Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2009
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)

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, more detailed data is shown in the "Notes to the Financial Statements" that help to explain some of the information in the financial statements.

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2009
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
1. Government-Wide Financial Statements

The Government-Wide Financial Statements provide both long-term and short-term information about the County's overall financial status and provide a broad overview of the County's finances that is similar in format to a financial statement of a private-sector business.

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

June 30, 2009
With Comparative Totals as of June 30, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals 2009	Totals 2008
ASSETS				
Cash and cash equivalents	$ 34,646,123	$ 341,616	$ 34,987,739	$ 47,056,250
Taxes receivable, net	3,007,755	-	3,007,755	2,939,849
Accounts receivable, net	8,651,450	363,573	9,015,023	8,702,742
Inventories	100,954	-	100,954	114,832
Prepaid items	196,854	200	197,054	98,327
Restricted cash	6,317,640	6,792,940	13,110,580	3,642,732
Deferred charges - issuance costs	10,168	-	10,168	21,214
Deferred charges - refunding	144,694	-	144,694	301,877
Loan receivable	112,000	-	112,000	126,000
Capital assets				
Land and construction in progress	20,035,101	9,561,193	29,596,294	19,243,718
Other capital assets, net of accumulated depreciation	79,374,812	3,922,056	83,296,868	84,991,074
Total capital assets	99,409,913	13,483,249	112,893,162	104,234,792
Total Assets	152,597,551	20,981,578	173,579,129	167,238,615
LIABILITIES				
Accounts payable and accrued expenses	2,727,654	397,456	3,125,110	3,497,378
Unearned revenues	1,044,457	2,455	1,046,912	1,439,411
Accrued interest payable	178,220	-	178,220	151,606
Due to other taxing units	219,230	-	219,230	189,512
Premium on bond issuance	3,872	-	3,872	6,826
Long-term liabilities				
Current portion of long-term liabilities	4,728,046	43,229	4,771,275	4,264,845
Non-current portion of long-term liabilities	17,324,627	6,962,132	24,286,759	16,153,713
Total long-term liabilities	22,052,673	7,005,361	29,058,034	20,418,558
Total Liabilities	26,226,106	7,405,272	33,631,378	25,703,291
NET ASSETS				
Invested in capital assets, net of related debt	86,285,668	13,483,249	99,768,917	96,746,444
Restricted net assets:				
Education	5,985,262	-	5,985,262	5,978,415
Human Services	1,611,948	-	1,611,948	2,866,227
Public Safety	3,381,263	-	3,381,263	2,868,598
Other purposes	152,089	-	152,089	202,219
Total restricted net assets	11,130,562	-	11,130,562	11,915,459
Unrestricted net assets	28,955,215	93,057	29,048,272	32,873,421
Total Net Assets	$ 126,371,445	$ 13,576,306	$ 139,947,751	$ 141,535,324

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

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

For the Year Ended June 30, 2009
With Comparative Totals as of June 30, 2008

PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Program Revenues (Expenses)
EXPENSES, PROGRAM REVENUES, AND NET RESULTS					
Governmental activities:					
General government	$ (9,133,792)	$ 2,298,111	$ 1,193,492	$ 62,691	$ (5,579,498)
Public safety	(20,436,483)	5,097,275	1,993,543	123,190	(13,222,475)
Human services	(39,264,800)	4,845,865	18,102,895	364,626	(15,951,414)
Education	(26,670,648)	10,099,061	49,187	5,235,930	(11,286,470)
Economic and physical development	(3,042,821)	43,401	1,421,994	-	(1,577,426)
Cultural and recreational	(1,272,016)	49,164	225,228	1,024,268	26,644
Interest on long-term liabilities	(697,162)	-	-	-	(697,162)
Subtotal governmental activities	(100,517,722)	22,432,877	22,986,339	6,810,705	(48,287,801)
Business-type activities					
Solid Waste Collection and Disposal	(8,267,583)	4,682,719	360,124	-	(3,224,740)
Total primary government	$ (108,785,305)	$ 27,115,596	$ 23,346,463	$ 6,810,705	$ (51,512,541)

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

(continued on next page)

PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Primary Government: Governmental Activities	Business-Type Activities	Totals 2009	2008
NET PROGRAM REVENUES (EXPENSES)--FROM PRIOR PAGE				
Governmental activities:				
General government	$ (5,579,498)	$ -	$ (5,579,498)	$ (4,376,738)
Public safety	(13,222,475)	-	(13,222,475)	(11,504,701)
Human services	(15,951,414)	-	(15,951,414)	1,418,643
Education	(11,286,470)	-	(11,286,470)	(10,434,985)
Economic and physical development	(1,577,426)	-	(1,577,426)	(1,610,854)
Cultural and recreational	26,644	-	26,644	(893,951)
Interest on long-term liabilities	(697,162)	-	(697,162)	(603,490)
Subtotal governmental activities	(48,287,801)	-	(48,287,801)	(28,006,076)
Business-type activities				
Solid Waste Collection and Disposal	-	(3,224,740)	(3,224,740)	(214,576)
Total primary government	(48,287,801)	(3,224,740)	(51,512,541)	(28,220,652)
GENERAL REVENUES AND TRANSFERS				
Property taxes	38,618,389	-	38,618,389	35,815,553
Local option sales taxes	9,694,631	-	9,694,631	12,002,826
Other taxes and licenses	348,147	-	348,147	921,337
Grants and contributions, general	-	-	-	2,200,000
Investment earnings, general	1,103,612	160,189	1,263,801	2,221,151
Miscellaneous revenues, general	-	-	-	-
Transfers:	228,936	(228,936)	-	-
Total general revenues and transfers	49,993,715	(68,747)	49,924,968	53,160,867
CHANGE IN NET ASSETS	1,705,914	(3,293,487)	(1,587,573)	24,940,215
Net assets -- beginning	124,665,531	16,869,793	141,535,324	116,595,109
Net assets -- ending	$ 126,371,445	$ 13,576,306	$ 139,947,751	$ 141,535,324

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Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2009
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
2. Fund Financial Statements

The Fund Financial Statements focus exclusively on short-term information and provide a more detailed look at the County's operating funds. (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.)

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

June 30, 2009
With Comparative Totals as of June 30, 2008

	Governmental Funds					
	General	Schools Capital Reserve	County Capital Reserve	Other Non-major Funds	Totals 2009	Totals 2008
ASSETS						
Cash and cash equivalents	$ 20,474,796	$ 5,985,262	$ 5,506,394	$ 2,679,671	$ 34,646,123	$ 40,463,830
Taxes receivable, net	2,151,263	-	-	614,525	2,765,788	2,604,417
Accounts receivable, net	7,073,504	800,449	349,099	428,398	8,651,450	8,293,613
Due from other governmental funds	1,071,310	-	-	19,835	1,091,145	783,414
Inventories	100,954	-	-	-	100,954	114,832
Prepaid items	196,854	-	-	-	196,854	98,152
Restricted cash	-	-	6,317,640	-	6,317,640	-
Total assets	$ 31,068,681	$ 6,785,711	$ 12,173,133	$ 3,742,429	$ 53,769,954	$ 52,358,258
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	$ 2,261,738	$ -	$ 2	$ 428,017	$ 2,689,757	$ 2,466,418
Contract retainage	-	-	29,868	8,029	37,897	4,474
Unearned revenues	989,222	-	-	55,235	1,044,457	1,436,931
Deferred revenues	2,857,008	-	-	969,331	3,826,339	2,616,174
Due to other governmental funds	19,835	-	1,060,319	10,991	1,091,145	783,414
Due to other taxing units	219,230	-	-	-	219,230	189,512
Total liabilities	6,347,033	-	1,090,189	1,471,603	8,908,825	7,496,923
Fund balances						
Reserved fund balance:						
Encumbrances	231,622	-	-	77,824	309,446	189,073
Inventories	100,954	-	-	-	100,954	114,832
Prepaid items	196,854	-	-	-	196,854	98,152
Register of Deeds	(24,341)	-	-	-	(24,341)	(4,218)
State Statute	7,439,069	800,449	349,099	89,305	8,677,922	8,399,871
Unreserved designated fund balance:						
For future insurance claims	1,150,866	-	-	-	1,150,866	1,591,412
For subsequent year's expenditures	4,583,510	-	391,000	250,730	5,225,240	5,473,337
Unreserved undesignated fund balance:	11,043,114	-	-	-	11,043,114	20,379,258
Non-major Special Revenue funds	-	5,985,262	-	1,967,706	7,952,968	1,936,506
Non-major Capital Projects funds	-	-	10,342,845	(114,739)	10,228,106	6,683,112
Total fund balances	24,721,648	6,785,711	11,082,944	2,270,826	44,861,129	44,861,335
Total liabilities and fund balances	$ 31,068,681	$ 6,785,711	$ 12,173,133	$ 3,742,429	$ 53,769,954	$ 52,358,258

The "Notes to Financial Statements" are an integral part of this exhibit.
See 'Exhibit II.C.2.a.i' on following page for a list of items that differ in treatment between the governmental activities column on the government-wide statement (see Exhibit II.C.1.a) and totals for governmental funds on this statement.

(continued on next page)

Cleveland County, North Carolina
a.i. Reconciliation of the 'Governmental Funds: Balance Sheet' to the 'Government-Wide Statement of Net Assets'

June 30, 2009
With Comparative Totals as of June 30, 2008

	Totals 2009	Totals 2008
Total fund balances of governmental funds	**$ 44,861,129**	$ 44,861,335

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 focii and bases of accounting, specifically relating to the following

	2009	2008
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:	**241,967**	335,432
2. 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 is:	**150,990**	316,265
3. Governmental funds report expenditures for items that are treated as additions to long-term assets on the Statement of Net Assets. Total long-term assets are:	**112,000**	126,000
4. 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 are:	**137,634,149**	128,093,828
5. Instead, the cost of capital assets is allocated to depreciation expense over the estimated useful life of the items and reported on the Statement of Activities. Total accumulated depreciation is:	**(38,224,236)**	(34,863,726)
6. 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 deferred revenue balance is:	**3,826,339**	2,616,174
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. The accrued interest payable balance is:	**(178,220)**	(151,606)
8. Long-term liabilities, which are not due and payable at the entire amount in the current period, are not recognized as fund liabilities of governmental funds. Principal reductions are recognized as expenditures in the period that the payment is made rather than reductions in the liability that is reflected on the Statement of Net Assets.	**(22,052,673)**	(16,668,171)
Total net assets of governmental activities	**$ 126,371,445**	$ 124,665,531

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

(continued from previous page)

Cleveland County, North Carolina
b. Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2009
With Comparative Totals as of June 30, 2008

	Governmental Funds					
	General	Schools Capital Reserve	County Capital Reserve	Other Non-major Funds	Totals 2009	Totals 2008
REVENUES						
Ad valorem taxes	$ 38,538,186	$ -	$ -	$ 10,967,595	$ 49,505,781	$45,717,409
Other taxes	10,052,560	3,142,521	-	900,272	14,095,353	16,754,476
Unrestricted intergovernmental revenues	515,271	-	-	-	515,271	501,827
Restricted intergovernmental revenues	20,303,856	1,804,076	-	243,987	22,351,919	22,779,490
Licenses, fees, and permits	906,097	-	-	-	906,097	1,086,477
Sales and services	9,529,871	-	-	-	9,529,871	9,497,364
Investment earnings	1,104,096	289,332	136,641	65,705	1,595,774	2,265,167
Miscellaneous	1,877,515	-	14,000	7,007	1,898,522	1,024,394
Total revenues	82,827,452	5,235,929	150,641	12,184,566	100,398,588	99,626,604
EXPENDITURES						
General government	9,150,592	-	-	131,334	9,281,926	8,356,870
Public safety	17,170,553	-	-	7,800,078	24,970,631	19,140,235
Human services	36,598,540	-	-	108,912	36,707,452	38,639,930
Education	11,782,529	-	-	10,099,060	21,881,589	20,264,032
Economic and physical development	2,150,755	-	-	1,665,163	3,815,918	2,111,084
Cultural and recreational	2,158,747	-	-	260,000	2,418,747	1,335,151
Schools capital outlay	4,760,683	-	-	122,439	4,883,122	4,738,167
Debt service, principal reduction	46,115	-	-	2,842,866	2,888,981	4,876,307
Debt service, interest and fees	8,602	-	-	490,762	499,364	409,221
Total expenditures	83,827,116	-	-	23,520,614	107,347,730	99,870,997
Excess (deficiency) of revenues over expenditures	(999,664)	5,235,929	150,641	(11,336,048)	(6,949,142)	(244,393)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,061,886	-	3,394,000	11,357,509	17,813,395	9,636,979
Transfers out	(5,879,239)	(5,308,267)	(6,330,809)	(66,144)	(17,584,459)	(9,395,734)
Capital lease financing issued	-	-	-	-	-	230,676
Installment financing issued	-	-	6,720,000	-	6,720,000	6,000,000
Proceeds from sales of capital assets	-	-	-	-	-	94,165
Total other financing sources (uses)	(2,817,353)	(5,308,267)	3,783,191	11,291,365	6,948,936	6,566,086
Net change in fund balances	(3,817,017)	(72,338)	3,933,832	(44,683)	(206)	6,321,693
FUND BALANCES						
Beginning fund balances	28,538,665	6,858,049	7,149,112	2,315,509	44,861,335	38,539,642
Ending fund balances	$ 24,721,648	$ 6,785,711	$ 11,082,944	$ 2,270,826	$ 44,861,129	$44,861,335

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

See 'Exhibit II.C.2.b.i' on following page for a list of items that differ in treatment between the governmental activities column on the government-wide statement (see Exhibit II.C.1.b) and totals for governmental funds on this statement.

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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'

For the Year Ended June 30, 2009
With Comparative Totals as of June 30, 2008

	Totals 2009	Totals 2008
Net change in fund balances of governmental funds	**$ (206)**	$ 6,321,693

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 focii and bases of accounting, specifically relating to the following reasons:

	2009	2008
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:	**(137,958)**	19,191,086
2. Governmental funds report expenditures for items that are treated as additions to capital and other long-term assets on the Statement of Net Assets. The current year's expenditures are:	**10,443,302**	4,686,206
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:	**(4,133,628)**	(3,533,401)
4. Accrued payables for compensated absences and retirement benefits 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.	**(1,553,483)**	(386,144)
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.	**1,116,704**	115,060
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:	**2,888,981**	4,876,307
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.	**(197,798)**	(260,269)
8. Governmental funds recognize the issuance of new debt as a source of financing for items that are treated as additions to long-term liabilities on the Statement of Net Assets. In the current year, the issuance of new debt amounted to:	**(6,720,000)**	(6,230,676)
Total net change in net assets of governmental activities	**$ 1,705,914**	$ 24,779,862

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

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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, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance - Over (Under)
REVENUES				
Ad valorem taxes	$ 36,468,045	$ 36,423,505	$ 38,538,186	$ 2,114,681
Other taxes	11,324,000	11,324,000	10,052,560	(1,271,440)
Unrestricted intergovernmental revenues	412,000	412,000	515,271	103,271
Restricted intergovernmental revenues	20,145,306	24,021,471	20,303,856	(3,717,615)
Licenses, fees, and permits	1,068,515	1,068,515	906,097	(162,418)
Sales and services	7,748,308	7,897,115	9,529,871	1,632,756
Investment earnings	1,110,000	1,110,000	1,104,096	(5,904)
Miscellaneous	334,400	404,035	1,877,515	1,473,480
Total revenues	78,610,574	82,660,641	82,827,452	166,811
EXPENDITURES				
General government	9,275,231	9,955,970	9,150,592	(805,378)
Public safety	16,253,944	17,691,976	17,170,553	(521,423)
Human services	39,135,554	40,106,499	36,598,540	(3,507,959)
Education	11,698,342	11,783,342	11,782,529	(813)
Economic and physical development	1,341,880	2,929,331	2,150,755	(778,576)
Cultural and recreational	1,081,953	1,199,087	2,158,747	959,660
Schools capital outlay	3,400,000	4,760,683	4,760,683	-
Debt service, principal reduction	74,116	46,385	46,115	(270)
Debt service, interest and fees	13,649	8,735	8,602	(133)
Total expenditures	82,274,669	88,482,008	83,827,116	(4,654,892)
Excess of revenues over (under) expenditures	(3,664,095)	(5,821,367)	(999,664)	4,821,703
OTHER FINANCING SOURCES (USES)				
Transfers in	1,701,203	3,061,886	3,061,886	-
Transfers out	(2,941,593)	(6,206,481)	(5,879,239)	327,242
Fund balance appropriated	4,904,485	8,965,962	-	(8,965,962)
Total other financing sources (uses)	3,664,095	5,821,367	(2,817,353)	(8,638,720)
Net change in fund balance	$ -	$ -	(3,817,017)	$ (3,817,017)
FUND BALANCES				
Beginning fund balances			28,538,665	
Ending fund balances			$ 24,721,648	

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, 2009

	Schools Capital Reserve Fund			
	Original Budget	Final Budget	Actual	Variance - Over (Under)
REVENUES				
Other taxes	$ 2,347,585	$ 2,371,833	$ 3,142,521	$ 770,688
Restricted intergovernmental revenues	600,000	1,936,435	1,804,076	(132,359)
Investment earnings	-	-	289,332	289,332
Total revenues	2,947,585	4,308,268	5,235,929	927,661
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,947,585)	(5,308,268)	(5,308,267)	1
Fund balance appropriated		1,000,000	-	(1,000,000)
Total other financing sources (uses)	(2,947,585)	(4,308,268)	(5,308,267)	(999,999)
Net change in fund balance	$ -	$ -	(72,338)	$ (72,338)
FUND BALANCES				
Beginning fund balances			6,858,049	
Ending fund balances			$ 6,785,711	

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

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

For the Year Ended June 30, 2009

	County Capital Reserve Fund			
	Original Budget	Final Budget	Actual	Variance - Over (Under)
REVENUES				
Investment earnings	$ -	$ -	$ 136,641	$ 136,641
Miscellaneous	-	-	14,000	14,000
Total revenues	-	-	150,641	150,641
OTHER FINANCING SOURCES (USES)				
Transfers in	1,144,000	3,394,000	3,394,000	-
Transfers out	(1,566,000)	(17,067,458)	(6,330,809)	10,736,649
Installment financing issued	-	6,720,000	6,720,000	-
Fund balance appropriated	422,000	6,953,458	-	(6,953,458)
Total other financing sources (uses)	-	-	3,783,191	3,783,191
Net change in fund balance	$ -	$ -	3,933,832	$ 3,933,832
FUND BALANCES				
Beginning fund balances			7,149,112	
Ending fund balances			$ 11,082,944	

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

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

June 30, 2009
With Comparative Totals as of June 30, 2008

	Solid Waste Collection and Disposal	
	Totals	
	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 341,616	$ 6,592,420
Accounts receivable, net	363,573	409,129
Prepaid items	200	175
Total current assets:	705,389	7,001,724
Non-current assets:		
Restricted cash	6,792,940	3,642,732
Capital assets		
Land, land improvements, and construction in progress	9,561,193	7,778,607
Other capital assets, net of accumulated depreciation	3,922,056	3,226,083
Total capital assets	13,483,249	11,004,690
Total non-current assets	20,276,189	14,647,422
Total assets	20,981,578	21,649,146
LIABILITIES		
Current liabilities:		
Accounts payable	397,456	842,458
Contract retainages	-	184,028
Unearned revenues / customer deposits	2,455	2,480
Compensated absences	43,229	41,444
Total current liabilities	443,140	1,070,410
Non-current liabilities:		
Accrued landfill closure and post-closure care costs	6,792,940	3,642,732
Net OPEB obligation for retirees' healthcare coverage	93,582	-
Compensated absences	75,610	66,211
Total non-current liabilities	6,962,132	3,708,943
Total liabilities	7,405,272	4,779,353
NET ASSETS		
Invested in capital assets	13,483,249	11,004,690
Unrestricted net assets	93,057	5,865,103
Total net assets	$ 13,576,306	$ 16,869,793

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

Cleveland County, North Carolina
g. Enterprise Fund: Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Year Ended June 30, 2009
With Comparative Totals as of June 30, 2008

	Solid Waste Collection and Disposal Totals	
	2009	2008
OPERATING REVENUES		
Household user fees	**$ 1,418,467**	$ 1,428,068
Departmental fees	**3,264,252**	3,334,177
Other operating revenue	**239,908**	121,518
Total operating revenues	**4,922,627**	4,883,763
OPERATING EXPENSES		
Salaries/benefits	**1,860,463**	1,590,149
Other expenses	**2,607,652**	2,701,408
Depreciation	**649,260**	620,217
Landfill closure and post-closure care	**3,150,208**	373,519
Total operating expenses	**8,267,583**	5,285,293
Operating income (loss)	**(3,344,956)**	(401,530)
NON-OPERATING REVENUES AND EXPENSES		
Share of state's white goods and scrap tire taxes	**188,407**	159,506
Intergovernmental revenues, restricted	**(35,581)**	82,776
Investment earnings	**160,189**	616,174
Loss on disposal of capital assets	**(32,610)**	(55,328)
Total non-operating revenues and expenses	**280,405**	803,128
Income before contributions and transfers	**(3,064,551)**	401,598
Transfer from (to) governmental funds (i.e. General Fund)	**(228,936)**	(241,245)
Change in net assets	**(3,293,487)**	160,353
Net assets, beginning	**16,869,793**	16,709,440
Net assets, ending	**$ 13,576,306**	$ 16,869,793

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

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

For the Year Ended June 30, 2009
With Comparative Totals as of June 30, 2008

	Solid Waste Collection and Disposal Totals	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from household user fees	**$ 1,418,467**	$ 1,428,068
Cash received from customers	**3,307,404**	3,320,613
Cash received from sale of waste and recyclable materials	**239,851**	121,243
Cash received from other operations	**57**	275
Cash paid to employees for services	**(1,755,697)**	(1,582,073)
Cash paid for goods and services	**(3,431,800)**	(1,780,171)
Net cash flows from operating activities	**(221,718)**	1,507,955
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Government grants	**(35,581)**	82,776
Transfer to governmental funds (General Fund)	**(228,936)**	(241,245)
Net cash flows from non-capital financing activities	**(264,517)**	(158,469)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	**(2,962,957)**	(6,104,817)
Share of state's white goods and scrap tire taxes	**188,407**	159,506
Net cash flows from capital and related financing activities	**(2,774,550)**	(5,945,311)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	**160,189**	616,174
Net cash flows from investing activities	**160,189**	616,174
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,100,596)**	(3,979,651)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: beginning balance	**10,235,152**	14,214,803
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: ending balance	**$ 7,134,556**	$ 10,235,152

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2009	2008
Operating income	**$ (3,344,956)**	$ (401,530)

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 items that have occurred during the year prior to this report date:

	2009	2008
1. Decrease (increase) in accounts receivable, net	**45,556**	(7,909)
2. Decrease (increase) in prepayments	**(25)**	1,747
3. Increase (decrease) in accounts payable and contract retainages	**(826,502)**	914,037
4. Increase (decrease) in customer deposits	**(25)**	(202)
5. Increase (decrease) in accrued compensatory leave and retirement benefits	**104,766**	8,076
6. Increase (decrese) in accrued landfill closure and postclosure care costs	**3,150,208**	373,519
7. Depreciation expense (not a cash expenditure, no effect on cash flow)	**649,260**	620,217
Net cash flows from operating activities	**$ (221,718)**	$ 1,507,955

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

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

June 30, 2009
With Comparative Totals as of June 30, 2008

	Agency Funds Totals	
	2009	2008
ASSETS		
Cash and cash equivalents	**$ 153,467**	$ 141,400
Taxes receivable, net	**41,795**	34,680
Accounts receivable, net	**1,960,745**	2,054,745
Intergovernmental receivable	**219,230**	189,512
Total assets	**$ 2,375,237**	$ 2,420,337
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued expenses	**$ 320,363**	$ 269,206
Due to other taxing units	**2,054,874**	2,151,131
Total liabilities	**$ 2,375,237**	$ 2,420,337

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, 2009
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
3. Notes to Financial Statements

The Notes to Financial Statements summarize significant accounting policies, provide essential details, and explain and add insight to the data contained in the Government-Wide Financial Statements and Fund 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, 2009, the County newly reported actuarial studies on certain post-employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statements No. 43 ("Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans") and No. 45 ("Accounting for Pensions by State and Local Governmental Employers"). 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

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, such as 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 tax 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.

County Capital Reserve Fund. This fund accounts for various proceeds that are designated to support expansions and renovations of County property and to support other capital acquisitions of the County.

The County reports the following seven nonmajor governmental funds: the Public Schools Fund, the Revaluation Fund, the Emergency Telephone Fund, the County Fire Service District Fund, the Community Development Fund, the Debt Service Fund, and the Capital Projects Fund. These funds have been combined and reported as nonmajor 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 landfill facilities 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 water authority, and twelve municipalities within the County (three other municipalities do not levy property taxes).

C. 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.

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 reconcilement is included in the Fund Financial Statements. The reconcilement 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.

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 tax receivables 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 tax receivables 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 motor vehicles, 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. Therefore, taxes for vehicles registered from March 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. The taxes for vehicles registered from March 2009 and afterward and due on or after July 1, 2009 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 are reported as an intergovernmental payable at year-end.

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.

D. 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 Schools Fund, the Schools Capital Reserve Fund, the Revaluation Fund, the Emergency Telephone Fund, the County Fire Service District Fund, the Debt Service Fund, the Capital Projects Fund, the County Capital Reserve Fund, and the Solid Waste Fund. All unencumbered 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 Development Fund, 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 annually budgeted 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 total estimated revenues or total appropriations.

During the year, the governing board approved to issue $6,720,000 of installment-purchase debt. Several other less significant amendments to the original budget were necessary.

E. 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. 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

The unexpended debt proceeds of an installment-purchase loan issued by the County are classified as restricted assets in the County Capital Reserve Fund since their use is completely restricted to the purpose for which the loan was originally issued.

Federal and State 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 Solid Waste Fund. An equal amount is also reported as liabilities of the Solid Waste 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, Public Schools Fund, and County Fire Service District 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 usually estimated by analyzing the percentage of receivables that were written off in prior years. However, in the Solid Waste Fund, the allowance amount is determined by adding all amounts over 90 days old.

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, meaning that such items are recorded as expenses in the period in which they are 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, $5,000; and land and buildings at $0. The cost of normal maintenance and repairs that 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:

Capital Asset Category	Useful Life
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 Solid Waste 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, underwriter fees, and other 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 Sources (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 ‘Note b. Detail Notes on All Funds’ that begins 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 Items - 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 remaining fund balance (after calculating unreserved fund balance designated for subsequent year’s expenditures) 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.

F. 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 shown in 'Government-Wide Statement of Net Assets' and total fund balances shown in 'Governmental Funds: Balance Sheet'; and 2) between the change in net assets of governmental activities shown in the 'Government-Wide Statement of Activities' and the net change in fund balance shown in 'Governmental Funds: 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 undercollateralization, 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 credit worthiness 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 and, thus, partially relies on DST to enforce standards of minimum capitalization for all institutions using the pooling method and to monitor these institutions for compliance.

At June 30, 2009, the County's deposits had a carrying amount of $43,870,401 and a bank balance of $43,929,243. Of the bank balance, $263,633 was covered by federal depository insurance, $37,214,649 in certificates of deposit was covered by collateral held under the dedicated method, and the remaining $6,655,752 in interest-bearing deposits was covered by collateral held under the pooling method. Also at June 30, 2009, Cleveland County had $15,059 cash on hand.

The County had a carrying amount of $37,214,649 in certificates of deposit. Of this balance, $4,212,525 was scheduled to mature within 3 months, $28,976,602 was scheduled to mature within 3 to 12 months, and $4,025,522 was scheduled to mature within 1 to 2 years.

2. <u>Investments</u>

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, 2009, the County's investment balances and maturities were as follows:

	Fair Market	Due to Mature Within:		
Investment type	**Value**	**up to 1 year**	**1 to 2 years**	**2 to 3 years**
Federal government agencies	$ -	$ -	$ -	$ -
NCCMT -- Cash Portfolio	4,366,326	n/a	n/a	n/a
Total investments	$ 4,366,326	$ -	$ -	$ -

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, 2009, the County's investments in the North Carolina Capital Management Trust (NCCMT) Cash Portfolio carried a credit rating of AAAm by Standard & Poor's. 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, 2009, 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, 2009 was $-0- and ($79,675), 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, 2009, the County held 9.95% of its deposits and investments with the North Carolina Capital Management Trust, 84.83% in certificates of deposits at various financial institutions, 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 purposes of the annual property tax assessment. When property loses its eligibility for present-use value taxation, the property tax bill is recomputed at market value for the current year and the three preceding 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 is not recorded in the financial statements. The following chart displays the amount of property taxes that would become due if all qualified properties in the County had lost eligibility for present-use value taxation on June 30, 2009:

Tax Year Levied	Additional Tax	Interest	Total
2009	$ 1,492,831	$ -	$ 1,492,831
2008	1,487,187	85,513	1,572,700
2007	1,198,545	176,785	1,375,330
2006	1,198,849	284,727	1,483,576
Total	$ 5,377,411	$ 547,025	$ 5,924,436

4. Receivables

Receivables reported on the Government-Wide Financial Statements and Fund Financial Statements at June 30, 2009 are reported net of an allowance for uncollectible accounts as follows:

	Accounts	Taxes and Other Assessments	Total
Governmental activities:			
General Fund	$ 10,428,743	$ 3,311,767	$ 13,740,510
Schools Capital Reserve Fund	800,449	-	800,449
County Capital Reserve Fund	349,099	-	349,099
Nonmajor governmental funds	428,398	939,462	1,367,860
Accrued interest (government-wide reporting)	-	658,138	658,138
Total receivables	**12,006,689**	**4,909,367**	**16,916,056**
General Fund	(3,355,239)	(1,160,504)	(4,515,743)
Nonmajor governmental funds	-	(324,937)	(324,937)
Accrued interest (government-wide reporting)	-	(416,171)	(416,171)
Total allowances for uncollectible accounts	**(3,355,239)**	**(1,901,612)**	**(5,256,851)**
Total governmental activities	**$ 8,651,450**	**$ 3,007,755**	**$ 11,659,205**

	Accounts	Taxes and Other Assessments	Total
Business-type activities:			
Solid Waste Fund	$ 383,837	$ 258,680	$ 642,517
Allowances for uncollectible accounts	(20,264)	(258,680)	(278,944)
Total business-type activities	**$ 363,573**	**$ -**	**$ 363,573**

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 Balance	Additions	Retirements	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
General government	$ 7,276,365	$ 721,544	$ (167,151)	$ (101,710)	$ 7,729,048
Public safety	20,572,487	6,965,798	(672,945)	42,814	26,908,154
Human services	92,899,877	542,202	(48,215)	(1,248)	93,392,616
Education	-	94,063	-	58,357	152,420
Economic and physical dev.	2,298,375	637,717	(16,621)	-	2,919,471
Cultural and recreational	5,046,724	1,485,716	-	-	6,532,440
Total capital assets	**128,093,828**	**10,447,040**	**(904,932)**	**(1,787)**	**137,634,149**
Less accumulated depreciation:					
General government	(2,049,408)	(268,189)	94,419	24,385	(2,198,793)
Public safety	(10,767,930)	(1,321,993)	595,294	(14,661)	(11,509,290)
Human services	(20,955,280)	(2,395,273)	45,925	11,134	(23,293,494)
Education	-	(34)	-		(34)
Economic and physical dev.	(53,346)	(16,809)	16,621	-	(53,534)
Cultural and recreational	(1,037,762)	(131,329)	-	-	(1,169,091)
Total accumulated deprec.	**(34,863,726)**	**(4,133,627)**	**752,259**	**20,858**	**(38,224,236)**
Total capital assets, net	**$ 92,230,102**	**$ 6,313,413**	**$ (152,673)**	**$ 19,071**	**$ 99,409,913**

Capital asset activity, by asset class, for the year ended June 30, 2009 was as follows for governmental activities:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated:					
Land and land improvements	$ 9,839,204	$ 2,280,924	$ (24,219)	$ 17,339	$12,113,248
Construction in progress	1,625,907	6,507,107	-	(211,161)	7,921,853
Subtotal	11,465,111	8,788,031	(24,219)	(193,822)	20,035,101
Capital assets being depreciated:					
Buildings and improvements	103,888,766	625,950	-	136,204	104,650,920
Equipment (including vehicles)	10,816,852	1,033,059	(803,755)	55,831	11,101,987
Leasehold improvements	425,178	-	-	-	425,178
Infrastructure	1,497,921	-	(76,958)	-	1,420,963
Subtotal	116,628,717	1,659,009	(880,713)	192,035	117,599,048
Total capital assets	**128,093,828**	**10,447,040**	**(904,932)**	**(1,787)**	**137,634,149**
Less accumulated depreciation:					
Buildings and improvements	(27,138,972)	(2,645,305)	-	20,988	(29,763,289)
Equipment (including vehicles)	(7,345,420)	(1,375,146)	703,386	(130)	(8,017,310)
Leasehold improvements	(147,401)	(14,173)	-	-	(161,574)
Infrastructure	(231,933)	(99,003)	48,873	-	(282,063)
Total accumulated deprec.	**(34,863,726)**	**(4,133,627)**	**752,259**	**20,858**	**(38,224,236)**
Total capital assets, net	**$ 93,230,102**	**$ 6,313,413**	**$ (152,673)**	**$ 19,071**	**$ 99,409,913**

All business-type activities relate to the environmental protection expenditure function. Capital asset activity, by asset class, for the year ended June 30, 2009 was as follows for business-type activities.

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated:					
Land and land improvements	$ 1,974,374	$ 2,234,858	$ -	$ 5,322,166	$ 9,531,398
Construction in progress	5,804,233	29,795	-	(5,804,233)	29,795
Subtotal	7,778,607	2,264,653	-	(482,067)	9,561,193
Capital assets being depreciated:					
Buildings and building improvements	867,224	8,606	-	539,685	1,415,515
Equipment (including vehicles)	4,067,433	887,170	(192,852)	(55,831)	4,705,920
Leasehold improvements	16,518	-	-	-	16,518
Infrastructure	4,130,636	-	-	-	4,130,636
Subtotal	9,081,811	895,776	(192,852)	(483,854)	10,268,589
Total capital assets	**16,860,418**	**3,160,429**	**(192,852)**	**1,787**	**19,829,782**
Less accumulated depreciation on:					
Buildings and building improvements	(87,881)	(32,280)	-	(20,988)	(141,149)
Equipment (including vehicles)	(3,085,840)	(341,054)	179,313	130	(3,247,451)
Leasehold improvements	(5,726)	(551)	-	-	(6,277)
Infrastructure	(2,676,281)	(275,375)	-	-	(2,951,656)
Total accumulated depreciation	**(5,855,728)**	**(649,260)**	**179,313**	**(20,858)**	**(6,346,533)**
Total capital assets, net	**$ 11,004,690**	**$ 2,511,169**	**$ (13,539)**	**$ (19,071)**	**$ 13,483,249**

6. Construction Commitments

The County is involved with the following incomplete construction / renovation projects as of June 30, 2009:

Project Name	Spent-to-Date	Remaining Commitments
Public Safety Communication System (800 MHz)	$ 5,511,831	$ 285,492
Jail Annex Expansion / Renovation	489,440	6,139,060
Kings Mountain Gateway Trails Projects	78,053	250,062
Incomplete Housing Rehab Projects	36,608	4,067
County Office Building Renovations	9,367	155,533
Total	**$ 6,125,299**	**$ 6,834,214**

B. Liabilities

1. Payables

Payables at the Government-Wide and Fund level at June 30, 2009 were as shown in the following table.

	Vendors	Employee Benefits	Cash Held in Trust	Insurance Claims *	Total
Governmental activities:					
General Fund	$ 1,478,688	$ 114,288	$ -	$ 668,762	$ 2,261,738
County Capital Reserve Fund	29,870	-	-	-	29,870
Nonmajor governmental funds	436,046	-	-	-	436,046
Total governmental activities	**$ 1,944,604**	**$ 114,288**	**$ -**	**$ 668,762**	**$ 2,727,654**
Business-type activities:					
Solid Waste Fund	**$ 397,456**	**$ -**	**$ -**	**$ -**	**$ 397,456**
Fiduciary activities:					
Agency Funds	**$ 166,896**	**$ -**	**$ 153,467**	**$ -**	**$ 320,363**

* The estimated liability for outstanding losses from health insurance coverage, dental plan, and workers' compensation coverage includes $668,762 for incurred, but not reported, claims.

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, 2009 is $1,350,086. 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, 2009, the County made contributions to the State for death benefits of $24,107. 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. <u>Law Enforcement Officers' Special Separation Allowance</u>

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, 2009, the LEOSSA's membership consisted of:

Member Category	No.
Retirees currently receiving benefits	6
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members:	
Vested	57
Non-vested	27
Total members	90

Summary of Significant Accounting Policies. 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.

Funded Status and Funding Progress. As of the most recent actuarial valuation date (December 31, 2007) and through June 30, 2009, the County had no assets to pay future liabilities. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $1,058,407. The annual payroll of active employees covered under this plan (covered payroll) was $3,296,447, and the ratio of the UAAL to the covered payroll was 32.108%. For multi-year trend information concerning the actuarial value of assets, liabilities, and covered payroll, see Exhibit II.D.1.a (Schedule of Funding Progress) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

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, 2009 is $90,237. For multi-year trend information, see Exhibit II.D.1.b (Schedule of Employer Contributions) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

Annual Required Contribution. The annual required contribution for the current year was determined as part of the December 31, 2007 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 post-employment 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, 2007 was 23 years. For multi-year trend information, see Exhibit II.D.1.b (Schedule of Employer Contributions) and Exhibit II.D.1.c (Notes to Financial Schedules) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation to LEOSSA for the current year ended June 30, 2009 are $112,549 and $317,772, respectively. For more information, see Exhibit II.D.1.b (Schedule of Employer Contributions) and Exhibit II.D.1.c (Notes to Law Enforcement Officers' Special Separation Allowance) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

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. The Comprehensive Annual Financial Report (CAFR) for the State of North Carolina includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the SRIP. The State's CAFR may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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, 2009 were $240,745, which consisted of $172,568 from the County and $68,177 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. Prudential Financial, Inc. 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, 2009 were $1,644,498, which consisted of $1,208,323 from the County and $436,175 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 non-contributory, 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. The Comprehensive Annual Financial Report (CAFR) for the State of North Carolina includes financial statements and required supplementary information for the RODSPF. The State's CAFR may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. On a monthly basis, the County remits to DST an amount equal to one and one-half percent (1.5%) of the monthly receipts collected as of July 1, 2007 pursuant to Article 1 of NCGS 161. Before the law changed, the County remitted to DST an amount equal to four and one-half percent (4.5%) 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, 2009, the County's required and actual contributions were $5,601. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

f. Other Post-Employment Benefits -- Retirees Healthcare Coverage (OPEB-RHC)

Plan Description. As a single-employer defined benefit plan, Cleveland County provides healthcare coverage 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. At June 30, fifty-five retirees were receiving post-employment healthcare benefits. Since no assets have been set aside to provide for future benefit payments, the OPEB-RHC is not reported as a pension trust fund in the County's annual financial report. The County has contracted with a private insurer to administer the payment of claims and the County reimburses the insurer each week. A separate report has not been issued for this benefit plan. See details in Part II.D.2 of this annual financial report. Since this report includes results from the first actuarial study of the plan, comparative information from prior years is not yet available. At December 31, 2008 (which is the date of the latest actuarial valuation), the OPEB-RHC's membership consisted of:

Member Category	LEO No.	Other No.
Retirees currently receiving benefits	8	47
Terminated plan members entitled to, but not yet receiving, benefits	-	-
Active plan members:		
Vested	8	106
Non-vested and eligible for LGERS benefits	51	262
Non-vested and non-eligible for LGERS benefits	23	242
Total members	92	657

Summary of Significant Accounting Policies. 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 in a trust fund to pay benefits and administration costs; instead, these expenditures are paid as they come due.

Funding Policy. The County pays the entire cost of coverage for healthcare benefits for eligible retirees. Although all employees can purchase coverage for their dependents at the County's group rates, retirees can only purchase coverage under C.O.B.R.A. guidelines for a specific number of months following retirement. The Board of County Commissioners may amend the benefit provisions. For multi-year trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

Funded Status and Funding Progress. As of the most recent actuarial valuation date (December 31, 2008), the County had no assets to pay future liabilities. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $15,565,951. The annual payroll of active employees covered under this plan (covered payroll) was $27,113,877, and the ratio of the UAAL to the covered payroll was 57.410%. For multiyear trend information concerning the actuarial value of assets, liabilities, and covered payroll, see Exhibit II.D.2.a (Schedule of Funding Progress) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

Contributions. Cleveland County funds the RHC 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 County Board of Commissioners. For the fiscal year ended June 30, 2009, the County made payments for post-employment healthcare coverage premiums of $249,280 and retirees made payments for such premiums of $13,560. For multi-year trend information, see Exhibit

II.D.2.b (Schedule of Employer Contributions) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

Annual Required Contribution. The annual required contribution for the current year was determined as part of the December 31, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included projected rate increases to medical costs of 5.0% to 10.5% per year, including an inflation component of 3.75%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The current rate is 5.0809% of annual covered payroll. The remaining amortization period at December 31, 2008 was 30 years. For multi-year trend information, see Exhibit II.D.2.b (Schedule of Employer Contributions) and Exhibit II.D.2.c (Notes to Financial Schedules) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost and net OPEB obligation to OPEB-RHC for the current year ended June 30, 2009 are $1,640,468 and $1,377,628, respectively. The calculation of annual OPEB cost is based on the County's annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For more information, see Exhibit II.D.2.b (Schedule of Employer Contributions) and Exhibit II.D.2.c (Notes to Financial Schedules) presented as required supplementary information in Subsection D that follows these *Notes to Financial Statements*.

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 of its landfill facility. This reserve fund is reported as part of the Solid Waste Fund, which is the County's sole enterprise-type fund. During the fiscal year ended June 30, 2009, the County added $3,150,208 to the reserve fund. The County has met the requirements of a local government financial test that is one option under federal and State laws and regulations that help determine if a unit is financially able to meet closure and post-closure care requirements.

Federal and State 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 $6,792,940 reported as landfill closure and post-closure care liability at June 30, 2009 represents a cumulative amount reported to-date. The County is required to contribute to the reserve at least $369,018 annually hereafter until the total balance accumulated reaches $9,132,871. 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 2009, and the fact that the County expects to close the current municipal solid waste facility in the fall of 2009 and the current construction and demolition facility in 2018. Actual costs may be higher due to inflation, changes in scheduled closing dates, 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 *
General Fund:		
Prepaid taxes not yet earned	$ 65,716	$ -
Other accounts, net	734,671	705,745
Taxes receivable, net	188,835	2,151,263
Subtotal	989,222	2,857,008
Public Schools Fund, taxes receivable, net	49,565	563,455
Fire District Fund, taxes receivable, net	5,670	51,070
Community Development Fund, grant receivables	-	180,067
Capital Projects Fund, grant receivables	-	174,739
Total governmental activities	**$ 1,044,457**	**$ 3,826,339**
Solid Waste Collection and Disposal Fund:		
Prepaid fees not yet earned	$ 2,455	$ -
Total business-type activities	**$ 2,455**	**$ -**

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 $125.5 million, with other sub-limits for other coverages. The County also purchased general, automobile, 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, and $600,000 of aggregate annual losses in excess of $50,000 per occurrence for property, automobile physical damage, and crime coverage.

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 $537,813 for incurred and unpaid claims as of June 30, 2009. 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 $30,949 for incurred and unpaid claims as of June 30, 2009. 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, 2009 is $300,000 per occurrence. The estimated liability for outstanding losses includes $100,000 for incurred and unpaid claims as of June 30, 2009. The County has contracted with a private insurer to administer the payment of claims and the County reimburses the insurer each week.

The following table summarizes the amount of insurance claims payable at year-end for the various coverages described above:

Insurance Claims Payable (incurred, but not reported)	**June 30, 2008**	**June 30, 2009**
General Fund:		
Health insurance coverage	$ 534,114	$ 537,813
Dental plan	30,949	30,949
Workers' compensation coverage	42,551	100,000
Total	**$ 607,614**	**$ 668,762**

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.

In addition, 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, at a minimum, any of the past five 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, 2009, 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 required 60 monthly payments of $2,986. Another agreement to lease computer equipment for the Social Services Department was executed in June 2007 and requires 60 monthly payments of $1,464. An agreement to lease imaging and related computer equipment for the Register of Deeds' office was executed in November 2007 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, 2009, the County's leased equipment had a value of:

Governmental Activities	Recorded Value of Asset	Accumulated Depreciation	Net Book Value
Computer equipment (Social Services)	$ 75,075	$ (27,733)	$ 47,342
Imaging equipment (Register of Deeds)	155,602	(45,980)	109,622
Computer equipment (Info. Technology)	146,374	(146,374)	-
Total	$ 377,051	$ (220,087)	$ 156,964

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

c. Installment Purchase Loans

The County entered a contract to help finance the costs of implementing a 800 MHz Public Safety Communication System. 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 *e. Total Indebtedness*.

d. Contractual Obligations

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 *e. Total Indebtedness*.

e. Total Indebtedness

In addition to the County's own needs, the County issues debt 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, 2009, $1,394,674 of the $2,075,000 remaining balance relates to financing the construction of public school facilities.

At June 30, 2009, Cleveland County had an amount of bonds authorized but unissued of $-0- and a legal debt margin of $492,397,349.

The County's general obligation, installment purchase loans, and contractual obligations payable at June 30, 2009 are comprised of the following individual issues:

General Obligation Bonds	Outstanding at June 30, 2009
$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%	$ 1,850,000
$29,920,000 - Refunding Serial Bonds, Series 2003; due in annual installments of $2,075,000 to $4,775,000 through June 1, 2010; interest from 2.6% to 3.1%	2,075,000
Subtotal	3,925,000
Installment Purchase Loans	
$6,000,000 - Public Safety Communication Equipment, Series 2007; due in annual installments of $400,000 through December 2022; interest at 3.93%	5,600,000
$6,720,000 - Jail Annex Expansion Project, Series 2009; due in semi-annual installments of $224,000 through April 2024; interest at 3.57%	6,720,000
Subtotal	12,320,000
Contractual Obligations	
$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%	566,245
Total	$ 16,811,245

Annual debt service requirements to maturity for the County's general obligation bonds, other long-term debt, and capitalized leases are as follows:

	General Obligation Bonds:		***Other Long-Term Debt:***		***Capitalized Leases:***		***Total Debt Service:***	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2009	$2,425,000	$225,450	$ 417,866	$ 261,860	$ 46,115	$ 8,506	$ 2,888,981	$ 495,816
2010	2,325,000	148,700	866,642	481,154	45,552	6,379	3,237,194	636,232
2011	250,000	74,950	867,677	448,508	47,769	4,162	1,165,446	527,620
2012	250,000	63,450	868,196	416,178	49,467	1,830	1,167,663	481,459
2013	250,000	51,700	868,972	383,809	14,177	141	1,133,149	435,650
2014	250,000	39,950	869,749	351,387	-	-	1,119,749	391,337
Sum 5 yrs.	3,325,000	378,750	4,341,236	2,081,036	156,964	2,512	7,823,200	2,472,298
Next 5 yrs. (2015 to 2019)	600,000	49,350	4,361,172	1,268,434	-	-	4,961,172	1,317,784
Next 5 yrs. (2020 to 2024)	-	-	3,991,723	445,050	-	-	3,991,723	445,050
Next 5 yrs. (2025 to 2029)	-	-	192,114	27,458	-	-	192,114	27,458
Sum	$3,925,000	$428,100	$12,886,245	$3,821,978	$156,964	$12,512	16,968,209	4,262,590
				Less capitalized leases			156,964	12,512
				Total long-term debt			$16,811,245	$4,250,078

f. 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, 2009, there were seven series of industrial revenue bonds outstanding, with an aggregate principal amount payable of $34,665,000. 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.

g. Compensated Absences (Accrued Leave)

All business-type activities relate to the environmental protection expenditure function. Accrued leave activity, by type of leave, for the year ended June 30, 2009, was as follows for business-type activities.

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Difference (or Expense)
Vacation Leave (accrued)	$ 77,896	$ 68,589	$ (57,532)	$ 88,953	$ 11,057
Holiday Leave (accrued)	15,930	49,491	(48,941)	16,480	550
Compensatory Leave (accrued)	13,829	14,281	(14,703)	13,407	(422)
Subtotal (accrued)	107,655	132,361	(121,177)	118,839	11,184
Compensatory Leave (unaccrued)	1,978	3,186	(632)	4,532	2,554
Sick Leave (unaccrued)	94,500	53,990	(51,513)	96,977	2,477
Subtotal (unaccrued)	96,478	57,176	(52,145)	101,509	5,031
Grand Totals	$ 204,133	$ 189,537	$ (173,322)	$ 220,348	$ 16,215

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. The following table displays the changes in earned leave, sick leave, and the portion of compensatory 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 (or Expense)" to both the current and non-current portions of the accrued liability on the Government-Wide Financial Statements.

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Difference (or Expense)
VacationlLeave (accrued)	$ 2,236,590	$ 1,865,600	$ (1,758,903)	$ 2,343,287	$ 106,697
General government	290,616	241,916	(234,510)	298,022	7,406
Public safety	744,096	604,124	(536,743)	811,477	67,381
Human services	1,128,936	971,680	(940,774)	1,159,842	30,906
Cultural (library)	42,877	25,115	(24,149)	43,843	966
Other	30,065	22,765	(22,728)	30,102	37
Subtotal	2,236,590	1,865,600	(1,758,903)	2,343,287	106,697
Holiday leave (accrued)	574,623	1,441,792	(1,346,263)	670,152	95,529
General government	2,218	156,844	(155,858)	3,205	987
Public safety	570,710	554,541	(459,973)	665,278	94,568
Human services	1,582	694,655	(694,568)	1,669	87
Cultural (library)	-	23,172	(23,172)	-	-
Other	113	12,580	(12,693)	-	(113)
Subtotal	574,623	1,441,792	(1,346,263)	670,152	95,529
Compensatory leave (accrued)	424,309	649,199	(604,301)	469,207	44,898
General government	39,074	36,149	(33,761)	41,462	2,388
Public safety	182,975	190,165	(151,702)	221,438	38,463
Human services	193,195	409,473	(407,940)	194,728	1,533
Cultural (library)	8,929	11,661	(9,295)	11,295	2,366
Other	136	1,751	(1,602)	285	149
Subtotal	424,309	649,199	(604,301)	469,207	44,898
Subtotal (accrued)	3,235,522	3,956,591	(3,709,467)	3,482,646	247,124
Compensatory leave (unaccrued)	476,904	359,589	(313,152)	523,341	46,437
General government	161,566	75,913	(50,427)	187,052	25,486
Public safety	81,314	27,871	(22,497)	86,688	5,374
Human services	228,675	238,200	(227,613)	239,262	10,587
Cultural (library)	5,349	14,262	(9,487)	10,124	4,775
Other	-	3,343	(3,128)	215	215
Subtotal	476,904	359,589	(313,152)	523,341	46,437
Sick leave (unaccrued)	2,518,938	1,444,127	(1,318,744)	2,644,321	125,383
General government	339,143	171,102	(166,482)	343,763	4,620
Public safety	861,555	476,218	(425,409)	912,364	50,809
Human services	1,239,401	757,805	(687,780)	1,309,426	70,025
Cultural (library)	49,900	25,278	(27,773)	47,405	(2,495)
Other	28,939	13,724	(11,301)	31,362	2,423
Subtotal	2,518,938	1,444,127	(1,318,744)	2,644,321	125,383
Subtotal (unaccrued)	2,995,842	1,803,716	(1,631,897)	3,167,661	171,819
Grand Totals	$ 6,231,364	$ 5,760,307	$ (5,341,363)	$ 6,650,308	$ 418,944

h. 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, 2009:

Governmental Activities	Next Year Interest Payable	Next Year Obligation	Future Year Obligation	Total
G.O. Bonds (capital related)	$ 20,410	$ 680,326	$ -	$ 700,736
G.O. Bonds (non-capital related)	128,290	1,644,674	1,600,000	3,372,964
Bank financed loans	455,986	848,000	11,472,000	12,775,986
Contractual obligations	25,168	18,642	547,603	591,413
Total Bonds	629,854	3,191,642	13,619,603	17,441,099
Capitalized leases	6,379	45,552	111,412	163,342
Net pension obligation	-	-	317,772	317,772
Net OPEB Obligation	-	-	1,284,046	1,284,046
Accrued (earned, unpaid) leave	-	1,490,853	1,991,794	3,482,646
Totals	$ 636,232	$ 4,728,046	$ 17,324,627	$ 22,688,905
Business-type Activities				
Landfill closure / post-closure care	$ -	$ -	$ 6,792,940	$ 6,792,940
Net OPEB Obligation	-	-	93,582	93,582
Accrued (earned, unpaid) leave	-	43,229	75,610	118,839
Totals	$ -	$ 43,229	$ 6,962,132	$ 7,005,361

	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Bonds (capital related)	$ 1,393,439	$ -	$ (713,113)	$ 680,326
G.O. Bonds (non-capital related)	4,956,561	-	(1,711,887)	3,244,674
Bank financed loans	6,000,000	6,720,000	(400,000)	12,320,000
Contractual obligations	584,111	-	(17,866)	566,245
Capitalized leases	203,079	-	(46,115)	156,964
Net pension obligation	295,460	22,312	-	317,772
Net OPEB Obligation	-	1,284,046	-	1,284,046
Accrued (earned, unpaid) leave	3,235,521	3,956,591	(3,709,466)	3,482,646
Totals	$ 16,668,171	$ 11,982,949	$ (6,598,447)	$ 22,052,673
By purpose:				
County	$ 7,393,439	$ 6,720,000	$ (1,113,113)	$ 13,000,326
Community College	2,100,000	-	(250,000)	1,850,000
Hospital	-	-	-	-
Public Schools (K-12)	2,856,561	-	(1,461,887)	1,394,674
Waterline	584,111	-	(17,866)	566,245
Equipment--capitalized leases	203,079	-	(46,115)	156,964
Employment / post-employment	3,530,981	5,262,949	(3,709,466)	5,084,464
Totals	$ 16,668,171	$ 11,982,949	$ (6,598,447)	$ 22,052,673
Business-type Activities				
Landfill closure / post-closure care	$ 3,642,732	$ 3,150,208	$ -	$ 6,792,940
Net OPEB Obligation	-	93,582	-	93,582
Accrued (earned, unpaid) leave	107,655	132,361	(121,177)	118,839
Totals	$ 3,750,387	$ 3,376,151	$ (121,177)	$ 7,005,361

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, 2009 consists of the following:

Activity description	Amount
From General Fund to Revaluation Fund for property revaluation efforts	$ 11,000
From General Fund to Emergency Telephone Fund to meet requirements of NC 911 Board	45,790
From General Fund to Debt Service Fund for payments on outstanding long-term debt	1,786,044
From General Fund to Capital Projects Fund for current capital projects activity	1,636,282
From General Fund to County Capital Reserve Fund to accumulate resources for future capital projects	2,394,000
From General Fund to Solid Waste Fund for medical insurance on employees	6,123
Subtotal from General Fund	5,879,239
From Schools Capital Reserve Fund to General Fund for current capital projects activity of the school system	2,760,683
From Schools Capital Reserve Fund to Debt Service Fund for payments on outstanding long-term bonds used for construction of school buildings	1,547,584
From Schools Capital Reserve Fund to County Capital Reserve Fund to accumulate resources for future capital projects for construction of school buildings	1,000,000
Subtotal from Schools Capital Projects Fund	5,308,267
From Emergency Telephone Fund to General Fund for a portion of costs of personnel involved in supporting fund activities	66,144
From County Capital Reserve Fund to Capital Projects Fund for current capital projects activity of the County	6,330,809
From Solid Waste Fund to General Fund for a portion of costs of personnel involved in supporting fund activities and for workers' compensation	235,059
Total interfund activity	$ 17,819,518

During the fiscal year, the County made a one-time transfer from the General Fund to the Emergency Telephone System Fund to meet requirements of the NC 911 Board that oversees the expenditures from the Emergency Telephone System Fund. Further, the County made a one-time transfer from the Schools Capital Reserve Fund to the County Capital Reserve Fund to accumulate resources to use for the construction of a new school facility in the upcoming year.

Due to / from balances represent advances / reimbursements to be made among funds based upon the fact that the County utilizes a central depository for processing receipts and payments. For example, numerous payments were made following the receipt of invoices after June 30 for services performed or goods received prior to June 30. All interfund balances are expected to be offset with recorded transfers in the ensuing fiscal year. The composition of interfund balances as of June 30, 2009 is as follows:

Reporting Fund	Due from General Fund	Due from Other Funds	Due to Other Funds
Governmental Funds			
General Fund	$ -	$ 1,071,310	$ 19,835
Revaluation Fund	11,000	-	-
Emergency Telephone Fund	1,584	-	-
Fire District Fund	7,251	-	-
Capital Projects Fund	-	-	10,991
Capital Reserve Fund	-	-	1,060,319
Total interfund balances	$ 19,835	$ 1,071,310	$ 1,091,145

D. Net Assets

Net assets in the Government-Wide Financial Statements and Fund Financial Statements of the Solid Waste Fund 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, 2009, consists of the following:

Governmental activities	Beginning Balance	Activity	Ending Balance
General government	$ (4,218.10)	$ (20,122.41)	$ (24,340.51)
Register of Deeds Automation Fund (3.994.19)	(4,218.10)	(20,122.41)	(24,340.51)
Public safety	2,868,598.14	512,664.46	3,381,262.60
E911 Service Cash (FD26)	1,038,485.84	394,885.88	1,433,371.72
Fire Districts Cash (FD28)	1,104,714.06	-50,349.21	1,054,364.85
Unspent Dare Fundraisers	-	-	-
Unspent Dare Program Donations	4,201.96	649.64	4,851.60
Unspent Sheriff Donations	6,124.72	5,883.17	12,007.89
Unspent K9 Donations	5,219.38	1,230.15	6,449.53
Unspent K9 Fundraisers	1,556.78	-	1,556.78
Unspent Reading Fathers Donations	7.50	-	7.50
Unspent Emergency Management Donations	-	-	-
Unspent EMS Donations	159.12	245.00	404.12
Unspent LLEBG	-	-	-
Unspent Federal Forfeiture Monies	406,722.34	148,446.10	555,168.44
Unspent State Forfeiture Monies	301,406.44	11,673.73	313,080.17
Human services	990,026.05	621,921.82	1,611,947.87
Unspent grants to Social Services	15.17	0.49	15.66
Unspent Health Donations	9,388.23	(9,388.23)	-
Unspent earnings from Health Department	980,622.65	631,309.56	1,611,932.21
Education	5,978,414.40	6,847.59	5,985,261.99
Public Schools Cash (FD20) - LIABILITIES OFFSET	-	-	-
Public Schools Capital Projects Cash (FD21)	5,978,414.40	6,847.59	5,985,261.99
Community College Bond Cash (FD23)	-	-	-
Economic and physical development	37,665.04	6,049.40	43,714.44
Unspent Co-op Exp Special Project	9,152.32	6,243.43	15,395.75
Unspent Soil Conservation Special Project	28,512.72	-194.03	28,318.69
Culture and recreation	168,772.79	(36,056.99)	132,715.80
Unspent Library Donations	168,772.79	(36,056.99)	132,715.80
Total	$ 10,039,258.32	$ 1,091,303.87	$ 11,130,562.19

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, 2009 consists of the following:

Governmental activities:	Beginning Balance	Activity	Ending Balance
Capital assets	$ 128,093,828	$ 9,540,321	$ 137,634,149
Adjustments			
Depreciation on capital assets	(34,863,726)	(3,360,510)	(38,224,236)
Bonds issued for capital purposes, current portion	(1,113,113)	(415,213)	(1,528,326)
Leases issued for capital equipment, current portion	(46,115)	563	(45,552)
Bonds issued for capital purposes, future portion	(6,280,326)	(5,191,674)	(11,472,000)
Leases issued for capital equipment, future portion	(156,963)	45,551	(111,412)
Premium on bonds issued for capital purposes	2,238	(3,085)	(847)
Deferred charges on bonds issued for capital purposes	105,931	(72,039)	33,892
Subtotal adjustments	(42,352,074)	(8,996,407)	(51,348,481)
Invested in capital assets, net of related debt	**$ 85,741,754**	**$ 543,914**	**$ 86,285,668**

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 non-voting 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 $1,290,129 for operating purposes and an additional $60,000 for capital purposes during the fiscal year ended June 30, 2009 to Cleveland Community College.

The County paid an additional $2,162 to CCC for training courses and course materials for employees.

Beginning in fiscal year 2008, the County agreed to help pay for a temporary facility for an early college high school. For this purpose, the County paid $61,406 to CCC for the fiscal year ended June 30, 2009. The County is funding their portion of this project through the Capital Projects Fund. For more information, see 'Exhibit II.D.4.i' 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 $250,000 on general obligation bonds issued for community college capital facilities. Of the general obligation bond issues for this purpose, $1,850,000 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 $16,307 to IPDC during the fiscal year ended June 30, 2009. The County paid an additional $48,014 to IPDC to coordinate and administer the Community Development Block Grant awards for a Housing Rehab project and $33 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, 2009:

Program Title	Federal CFDA Number	State or Pass-Thru Grantor Number	Federal (Direct and Pass-Thru) Expenditures	State (Direct and Pass-Thru) Expenditures
U.S. Dept. of Health and Human Services				
Passed-through the N.C. Dept. of Health and Human Services:				
Divisions of Aging (thru Isothermal Planning and Development) and Social Services:				
III-B Grants for Supportive Services and Senior Centers – In-Home Services	93.044	-	$ 132,682	$ 7,805
U.S. Dept. of Housing and Urban Development				
Passed-through N.C. Dept of Commerce, thru Isothermal Planning and Development				
Community Development Block Grant-Sewer	14.228	07-E-1740	186,722	
Community Development Block Grant-Housing	14.228	07-C-1657	202,125	-
Total pass-thru grants awards from IPDC			$ 521,529	$ 7,805

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, all added facilities on County land become County property. Also, CRMC will remit a lump-sum lease payment of $1,450,000 each year to the County beginning January 2005.

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 determination of eligibility, 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.

Program Title	Federal CFDA Number	State or Pass-Thru Grantor Number	Federal (Direct and Pass-Thru) Expenditures	State (Direct and Pass-Thru) Expenditures
Women, infants, and children	10.557	-	$ 2,160,954	$ -
Food stamps	10.551	-	23,275,202	-
Medical assistance	93.778	-	110,895,896	42,640,127
Participation in budgeted County expenditures				
IV-D offset fees - ESC	93.563	-	1,006	-
IV-D offset fees - federal	93.563	-	9,327	-
Independent Living Links	93.674	-	-	-
Links Transitional Funds	93.674	-	4,812	-
IV-E Adoption Subsidy	93.659	-	492,313	93,685
Energy Assistance Payments	93.568	-	798,031	-
AFDC Payments and Penalties	93.560	-	(1,544)	(423)
AFDC Unemployed Parents Assistance	93.560	-	(233)	(64)
TANF Payments and Penalties	93.558	-	1,463,379	(149)
Child Welfare Services Adoption Subsidy		-	-	377,365
State-County/Special Assistance Domicillary Care Payments		-	-	1,346,748
Total participation in budgeted County expenditures			2,767,093	1,817,162
Total direct benefit payments			$ 139,099,145	$ 44,457,289

Note g: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

With regard to matters of stewardship, compliance, and accountability, the County discloses the following as the only such matters that require disclosure.

A. Deficit in Fund Balance of Individual Funds

Due to expected grant revenues not yet received as reimbursement for expenditures made, both the Community Development Fund and the Capital Projects Fund have a deficit in fund balance. With regard to grant reimbursements, the County is at the mercy of the grantor as to when such reimbursement will be made. The County has sufficient financial resources to sustain activity while waiting for reimbursements to arrive.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2009, reported expenditures made for cultural activities in the County's General Fund exceeded the authorized appropriations made by the governing board by $959,660. This overage occurred because of an unbudgeted donation of capital assets. Valued at $1,024,267, this donated land is reported as capital outlay and included as additions to capital assets. This donation is also recorded as revenue; its specifically categorized as contributions/donations and reported as miscellaneous revenue. In future years, management will more closely review donated capital assets to ensure an appropriate level of budget is approved by the governing board.