
(2018-			137,742	81,796			137,742	81,796
Next 5 yrs								
(2023-			175,284	44,426			175,284	44,426
Next 5 yrs								
(2028-203			82,076	5,736			82,076	5,736
	\$11,065,000	\$ 1,022,050			\$ 116,353	\$ 5,202	11,782,821	1,392,016
					Less Capitalized Leases:		116,353	5,202
					Total Bonded Debt:		\$11,666,458	\$ 1,386,814

**e. Conduit Debt Obligations**

Cleveland County Industrial Facility and Pollution Control Authority has issued industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as letters of credit and are payable solely from payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private business served by the bond issuance. As of June 30, 2007, there were seven series of industrial revenue bonds outstanding, with an aggregate principal amount payable of \$36,715,000 million. Neither the County, the Authority, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**f. Compensated Absences (Accrued Leave)**

Compensated absences typically have been liquidated in the general fund. The County has assumed a first-in, first-out method of using accumulated compensated leave time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The table below displays the changes in earned leave, including sick leave for which no accrual is recognized, by expenditure functions/programs of governmental activities. Additional personnel expenses were charged to functions/programs as shown under "Difference" to both the current and non-current portions of the accrued liability.

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Difference (or Expense)</b>
Vacation Leave	1,895,489	\$ 1,537,307	\$ (1,367,539)	\$ 2,065,257	\$ 169,768
General Government	240,997	184,392	(159,294)	266,095	25,098
Public Safety	701,985	502,702	(502,756)	701,931	(54)
Human Services	912,429	814,394	(685,287)	1,041,535	129,107
Other	40,079	35,819	(20,202)	55,696	15,617
Subtotal	1,895,489	1,537,307	(1,367,539)	2,065,257	169,768
Compensatory Leave	565,242	671,512	(888,884)	347,870	(217,372)
General Government	61,579	63,540	(94,344)	30,775	(30,804)
Public Safety	273,182	157,036	(252,087)	178,131	(95,051)
Human Services	215,360	423,271	(505,834)	132,797	(82,563)
Other	15,122	27,665	(36,619)	6,167	(8,954)
Subtotal	565,242	671,512	(888,884)	347,870	(217,372)
Holiday Leave	383,765	1,292,128	(1,229,006)	446,887	63,122
General Government		136,488	(136,488)		
Public Safety	380,801	518,809	(454,792)	444,818	64,017
Human Services	2,965	605,248	(606,143)	2,070	(895)
Other		31,583	(31,583)		
Subtotal	383,765	1,292,128	(1,229,006)	446,887	63,122
<b>Subtotal</b>	<b>2,844,496</b>	<b>3,500,947</b>	<b>(3,485,429)</b>	<b>2,860,014</b>	<b>15,518</b>
Sick Leave (unaccrued)	2,185,715	1,291,235	(1,107,412)	2,369,538	183,823
General Government	282,587	148,896	(119,348)	312,134	29,548
Public Safety	795,441	447,614	(422,459)	820,596	25,155
Human Services	1,040,401	660,271	(534,964)	1,165,708	125,307
Other	67,286	34,454	(30,640)	71,100	3,814
Subtotal	2,185,715	1,291,235	(1,107,411)	2,369,538	183,824
<b>Grand Totals</b>	<b>\$ 5,030,211</b>	<b>\$ 4,792,182</b>	<b>\$ (4,592,841)</b>	<b>\$ 5,229,552</b>	<b>\$ 199,341</b>

All business-type activities relate to the environmental protection expenditure function. Accrued leave activity, by type of leave, for the year ended June 30, 2007 was as follows for business-type activities.

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Difference (or Expense)</b>
Vacation Leave	68,767	\$ 53,308	\$ (47,242)	\$ 74,833	\$ 6,066
Compensatory Leave (accrued)	13,581	10,446	(12,379)	11,648	(1,933)
Holiday Leave	14,192	43,511	(44,605)	13,098	(1,094)
<b>Subtotal</b>	<b>96,540</b>	<b>107,265</b>	<b>(104,226)</b>	<b>99,579</b>	<b>3,039</b>
Sick Leave (unaccrued)	74,908	47,467	(39,502)	82,873	7,965
<b>Grand Totals</b>	<b>\$ 171,448</b>	<b>\$ 154,732</b>	<b>\$ (143,728)</b>	<b>\$ 182,452</b>	<b>\$ 11,004</b>

**g. Long-Term Obligation Activity**

The following tables summarize interest and principal payable in the next fiscal year and the changes in the County's long-term obligations for the fiscal year ended June 30, 2007:

Governmental Activities	Next Year Interest Payable	Next Year Obligation	Future Year Obligation	Total
G.O. Bonds (capital related)	131,557	\$ 2,991,801	\$ 1,393,439	\$ 4,516,797
G.O. Bonds (non-capital related)	236,943	1,723,199	4,956,561	6,916,703
Contractual Obligations	26,582	17,347	584,111	628,040
Total Bonds	395,082	4,732,347	6,934,111	12,061,540
Capitalized Leases	3,968	66,227	50,136	120,330
Net Pension Obligation			284,823	284,823
Accrued (earned, unpaid) Leave		1,104,546	1,755,468	2,860,014
<b>Totals</b>	<b>399,050</b>	<b>\$ 5,903,120</b>	<b>\$ 9,024,538</b>	<b>\$ 15,326,708</b>
<b>Business-type Activities</b>				
Accrued (earned, unpaid) Leave	-	\$ 35,971	\$ 63,608	\$ 99,578
Landfill closure/ post-closure care			3,269,213	3,269,213
<b>Totals \$</b>		<b>35,971</b>	<b>\$ 3,332,821</b>	<b>\$ 3,368,791</b>

	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Bonds (capital related)	\$ 7,476,549	\$	(3,091,309)	\$ 4,385,240
G.O. Bonds (non-capital related)	8,463,451		(1,783,691)	6,679,760
Contractual Obligations	634,599		(33,141)	601,458
Capitalized Leases	178,826		(62,464)	116,363
Net Pension Obligation		284,823		284,823
Accrued (earned, unpaid) Leave	2,844,496	3,500,947	(3,485,429)	2,860,014
<b>Totals \$</b>	<b>19,597,922</b>	<b>\$ 3,785,770</b>	<b>\$ (8,456,034)</b>	<b>\$ 14,927,658</b>
<b>By purpose:</b>				
County	3,006,549	\$ -	\$ (821,309)	\$ 2,185,240
Community College	2,300,000		(100,000)	2,200,000
Hospital	4,470,000		(2,270,000)	2,200,000
Public Schools (K-12)	6,163,451		(1,683,691)	4,479,760
Waterline	634,599		(33,141)	601,458
Equipment--Capitalized Leases	178,826		(62,464)	116,363
Employment/Post-employment	2,844,496	3,785,770	(3,485,429)	3,144,837
<b>Totals \$</b>	<b>19,597,922</b>	<b>\$ 3,785,770</b>	<b>\$ (8,456,034)</b>	<b>\$ 14,927,658</b>
<b>Business-type Activities</b>				
Accrued (earned, unpaid) Leave	\$ 96,540	\$ 107,265	\$ (104,226)	\$ 99,579
Landfill closure/ post-closure care	2,952,289	316,924		3,269,213
<b>Totals \$</b>	<b>3,048,829</b>	<b>\$ 424,189</b>	<b>\$ (104,226)</b>	<b>\$ 3,368,792</b>

**C. Interfund Activity and Balances**

Interfund transfers enable the County to move unrestricted revenues from one fund to another fund to sustain programs that must be reported in the other fund. Also, see 'Exhibit II.E.02' in Subsection E of Section II. Transfers to/from other funds for the year ended June 30, 2007 consists of the following:

Activity description	Amount
From General Fund to Community Development Fund for current housing rehabilitation activity above the amount of the grant	\$ 275
From General Fund to Debt Service Fund for debt service payments on outstanding long-term bonds	1,162,642
From General Fund to Capital Projects Fund for current capital projects activity of the County	276,219
From General Fund to Capital Reserve Fund to accumulate resources for future capital projects	375,000
Subtotal from General Fund	1,814,136
From Schools Capital Projects Fund to General Fund for current capital projects activity of the school system	1,300,000
From Schools Capital Projects Fund to Debt Service Fund for debt service payments on outstanding long-term bonds used for construction of school buildings	1,868,595
Subtotal from Schools Capital Projects Fund	3,168,595
From Capital Reserve Fund to Capital Projects Fund for current capital projects activity of the County	914,380
From Solid Waste Disposal and Collection Fund to General Fund for workers' compensation and medical insurance on employees	175,347
<b>Total interfund activity</b>	<b>\$ 6,072,458</b>

The composition of interfund balances as of June 30, 2007 is as follows:

Reporting Fund	Due from General Fund	Due from Other Funds	Due to Other Funds
<b>Governmental Funds</b>			
General Fund	\$ -	\$ 112	\$ 411,682
Schools Capital Reserve Fund	103,691		
Emergency Telephone Fund			112
Fire District Fund	6,680		
Capital Projects Fund	92,386		
Capital Reserve Fund	208,925		
<b>Total interfund balances</b>	<b>\$ 411,682</b>	<b>\$ 112</b>	<b>\$ 411,794</b>

Due to/from balances represent advances/reimbursements to be made among funds based upon the fact that the County utilizes a central depository. Amounts are expected to be offset with recorded revenues and expenditures in the ensuing fiscal year.

#### D. Net Assets

Net assets in the Government-Wide Financial Statements and enterprise Fund Financial Statements are classified as "unrestricted," "restricted," or "invested in capital assets, net of related debt." Restricted net assets represent constraints on resources that are either a) imposed by law through state statute or b) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. The balance of restricted net assets at June 30, 2007, consists of the following:



Governmental activities	Beginning Balance	Activity	Ending Balance
General government	21,361	\$ (6,527)	14,834
Register of Deeds Automation Fund (3,994.19)	21,361	(6,527)	14,834
Public safety	2,379,065	(141,300)	2,237,765
E911 Service Cash (FD26)	1,075,013	30,659	1,105,672
Fire Districts Cash (FD28)	1,301,187	(226,149)	1,075,038
Unspent EMS Donations	359	1,050	1,409
Unspent Sheriff Donations	1,518	1,731	4,969
Unspent Reading Fathers Donations	939	(874)	65
Unspent Dare Fundraisers	13	(13)	
Unspent Emergency Management Donations	25	825	850
Unspent Federal Forfeiture Monies		48,165	48,165
Unspent State Forfeiture Monies		1,595	1,595
Human services	2,523,149	333,750	2,856,899
Unspent grants to Social Services	75		75
Unspent earnings from Health Department	2,523,074	333,750	2,856,824
Education	2,863,382	2,097,244	4,960,626
Schools Capital Reserve Cash (FD21)	2,406,659	2,072,786	4,479,445
Community College Bond Cash (FD23)	456,723	24,458	481,181
Economic and physical development	29,527	1,508	31,035
Unspent Coop Exp Special Project	4,476		4,476
Unspent Soil Conservation Special Project	25,051	1,508	26,559
Culture and recreation	203,278	(6,176)	197,102
Unspent Library Donations	203,278	(6,176)	197,102
<b>Total \$</b>	<b>8,019,763</b>	<b>2,278,499</b>	<b>10,298,262</b>

The component called "invested in capital assets, net of related debt" reports the total amount of capital assets as reduced by accumulated depreciation and remaining outstanding debt used to finance the purchase or construction of any capital assets. The balance of invested in capital assets, net of related debt at June 30, 2007, consists of the following:

Governmental activities:	Beginning Balance	Activity	Ending Balance
Capital assets	\$ 100,029,990	\$ 6,300,097	\$ 106,330,087
Adjustments			
Depreciation on capital assets	(30,594,710)	(2,736,815)	(33,331,525)
Bonds issued for capital purposes, current portion	(3,091,309)	99,508	(2,991,801)
Leases issued for capital equipment, current portion	(62,464)	(3,763)	(66,227)
Bonds issued for capital purposes, future portion	(4,385,240)	2,991,801	(1,393,439)
Leases issued for capital equipment, future portion	(116,363)	66,227	(50,136)
Premium on bonds issued for capital purposes	(34,358)	30,212	(4,146)
Deferred charges on bonds issued for capital purposes	381,127	(111,565)	269,562
Subtotal adjustments	(37,903,317)	335,605	(37,567,712)
<b>Invested in capital assets, net of related debt</b>	<b>\$ 62,126,673</b>	<b>\$ 6,635,702</b>	<b>\$ 68,762,375</b>

Unrestricted net assets is the remainder of net assets not classified as either restricted or invested in capital assets, net of related debt.

**Note c: JOINT VENTURES**

The County, in conjunction with the State of North Carolina and Cleveland County Board of Education (the local area school board), participates in a joint venture to operate the Cleveland Community College (CCC). The County, the State of North Carolina, and Cleveland County Board of Education each appoint four members of the thirteen-member Board of Trustees of CCC. The president of the community college's student government serves as an ex-officio nonvoting member of the Board of Trustees of CCC. The County has the basic responsibility for providing funding for the facilities of the community college and also provides some financial support for the community college's operations. The County has an ongoing financial responsibility for the community college because of the statutory responsibilities to provide funding for the community college's facilities. The County contributed \$1,060,129 for operating purposes and an additional \$50,000 for capital purposes during the fiscal year ended June 30, 2006 to Cleveland Community College.

The County paid an additional \$793 to CCC for various training courses and materials for clients of the County's Public Assistance programs and \$100 to CCC to rent temporary space.

Over recent years, the County has paid an additional \$92,723 to CCC for a building project for which the County began to recognize expenditures in fiscal year 2004. The County is funding this project through the Cleveland Community College Bond Fund. For more information, see 'Exhibit II.D.3.d' in Subsection D of Section II of this report.

In addition to providing annual appropriations for the facilities, the County periodically issues general obligation bonds to provide financing for new and restructured facilities. During the fiscal year, the County made debt service payments of \$100,000 on general obligation bonds issued for community college capital facilities. Of the general obligation bond issues for this purpose, \$2,200,000 in debt remains outstanding.

The participating governments do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements. Instead, the community college is included as a component unit of the State. Complete financial statements for the community college may be obtained from Cleveland Community College, Administrative Offices, 137 South Post Road, Shelby, North Carolina 28150.

**Note d: JOINTLY GOVERNED ORGANIZATION**

The County, in conjunction with three other counties and twenty municipalities, established the Isothermal Planning and Development Commission (IPDC). The participating governments established this commission to coordinate various funding received from federal and state agencies. Each participating government appoints one member to IPDC's governing board. The County paid membership fees of \$14,610 to IPDC during the fiscal year ended June 30, 2007. The County paid an additional \$10,785 to IPDC to coordinate and administer the Community Development Block Grant awards for a Housing Rehab project, and \$36 to IPDC to maintain a database of information on clients participating in certain programs.

The following is a list of grants that passed through IPDC during the fiscal year ended June 30, 2007:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>State or Pass-Thru Grantor Number</u>	<u>Federal (Direct and Pass-Thru) Expenditures</u>	<u>State (Direct and Pass-Thru) Expenditures</u>
<u>U.S. Dept. of Health &amp; Human Services</u>				
<u>Passed-through the N.C. Dept. of Health and Human Services:</u>				
<u>Divisions of Aging (thru Isothermal Planning and Development) and Social Services</u>				
III-B Grants for Supportive Services and Senior Centers - In Home Services	93.044	-	125,446	\$ 7,379
<u>U.S. Dept. of Housing and Urban Development</u>				
<u>Passed-through N.C. Dept of Commerce,</u>				
<u>thru Isothermal Planning and Development</u>				
Community Development Block Grant	14.228	04-C-1288	186,027	
Total pass-thru grants awards from IPDC			324,512	\$ 6,943

**Note e: HOSPITAL LEASE AGREEMENT**

The County has entered into a lease agreement, as amended, with Cleveland Regional Medical Center, hereafter CRMC, and the Charlotte-Mecklenburg Hospital Authority under which CRMC will lease certain local hospital and medical facilities in Cleveland and Rutherford counties. Under amendments to the agreement adopted by the County during 2004, the lease term is from October 1, 1997 to January 1, 2019. Pursuant to the amended agreement, CRMC will remit a lump-sum lease payment of \$1,450,000 each year to the County beginning January 2005. In addition, CRMC will remit payments to the County sufficient to pay principal and interest on the portion of the Refunding Series 2003 General Obligation bonds issued by the County that originally financed construction of hospital facilities in 1990, as shown in the following table:

<i>Refunding Series 2003</i>		
<b>Hospital Facilities</b>		
<b>FY</b>	<b>Principal</b>	<b>Interest</b>
	\$ 2,270,000	\$ 134,100
2008	\$ 2,200,000	66,000

**Note f: BENEFIT PAYMENTS ISSUED BY THE STATE**

The amounts listed below were paid directly to individual recipients by the State from federal and State monies. County personnel are involved with certain functions, primarily eligibility determinations, that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the Basic Financial Statements because they are neither revenues nor expenditures of the County.

<u>Program Title</u>	Federal CFDA Number	State or Pass-Thru Grantor Number	Federal (Direct and Pass-Thru) Expenditures	State (Direct and Pass-Thru) Expenditures	County Expenditures
Women, Infants, Children	10.557		\$ 1,697,173	\$ -	
Food Stamps	10.551		16,112,281	-	
Medical Assistance	93.778		83,195,902	41,703,386	7,171,181
Participation in Budgeted County Expenditures					
IV-D Offset Fees- ESC	93.563		931		480
IV-D Offset Fees-Federal	93.563		4,563	(65)	2,415
Independent Living Links	93.674		1,795	3,331	
Links Transitional Funds	93.674		104		
IV-E Adoption Subsidy	93.659		313,803	88,238	88,238
Energy Assistance Payments	93.568		521,988		
AFDC Payments and Penalties	93.560		(1,357)	(372)	(372)
AFDC Unemployed Parents Assistance	93.560		(30)	(8)	(8)
TANF Payments and Penalties	93.558		1,510,120	(170)	607
TANF Unemployed Parents Assistance	93.558		(283)	(9)	
Child Welfare Services Adoption				316,024	90,570
State-County / Special Assistance Domicillary Care Payments				1,425,266	1,425,266
Total participation in budgeted county expenditures			2,351,632	1,832,236	1,607,196
Total direct benefit payments			\$ 103,356,988	\$ 43,535,621	\$ 8,778,377