

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Fiscal Year Ended June 30, 2008
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
B. Management's Discussion and Analysis

Via this subsection entitled "Management's Discussion and Analysis," management of Cleveland County, North Carolina offer readers of this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2008* a narrative overview and analysis of the County's fiscal performance. This subsection follows "Subsection A: Report from the Independent Auditor" and serves as an introduction to "Section II: Financial Statements and Supplementary Information." To gain valuable insight, please read the following discussion in conjunction with the financial statements and supplementary information furnished in this section.

SIGNIFICANT FINANCIAL HIGHLIGHTS

- On a government-wide basis, assets exceeded liabilities at the close of the fiscal year by \$141,535,324. This amount is also referred to as total net assets.
- On a government-wide basis, total net assets increased by \$24,940,215 from last year, primarily due to 1) donation of additions and renovations at Cleveland Healthcare System, which resides on County-owned land and 2) accumulation of current resources to finance acquisition of planned assets.
- The ending fund balances of all governmental funds combined equals \$44,861,335, an increase of \$6,321,693 from last year. A large piece of this increase in the ending fund balance is due to an unspent balance of proceeds from a \$6,000,000 installment financing issue. Also, the use of conservative spending habits and the intentional accumulation of resources for future use has further contributed to an increase in cash. Of the total fund balance, \$36,063,625, or approximately 80.4%, is available for spending at the government's discretion. This amount is also referred to as unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$20,951,992, or 26.1% of total general fund expenditures for the fiscal year.
- Total long-term liabilities increased by \$2,122,108 (11.6%) to \$20,418,558 during the current fiscal year due to making scheduled principal payments while issuing over \$6,000,000 in new debt.

DESCRIPTION OF SECTION II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

1. Law Enforcement Officers' Special Separation Allowance Financial Schedules,
2. Major Governmental Funds Financial Statements,
3. Non-major Governmental Funds Financial Statements,
4. Major Proprietary Fund Financial Schedule, and
5. Fiduciary Funds Financial Statement

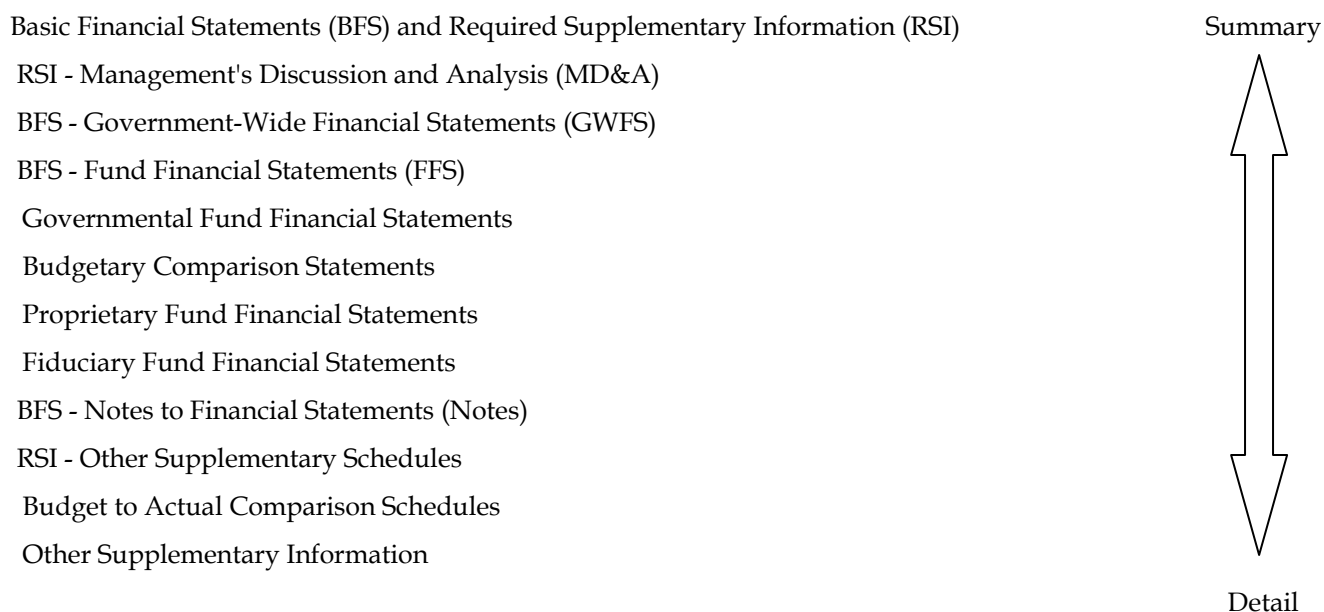


Figure 1. Level of Detail

Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

Required Supplementary Information and Other Supplementary Information

These two subsections include certain information needed to discern Cleveland County’s current financial situation and its financial progress over recent years. The required supplementary information concerns, first, the County’s progress in funding its obligation to provide pension benefits to its law enforcement officers through the Law Enforcement Officers’ Special Separation Allowance (LEOSSA) and, second, more detailed results for each individual fund, both major and non-major funds. Additional supplementary information concerning the cash and investments, transfers between funds, and property taxes are also displayed to help reasonably estimate future progress.

GOVERNMENT-WIDE FINANCIAL HIGHLIGHTS

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

Net Assets and Changes in Net Assets

In the fiscal year ended June 30, 2008, net assets increased by \$24,940,215 to \$141,535,324. Therefore, the County’s overall financial condition continues to improve.

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

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

Table 1. Condensed Statement of Net Assets

Category	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
	(amounts depicted in thousands of dollars)					
Current and other assets	\$ 45,924	\$ 52,359	\$ 14,618	\$ 10,644	\$ 60,542	\$ 63,003
Capital assets	72,999	93,230	5,575	11,005	78,574	104,235
Total assets	118,923	145,589	20,193	21,649	139,116	167,238
Current and other liabilities	4,109	4,256	115	1,029	4,224	5,285
Long-term liabilities	14,928	16,668	3,369	3,750	18,297	20,418
Total liabilities	19,037	20,924	3,484	4,779	22,521	25,703
Invested in capital assets, net	68,763	85,742	5,575	11,005	74,338	96,747
Restricted	10,298	11,915	-	-	10,298	11,915
Unrestricted	20,825	27,008	11,134	5,865	31,959	32,873
Total net assets	\$ 99,886	\$ 124,665	\$ 16,709	\$ 16,870	\$ 116,595	\$ 141,535

Table 2. Condensed Statement of Activities

Category	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:	(amounts depicted in thousands of dollars)					
Program revenues						
Charges for services	\$ 20,454	\$ 22,771	\$ 4,927	\$ 4,762	\$ 25,381	\$ 27,533
Program grants & contributions	30,642	46,669	326	308	30,968	46,977
General revenues						
Property and other taxes	48,180	48,740	-	-	48,180	48,740
General grants & contributions	2,270	2,200	-	-	2,270	2,200
Investment earnings	1,529	1,605	703	616	2,232	2,221
Total revenues	103,075	121,985	5,956	5,686	109,031	127,671
Program expenses:						
General government	8,102	8,681	-	-	8,102	8,681
Public safety	18,573	20,236	-	-	18,573	20,236
Human services	38,399	39,511	-	-	38,399	39,511
Education	23,310	24,944	-	-	23,310	24,944
Economic and phys. development	3,528	2,118	-	-	3,528	2,118
Cultural	1,101	1,287	-	-	1,101	1,287
Solid waste	-	-	4,568	5,285	4,568	5,285
Interest on long-term liabilities	663	669	-	-	663	669
Total expenses	93,676	97,446	4,568	5,285	98,244	102,731
Excess (deficiency) before transfers	9,399	24,539	1,388	401	10,787	24,940
Transfers	175	241	(175)	(241)	-	-
Change in net assets	9,574	24,780	1,213	160	10,787	24,940
Net assets, beginning	90,312	99,886	15,496	16,709	105,808	116,595
Net assets, ending	\$ 99,886	\$ 124,666	\$ 16,709	\$ 16,869	\$ 116,595	\$ 141,535

Table 3. Condensed Statement of Activities (Percentages)

Category	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program revenues						
Charges for services	19.84%	18.67%	82.72%	83.75%	23.28%	21.57%
Program grants & contributions	29.73%	38.26%	5.47%	5.42%	28.40%	36.80%
General revenues						
Property and other taxes	46.74%	39.96%	0.00%	0.00%	44.19%	38.18%
General grants & contributions	2.20%	1.80%	0.00%	0.00%	2.08%	1.72%
Investment earnings	1.48%	1.32%	11.80%	10.83%	2.05%	1.74%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Program expenses:						
General government	8.65%	8.91%	0.00%	0.00%	8.25%	8.45%
Public safety	19.83%	20.77%	0.00%	0.00%	18.90%	19.70%
Human services	40.99%	40.55%	0.00%	0.00%	39.09%	38.46%
Education	24.88%	25.60%	0.00%	0.00%	23.73%	24.28%
Economic and phys. development	3.77%	2.17%	0.00%	0.00%	3.59%	2.06%
Cultural	1.18%	1.32%	0.00%	0.00%	1.12%	1.25%
Solid waste	0.00%	0.00%	100.00%	100.00%	4.65%	5.14%
Interest on long-term liabilities	0.71%	0.69%	0.00%	0.00%	0.67%	0.65%
Total expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Each year-end balance of unrestricted net assets has been reduced by the outstanding bonded debt used to finance construction of school buildings. However, since school buildings are titled to the school board, these assets are not recorded as the County's capital assets. As the principal of such debt increases or decreases, unrestricted net assets will decrease or increase, respectively. As a matter of fact, one of the primary positive influences on the County's total unrestricted governmental net assets resulted from meeting debt service requirements of existing debt that was used to finance construction of school buildings (\$1,623,199).

Of total revenues, about 38.18% stems from property and other taxes, 36.80% from program grants and contributions, and 21.57% from charges for services. Of total expenses, about 38.46% is spent toward human service programs, 24.28% toward education programs, and 19.70% on public safety programs. To summarize, the County's total revenues are about \$127.7 million and total expenses are about \$102.7 for the year ended June 30, 2008, adding about \$25.0 million to the total net assets of the County.

Governmental Activities

Governmental activities increased the County's net assets by \$24,779,862, thereby accounting for 99.4% of the total growth in the net assets of Cleveland County. See both Table 2 and Table 3 above. Key elements of this increase are as follows:

- Use of conservative spending habits and adhering to conservative estimates of appropriations. Whereas charges for services and direct program grants and contributions amounts to 71.3% percent of expenses, general property taxes amounts to another 36.7% of expenses, local option sales tax amounts to 12.3% of expenses, and other general revenues amount to 5.1% of expenses. Total revenues amounted to 125.4% of expenses.
- Acquisition of capitalized assets, such as land, buildings, equipment, and building improvements, funded by grants and contributions. Total capital assets, before depreciation, increased by \$21,763,741 during the year. Part of this increase was offset by the increase of \$1,532,201 in accumulated depreciation.
- Successful efforts to collect both current and delinquent property taxes and other accounts.

Business-Type Activities

Business-type activities increased Cleveland County's net assets by \$160,353, which accounts for 0.6% of the total growth in the government's net assets. See both Table 2 and Table 3 above. Key elements of this increase are as follows:

- Use of conservative spending habits and adhering to conservative estimates of appropriations. Total revenues amounted to 103.0% of expenses.
- Revenue generated from an agreement to discard debris created by a major manufacturer, partially offset by large expenditures toward construction of a new landfill facility.

Due to the nature of the landfill business, we intend to continue to build cash reserves following the closing of the older landfill and opening of the newer landfill. Generally, increases in assets beget increases in net assets. And, a large amount of cash reserves is needed to fund the construction of additional landfill cells. One new cell will begin accepting waste during the fiscal year ending June 30, 2009.

FUND HIGHLIGHTS

As noted earlier, Cleveland County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds with either large balances at year-end or a large amount of activity during the year are classified as "major" funds and receive special attention throughout this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2008*.

Governmental Funds. The focus of Cleveland County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Cleveland County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Also, as a measure of a fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. And, the North Carolina Local Government Commission recommends that local governments maintain an undesignated fund balance of at least 8% of expenditures in the General Fund.

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

On June 30, 2008, the County reported \$44,861,335 as the combined fund balance of all governmental funds. The total increase in the combined fund balance of all governmental funds of \$6,321,693 may be attributed to various causes. Primarily, the reason for this increase results from the unspent proceeds of a \$6,000,000 installment purchase for an 800 MHz communication system and continued accumulation of resources to fund future projects and to fund the purchase of planned assets. Due to this accumulation of cash, the Schools Capital Reserve Fund remains a major fund and the County Capital Reserve Fund has become a major fund for the year ended June 30, 2008.

The General Fund, also a major fund, is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$20,951,992, while total fund balance reached \$28,538,665. The total decrease in the fund balance of the General Fund of \$481,746 is primarily attributed to large transfers for current and future construction projects to the Capital Projects Fund and the County Capital Reserve Fund and partially offset by conservative estimates of revenues and expenditures. In the General Fund, actual revenues exceeded budget by nearly \$1.46 million and actual expenditures were less than budget by almost \$4.80 million. Unreserved fund balance represents 26.1% of total General Fund expenditures, while total fund balance represents 35.5% of that same amount, amounts generally consistent with the prior year.

Proprietary Funds. Cleveland County's sole proprietary fund, an enterprise fund, provides the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Collection and Disposal Fund at the end of the fiscal year amounted to \$5,865,103. The growth in total net assets for this fund was \$160,353. Factors concerning the finances of this sole enterprise fund have already been addressed in the discussion of Cleveland County's business-type activities.

BUDGETARY HIGHLIGHTS

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

General Fund: Total amendments to the General Fund increased budgeted revenues by \$2,832,943, appropriations of fund balance by \$3,412,399, and various other resources. The primary reasons for the increases was (1) to carry-forward budget related to a) unspent grant awards and other restricted resources (such as donations), b) unpaid obligations (i.e. year-end outstanding encumbrances), and c) other incomplete projects, (2) to accept new grants and other new resources for the purchase of various supplies, equipment, and services, and (3) to make available transfers to the Capital Projects Fund and to the County Capital Reserve Fund related to the purchase and renovation of buildings and other property.

Schools Capital Reserve Fund. The lone budget amendments to the Schools Capital Reserve Fund increased revenues and expenditures by \$725,000 to account for a withdrawal of proceeds from the state lottery for renovations made to classrooms at Kings Mountain High School.

County Capital Reserve Fund. Budget amendments to the County Capital Reserve Fund increased revenues and expenditures by \$7,221,471 primarily to account for the proceeds from the installment purchase financing and other financing for the purchase of 800 MHz Communications Equipment (\$6,438,645) and to continue projects initiated in prior years.

Enterprise Fund. Total amendments to the Solid Waste Collection and Disposal Fund increased revenues and expenditures by \$6,285,631 primarily to account for the construction of a new landfill cell that will accept waste once the current landfill is filled and accompanying offices.

Non-major Funds. Total amendments to non-major funds include the carry-forward budget of incomplete special projects (budget for items already spent also forwarded), carry-forward budget of uncollected property taxes from prior years for the County-wide public schools district (collected taxes could not be distributed without sufficient budget), and budget for new special projects.

In addition, two current special revenue funds are budgeted by project ordinance instead of the annual budget ordinance. The two funds are the Cleveland Community College Bond Fund and the Community Development Fund. The County budgeted \$495,817 in the Cleveland Community College Bond Fund and \$400,000 in the Community Development Fund. Since these funds are not included in the original adopted budget, all budgeted expenditures within these funds are shown as budget amendments.

Total amendments to the Capital Projects Fund were primarily to account for increases in transfers from the General Fund and County Capital Reserve Fund related to the purchase and renovation of buildings and other property both now and in future years.

Table 4. Schedule of Budget Amendment Amounts by Fund

Fund	Original Adopted Budget	Amendments to Budget	Final Amended Budget
General Fund	\$ 82,212,848	\$ 7,217,414	\$ 89,430,262
Schools Capital Reserve Fund	3,157,592	725,000	3,882,592
County Capital Reserve Fund	1,175,000	7,221,471	8,396,471
Enterprise Fund	5,788,423	6,285,631	12,074,054
Non-major Funds	16,598,104	10,955,111	27,553,215
Totals	\$ 108,931,967	\$ 32,404,627	\$ 141,336,594

Table 5. Schedule of Budget Amendment Percentages by Fund

Fund	Original Adopted Budget	Amendments to Budget	Final Amended Budget
General Fund	75.47%	22.27%	63.27%
Schools Capital Reserve Fund	2.90%	2.24%	2.75%
County Capital Reserve Fund	1.08%	22.29%	5.94%
Enterprise Fund	5.31%	19.40%	8.54%
Non-major Funds	15.24%	33.81%	19.49%
Totals	100.00%	100.00%	100.00%

CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

Capital assets. Cleveland County's capital assets for its governmental and business-type activities as of June 30, 2008 totals \$104,234,792 (net of accumulated depreciation). These assets include construction in progress, equipment and vehicles, buildings, land, improvements to both land and buildings, leasehold improvements, and infrastructure items. Major capital asset transactions during the year include:

- Acquisition of new equipment and vehicles (\$2,581,119 increase).
- Acquisition of capital assets other than equipment and vehicles through the purchase, major renovation, or received donation of land and buildings (\$29,769,363 increase)
- Increase in accumulated depreciation, including depreciation expense on equipment and vehicles of \$1,580,531 and on capital assets other than equipment and vehicles of \$2,573,087 (\$4,153,618 decrease to reported capital assets).
- Retirement and subsequent disposal of items sold, traded-in, made obsolete by newer equipment, or otherwise properly disposed (\$1,087,168 decrease for equipment and vehicles; \$1,454,429 decrease for capital assets other than equipment and vehicles; \$2,541,597 total decrease)

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

Category	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
	(amounts depicted in thousands of dollars)					
Land and land improvements	\$ 7,729	\$ 9,839	\$ 1,614	\$ 1,974	\$ 9,343	\$ 11,813
Construction in progress	132	1,626	823	5,804	955	7,430
Buildings and improvements	60,025	76,750	317	779	60,342	77,529
Equipment (including vehicles)	3,455	3,471	1,079	982	4,534	4,453
Leasehold improvements	292	278	11	11	303	289
Infrastructure	1,366	1,266	1,731	1,455	3,097	2,721
Total capital assets, net	\$ 72,999	\$ 93,230	\$ 5,575	\$ 11,005	\$ 78,574	\$ 104,235

The County's investments in capital assets increased over 30% from the previous year. Additional information on the County's capital assets can be found in the Notes to Financial Statements, see Note 1.E. and Note 3.A.

Long-term Liabilities. As of June 30, 2007, Cleveland County had total indebtedness outstanding of \$11,666,458 all of which is debt backed by the full faith and credit of the County. During the year ended June 30, 2008, the total outstanding indebtedness was changed to \$12,934,111, an increase of \$1,267,653 (29.5%). During the year, the County met all normal debt service requirements and issued new debt of \$6,230,676.

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

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. After calculating the County's legal debt limit (which is 8% of total assessed value) and subtracting current outstanding general obligation debt, the legal debt margin for Cleveland County is \$457,066,373. See Subsection III.C for more information on the calculation of the legal debt margin and other information concerning long-term debt. Additional information regarding the County's long-term obligations can be found in the Notes to Financial Statements, see Note a.D.8 and Note b.B.7.

ECONOMIC HIGHLIGHTS AND OTHER IMPORTANT FACTS

The area's higher than average unemployment rate has not significantly affected the County's revenues. However, major expenditure items such as education, public safety, and the County share of public assistance programs continues to rise substantially. The Cleveland County Board of Commissioners lowered the tax rates for fiscal year 2009 in the County-wide general district, County-wide school district, and County fire district, from a combined 76 cents per \$100 in assessed property value to 75 cents per \$100 in assessed property value, to help offset the increase in assessed property values due to a revaluation of property values. The County's current cycle is to conduct property revaluations every four years.

The total County budget increased by only 0.37% from the prior year. Although many funds enjoyed a typical increase, these increases were almost fully offset by decrease in the Debt Service Fund by \$2,266,000. Absence this decrease in the Debt Service Fund, the County budget would have grown by 2.63%. For a look at the County's adopted budget for fiscal year 2009, please review the Message from the County Manager.

Governmental Activities: Property taxes and revenues from ambulance services are projected to lead the increase in revenues. And, due to changes by the State legislature, the County's share of Medicaid has decreased substantially, partially offset by a decrease in revenues from the local option sales taxes that the State will begin to keep for itself. Still, overall estimated revenues increased by 3.60% in the General Fund. The County will use these increases in revenues to finance programs currently in place.

Budgeted appropriations (excluding intergovernmental transfers) in the General Fund rose to \$83,521,589 partially due to normal increases in employee compensation, including funding compensation and benefits adjustments, and other planned expenditures. A large part of the increase is also attributed to increasing costs of doing business in the Health Department and the Employee Wellness Program overseen by the Health Department. Further, the Employee Wellness Program is funded primarily through premiums for health insurance set aside by the County.

Business - type Activities: General operating expenses will increase by 0.06%. Although personnel costs, costs of material, supplies, fuel, and other operating expenses continue to rise, a decrease in the equipment budget occurred after the unanticipated purchase of one large heavy truck during the fiscal year ended June 30, 2007. The total budget decreased because the prior appropriation included \$6,153,000 to formally begin construction on a new landfill. This amount is not included in the appropriation for fiscal year 2008. Instead, a new budget of \$412,000 is included for the renovation of an existing building on Landfill property.

REQUESTS FOR ADDITIONAL FACTS

For those with an interest, the remainder of this annual financial report provides a more detailed overview of the County's finances. For additional information or answers to questions concerning any of the information found in this report, please visit <http://www.ccnCGov/FinanceD/index.html> or address your request to:

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