

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Fiscal Year Ended June 30, 2011
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
B. Management's Discussion and Analysis

Via this subsection entitled "Management's Discussion and Analysis", management of Cleveland County, North Carolina, offer readers of this *Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 2011* a narrative overview and analysis of the County's fiscal performance. This subsection follows "Subsection A: Report from the Independent Auditor" and serves as an introduction to "Section II: Financial Statements and Supplementary Information." To gain valuable insight, please read the following discussion in conjunction with the financial statements and supplementary information furnished in this section.

SIGNIFICANT FINANCIAL HIGHLIGHTS

- On a government-wide basis, assets exceeded liabilities at the close of the fiscal year by \$138,447,849. This amount is also referred to as total net assets.
- On a government-wide basis, total net assets decreased by \$2,790,439 from last year, primarily due to continued reduction in investment earnings, large increase in interest expense on recent borrowings, and large increase in liability for closure and post-closure care costs at the County's landfill operations.
- The ending fund balances of all governmental funds combined equals \$46,640,770, a decrease of \$12,459,143 from prior year. This decrease is primarily due to spending of debt proceeds included in revenue of prior years.
- At the end of the fiscal year, fund balance available for appropriation in the General Fund was \$13,583,362, or 15.0% of total General Fund expenditures for the fiscal year.
- The County added \$29,186,817 (24.3%) to its total capital assets during the fiscal year, to achieve an ending balance of \$149,390,168. A few building projects are underway.
- Total long-term liabilities increased by \$18,151,154 (38.3%) to \$65,533,868 during the fiscal year due to 1) issuing \$17,582,950 in new debt and 2) increases in estimated obligations for pensions and other post-employment benefits, all of which were partially offset by making scheduled principal payments.

DESCRIPTION OF SECTION II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

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

Summary



Detail

Basic Financial Statements (BFS) and Required Supplementary Information (RSI)
 RSI - Management's Discussion and Analysis (MD&A)
 BFS - Government-Wide Financial Statements (GWFS)
 BFS - Fund Financial Statements (FFS)
 Governmental Fund Financial Statements
 Budgetary Comparison Statements
 Proprietary Fund Financial Statements
 Fiduciary Fund Financial Statements
 BFS - Notes to Financial Statements (Notes)
 RSI - Other Supplementary Schedules
 Budget to Actual Comparison Schedules
 Other Supplementary Information

Figure 1. Level of Detail

Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

Required Supplementary Information and Other Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL HIGHLIGHTS

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

Net Assets and Changes in Net Assets

In the fiscal year ended June 30, 2011, net assets decreased by \$2,790,439 to \$138,447,849. This decrease is primarily due to continued reduction in investment earnings, large increase in interest expense, and large increase in liability for closure and post-closure care costs at the County’s landfill operations.

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

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

Table 1. Condensed Statement of Net Assets

Category	Governmental Activities			Business-Type Activities		
	2011	2010	2009	2011	2010	2009
(amounts depicted in thousands of dollars)						
Current and other assets	\$ 61,120	\$ 66,612	\$ 53,188	\$ 5,954	\$ 6,787	\$ 7,498
Capital assets	134,350	107,003	99,410	15,040	13,200	13,483
Total assets	195,470	173,615	152,598	20,994	19,987	20,981
Current and other liabilities	11,778	4,861	4,173	704	121	400
Long-term liabilities	57,894	41,847	22,053	7,640	5,535	7,005
Total liabilities	69,672	46,708	26,226	8,344	5,656	7,405
Invested in capital assets, net	85,694	73,352	86,286	15,040	13,200	13,483
Restricted	39,629	13,034	11,131	-	-	-
Unrestricted	475	40,521	28,955	(2,390)	1,131	93
Total net assets	\$ 125,798	\$ 126,907	\$ 126,372	\$ 12,650	\$ 14,331	\$ 13,576

Table 2. Condensed Statement of Activities

Category	Governmental Activities			Business-Type Activities		
	2011	2010	2009	2011	2010	2009
(amounts depicted in thousands of dollars)						
Revenues:						
Program revenues						
Charges for services	\$ 23,496	\$ 23,005	\$ 22,433	\$ 4,990	\$ 4,392	\$ 4,683
Program grants and contributions	28,309	24,774	29,797	2,262	297	360
General revenues						
Property and other taxes	46,478	46,097	48,661	-	-	-
General grants and contributions	190	-	-	-	-	-
Investment earnings	202	546	1,104	44	15	160
Total revenues	98,675	94,422	101,995	7,296	4,704	5,203
Program expenses:						
General government	6,759	9,028	9,095	-	-	-
Transportation	39	39	39	-	-	-
Public safety	23,198	21,698	20,436	-	-	-
Human services	36,593	33,914	39,265	-	-	-
Education	26,348	25,447	26,671	-	-	-
Economic and physical development	3,882	2,349	3,043	-	-	-
Cultural	1,017	1,103	1,272	-	-	-
Solid waste/environmental	-	-	-	8,641	3,614	8,267
Interest on long-term liabilities	2,284	644	697	-	-	-
Total expenses	100,120	94,222	100,518	8,641	3,614	8,267
Excess (deficiency) before transfers	(1,445)	200	1,477	(1,345)	1,090	(3,064)
Transfers	336	335	229	(336)	(335)	(229)
Change in net assets	(1,109)	535	1,706	(1,681)	755	(3,293)
Net assets, beginning	126,907	126,372	124,666	14,331	13,576	16,869
Net assets, ending	\$ 125,798	\$ 126,907	\$ 126,372	\$ 12,650	\$ 14,331	\$ 13,576

Table 3. Condensed Statement of Activities (Percentages)

Category	Governmental Activities			Business-Type Activities		
	2011	2010	2009	2011	2010	2009
Revenues:						
Program revenues						
Charges for services	23.81%	24.36%	21.99%	68.39%	93.37%	90.01%
Program grants and contributions	28.69%	26.24%	29.21%	31.00%	6.31%	6.92%
General revenues						
Property and other taxes	47.10%	48.82%	47.71%	0.00%	0.00%	0.00%
General grants and contributions	0.19%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment earnings	0.21%	0.58%	1.09%	0.61%	0.32%	3.07%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Program expenses:						
General government	6.75%	9.58%	9.05%	0.00%	0.00%	0.00%
Transportation	0.04%	0.04%	0.04%	0.00%	0.00%	0.00%
Public safety	23.16%	23.04%	20.33%	0.00%	0.00%	0.00%
Human services	36.55%	35.99%	39.06%	0.00%	0.00%	0.00%
Education	26.32%	27.01%	26.53%	0.00%	0.00%	0.00%
Economic and physical development	3.88%	2.49%	3.03%	0.00%	0.00%	0.00%
Cultural	1.02%	1.17%	1.27%	0.00%	0.00%	0.00%
Solid waste/environmental	0.00%	0.00%	0.00%	100.00%	100.00%	100.00%
Interest on long-term liabilities	2.28%	0.68%	0.69%	0.00%	0.00%	0.00%
Miscellaneous	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Each year-end balance of unrestricted net assets has been reduced by the outstanding principal on debt used to finance construction of school buildings before 2010. Since school buildings were titled to the Cleveland County Board of Education, these assets were not recorded as the County's capital assets and related loans were not included in the calculation of "invested in capital assets, net of related debt". As the principal of such debt increases or decreases, unrestricted net assets decreases or increases, respectively. Beginning with debt issued in 2010 for school buildings, the County will hold title until the loan is paid. Due to this arrangement, the outstanding principal on this and future debts used to finance construction of school buildings will be included in the calculation of "invested in capital assets, net of related debt." From the period before 2010, very little outstanding debt related to school buildings remains.

Of total revenues, about 43.86% stems from property and other taxes, 28.88% from program grants and contributions, and 26.87% from charges for services. Of total expenses, about 33.65% is spent toward human service programs, 24.23% toward education programs, and 21.33% on public safety programs. To summarize, the County's total revenues are about \$106 million and total expenses are about \$108.8 for the year ended June 30, 2011, removing about \$2.8 million to the total net assets of the County. See Table 2 and Table 3 above.

Other indicators of the County's financial condition include the net assets ratio, debt-to-assets ratio, capital assets condition ratio, total margin ratio, percentage change in net assets, debt service ratio, and quick ratio. Calculations of these indicators for the current report are described below. Also, see Table 4 below for 7-year trend information.

- 1) total margin ratio = (total resource inflow) divided by (total resource outflow)
- total resource inflow = \$105,970,795, which is total general revenues and transfers (\$46,914,199) plus program revenues (\$28,486,034 + \$27,193,223 + \$3,377,339) of the County (from Exhibit II.C.1.b)
 - total resource outflow = \$108,761,234, which is total expenses of the County (from Exhibit II.C.1.b)
 - total margin ratio = $\$105,970,795 / \$108,761,234 = 0.974$
- 2) percentage (%) change in net assets = (change in net assets) divided by (beginning net assets)
- change in net assets = -\$2,790,439 (from Exhibit II.C.1.b)
 - beginning net assets = \$141,238,288 (from Exhibit II.C.1.b)
 - percentage (%) change in net assets = $-\$2,790,439 / \$141,238,288 = -2.0\%$
- 3) debt service ratio = (principal payments plus interest payments) divided by (total resource outflow plus principal payments)
- principal payments = \$63,273 + \$2,783,775 = \$2,847,048 (from Exhibits II.D.3.a and II.D.4.h)
 - interest payments = \$6,585 + \$1,704,965 = \$1,711,550 (from Exhibits II.D.3.a and II.D.4.h)
 - debt service ratio = $(\$2,847,048 + \$1,711,550) / (\$108,761,234 + \$2,847,048) = 0.041$
- 4) quick ratio =(cash and cash equivalents) divided by (current liabilities)
- cash and cash equivalents = \$34,078,328 (from Exhibit II.C.1.a)
 - current liabilities = \$8,608,161 + \$2,850,574 + \$798,601 + \$224,912 = \$12,482,248 (from Exhibit II.C.1.a)
 - quick ratio = $\$34,078,328 / \$12,482,248 = 2.730$
- 5) net assets ratio = (unrestricted net assets) divided by (total liabilities)
- unrestricted net assets = - \$1,914,979 (from Exhibit II.C.1.a)
 - total liabilities = \$78,016,116 (from Exhibit II.C.1.a)
 - net assets ratio = $-\$1,914,979 / \$78,016,116 = (0.025)$
- 6) debt-to-assets ratio = (outstanding long-term liabilities) divided by (total assets)
- outstanding long-term liabilities = \$65,533,868 (from Exhibit II.C.1.a)
 - total assets = \$216,463,965 (from Exhibit II.C.1.a)
 - debt-to-assets ratio = $\$65,533,868 / \$216,463,965 = 0.303$
- 7) capital assets condition ratio = (1.000) less ((accumulated depreciation) divided by (capital assets being depreciated))
- accumulated depreciation = \$46,772,943 + \$7,331,073 = \$54,104,016 (from Note b.A.5 on Capital Assets)
 - capital assets being depreciated = \$130,077,094 + \$10,602,671 = \$140,679,765 (from Note b.A.5 on Capital Assets)
 - capital assets condition ratio = $1.000 - (\$54,104,016 / \$140,679,765) = 0.615$

Table 4. 7-Year Trend of 7 Important Government-Wide Financial Indicators

Indicator Name / Result	2011	2010	2009	2008	2007	2006	2005
total margin ratio	0.974	1.013	0.985	1.243	1.110	1.180	1.085
% change in net assets	(0.020)	0.009	(0.011)	0.214	0.102	0.191	0.092
debt service ratio	0.041	0.039	0.030	0.049	0.053	0.057	0.061
quick ratio	2.730	6.291	7.657	8.916	10.663	9.510	9.326
net assets ratio	(0.025)	0.795	0.864	1.279	1.419	1.112	0.888
debt-to-assets ratio	0.303	0.245	0.167	0.122	0.132	0.170	0.224
capital assets condition ratio	0.615	0.642	0.651	0.676	0.637	0.646	0.624

Governmental Activities

Governmental activities decreased the County's net assets by \$1,109,721, thereby, contributing to the overall decrease in total net assets. See both Table 2 and Table 3 above. This decrease in net assets is primarily due to total expenditures exceeding total revenues in many governmental funds.

Business-Type Activities

Business-type activities decreased the County's net assets by \$1,680,718, thereby, contributing to the overall decrease in total net assets. See both Table 2 and Table 3 above. Correcting the amount of reported liability for future closure and post-closure care activities, the County increased the reported liability for closure and post-closure care costs by \$2,026,980. This change in reported liability led to the decrease in net assets.

Due to the nature of the landfill business, we intend to return to building cash reserves following the closing of the older landfill site and opening of the newer landfill site. Generally, increases in assets beget increases in net assets. And, a large amount of cash reserves is needed to fund the construction of additional landfill sites. The older landfill site remained open until January 2010. The County's budget for the year beginning July 1, 2010 included an estimated amount for the closure activities of the older landfill site and that project was incomplete at June 30, 2011.

FUND HIGHLIGHTS

As noted earlier, Cleveland County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds with either large balances at year-end or a large amount of activity during the year are classified as "major" funds and receive special attention throughout this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2011*.

Governmental Funds. The focus of Cleveland County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Cleveland County's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Across all governmental funds, the County has a fund balance available for appropriation of about \$15.27 million. Also, as a measure of a fund's liquidity, it may be useful to compare both fund balance available for appropriation and total fund balance to total fund expenditures. For all governmental funds, fund balance available for appropriation amounts to 12.0% and total fund balance amounts to 36.5% of total expenditures. More financial indicators are shown in Table 5 below, preceded by a description of each indicator.

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

On June 30, 2011, the County reported \$46,640,770 as the combined fund balance of all governmental funds. The total decrease in the combined fund balance of all governmental funds of \$12,459,143 may be attributed to various causes. Primarily, the reason for this decrease results from 1) spending loan proceeds that were unspent last year partially offset by the unspent proceeds of a \$17,582,950 installment purchase during the year, 2) larger than anticipated decreases in sales taxes and other revenues due to economic factors, and 3) large increase in interest paid for borrowings.

The General Fund is the chief operating fund of the County and a major fund. At the end of the current fiscal year, fund balance available for appropriation of the General Fund was \$13,583,362, while total fund balance reached \$22,281,639. The total decrease in the fund balance of the General Fund of \$1,300,489 is primarily attributed to large transfers for current and future construction projects to the Capital Projects Fund and larger

than anticipated decreases in sales taxes and other revenues due to national, regional, and local economic factors. Fund balance available for appropriation represents 15.0% of total General Fund expenditures, while total fund balance represents 24.6% of that same amount, amounts that have deteriorated since prior year.

The County Manager has determined that the County should maintain a level of fund balance available for appropriation of between 18% to 20% of total expenditures in the General Fund. Not only does maintaining such levels assist with cash flow needs, the County is also better able to weather unforeseen circumstances and take full advantage of unanticipated opportunities. The County is taking corrective action to increase this calculated percentage to the approved level.

Due to a number of large ongoing projects, the Capital Projects Fund remains to be a major fund for the year ended June 30, 2011. The County plans to spend accumulated cash to help 1) finance current and future projects and 2) purchase planned assets while continuing to add cash contributions for these purposes.

1) operations ratio = ((total revenues) plus (transfers in) less (transfers in to capital projects-type funds)) divided by ((total expenditures) plus (transfers out) less (proceeds from capital leases and installment financing) and less (transfers out from capital projects-type funds))

- total revenues plus transfers in = \$104,567,640, which is total revenues (\$97,348,255) plus transfers in (\$7,219,385) of the County's governmental funds (from Exhibit II.C.2.b)
- transfers in to capital projects-type funds = \$1,283,781, which is total transfers in to Capital Projects Fund (from Exhibit II.E.02)
- total expenditures plus transfers out = \$134,609,733, which is total expenditures (\$127,726,273) plus transfers out (\$6,883,460) of the County's governmental funds (from Exhibit II.C.2.b)
- proceeds from capital leases and installment financing = \$17,582,950 (from Exhibit II.C.2.b)
- transfers out from capital projects-type funds = \$3,525,703, which is total transfers out from Capital Projects Fund (from Exhibit II.E.02)
- operations ratio = $(\$104,567,640 - \$1,283,781) / (\$134,609,733 - \$17,582,950 - \$1,283,781) = 0.910$

2) percentage (%) change in fund balance = ((change in fund balance) less (unspent debt proceeds)) divided by (beginning fund balance)

- change in fund balance = - \$12,459,143 (from Exhibit II.C.2.b)
- beginning fund balance = \$59,099,913 (from Exhibit II.C.2.b)
- percentage change in fund balance = $- \$12,459,143 / \$59,099,913 = - 21.0815\%$

3) debt service ratio = ((principal payments) plus (interest payments)) divided by ((total expenditures) plus (transfers out) less (proceeds from capital leases and installment financing) and less (transfers out from capital projects-type funds))

- principal payments = \$2,847,048 (from Exhibit II.C.2.b)
- interest payments = \$1,711,550 (from Exhibit II.C.2.b)
- debt service ratio = $(\$2,847,048 + \$1,711,550) / (\$134,609,733 - \$17,582,950 - \$1,283,781) = 0.040$

4) quick ratio = (cash and investments) divided by (current liabilities--not including deferred revenues)

- cash and cash equivalents = \$28,687,969 (from Exhibit II.C.2.a)
- current liabilities--not including deferred revenues = $\$7,329,472 + \$576,942 + \$2,847,894 + \$2,226,697 + \$224,912 = \$13,205,917$ (from Exhibit II.C.2.a)
- quick ratio = $\$28,687,969 / \$13,205,917 = 2.172$

5) available fund balance-to-expenditures ratio = (available fund balance) divided by ((total expenditures) plus (transfers out) less (proceeds from capital leases and installment financing) and less (transfers out from capital projects-type funds))

- available fund balance = \$15,266,575 (from Exhibit II.C.2.a)
- available fund balance-to-expenditures ratio = $\$15,266,575 / (\$134,609,733 - \$17,582,950 - \$1,283,781) = 0.135$

- 6) debt-to-assessed value ratio = (long-term debt) divided by (total assessed value used for property tax purposes)
- long-term debt = \$50,534,334 (from detail notes in Exhibit II.C.3.b.B.7.e)
 - total assessed value used for property tax purposes = \$6,676,763,263 (from Exhibit II.E.03)
 - debt-to-assessed value ratio = $\$50,534,334 / \$6,676,763,263 = 0.0076$
- 7) intergovernmental ratio = (intergovernmental revenues) divided by ((total revenues) plus (transfers in) less (transfers in to capital projects-type funds))
- intergovernmental revenues = \$24,260,241 (from Exhibit II.C.2.b)
 - intergovernmental ratio = $\$24,260,241 / (\$104,567,640 - \$1,283,781) = 0.235$

Table 5. 7-Year Trend of 7 Important Governmental Funds Financial Indicators

Indicator Name / Result	2011	2010	2009	2008	2007	2006	2005
operations ratio	0.910	1.166	0.955	1.034	1.007	0.990	1.007
% change in fund balance	(0.210815)	0.317397	(0.000005)	0.164	0.038	(0.002)	0.049
debt service ratio	0.040	0.045	0.030	0.052	0.055	0.057	0.062
quick ratio	2.172	5.590	6.817	8.290	7.614	7.291	6.628
available fund balance-to-expenditures	0.139	0.330	0.318	0.356	0.292	0.294	0.292
debt-to-assessed value ratio	0.0076	0.0054	0.0025	0.0021	0.0020	0.0028	0.0037
intergovernmental ratio	0.235	0.213	0.214	0.222	0.224	0.211	0.180

Proprietary Funds. Cleveland County's sole proprietary fund, an Enterprise Fund, provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Solid Waste Fund at the end of the fiscal year amounted to - \$2,389,745 and total net assets of this fund is \$12,650,002. Factors concerning the finances of this sole Enterprise Fund have already been addressed in the discussion of Cleveland County's business-type activities.

CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

Table 6. Capital Assets, Net of Accumulated Depreciation

Category	Governmental Activities			Business-Type Activities		
	2011	2010	2009	2011	2010	2009
	(amounts depicted in thousands of dollars)					
Land and land improvements	\$ 15,621	\$ 13,783	\$ 12,113	\$ 10,324	\$ 9,777	\$ 9,531
Construction in progress	35,425	8,202	7,922	1,444	-	30
Buildings and improvements	73,110	75,342	74,887	859	819	1,274
Equipment (including vehicles)	4,190	3,118	3,085	1,776	1,691	1,459
Leasehold improvements	235	250	264	9	10	10
Infrastructure	5,769	6,308	1,139	628	903	1,179
Total capital assets, net	\$ 134,350	\$ 107,003	\$ 99,410	\$ 15,040	\$ 13,200	\$ 13,483

Capital Assets. Cleveland County's capital assets for its governmental and business-type activities as of June 30, 2011 totals \$149,390,168 (net of accumulated depreciation). These assets include construction in progress, equipment and vehicles, buildings, land, improvements to both land and buildings, leasehold improvements, and infrastructure items. Major capital asset transactions during the year include:

- Acquisition of new equipment and vehicles (\$2,505,786 + \$487,371 increase).
- Acquisition of capital assets other than equipment and vehicles through the purchase, major renovation, construction, or received donation of land and buildings (\$31,718,631 increase)

- Increase in accumulated depreciation, including depreciation expense on equipment and vehicles of \$1,878,879 and on capital assets other than equipment and vehicles of \$3,515,510 (\$5,394,389 decrease to reported capital assets).
- Retirement and subsequent disposal of items sold, traded-in, made obsolete by newer equipment, or otherwise properly disposed (\$43,528 decrease for equipment and vehicles; \$83,104 decrease for capital assets other than equipment and vehicles; \$126,632 total decrease)

The County's investments in capital assets increased over 24.28% from the previous year. Additional information on the County's capital assets can be found in the Notes to Financial Statements, see Note 1.E. and Note 3.A.

Long-Term Liabilities. As of June 30, 2011, Cleveland County had total indebtedness outstanding of \$50,534,334, all of which is debt backed by the full faith and credit of the County. During the year ended June 30, 2011, the change in total outstanding indebtedness was \$15,830,224 (or 111%). During the year, the County met all normal debt service requirements of (\$4,550,551) and issued new debt of \$17,582,950.

In 2010, when the County last issued debt by financing the construction of school facilities, Standard & Poor's upgraded the County from an A bond rating to A+ and Moody's Investor Services realigned the County from an A1 bond rating to Aa2 based on its review and restructure of bond ratings for all local government entities. As of April 2011, the North Carolina Municipal Council issued a score of 83 out of 100 possible points.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. After calculating the County's legal debt limit (which is 8% of total assessed value) and subtracting current outstanding long-term debt, the legal debt margin for Cleveland County is \$453,744,179. See Subsection III.C within Section III for more information on the calculation of the legal debt margin and other information concerning long-term debt. Additional information regarding the County's long-term obligations can be found in the Notes to Financial Statements, see Note a.D.8 and Note b.B.7.

BUDGETARY HIGHLIGHTS

During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of four categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to continue incomplete projects from the prior fiscal year; 3) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 4) increases in appropriations that become necessary to maintain services. And, the Commissioners have granted the County Manager authority to carryforward unspent donations and other designated proceeds for which budget was approved by the Commissioners in a prior year but some expenditures have not yet occurred. See Table 7 following the discussion below for a summary of budget amendments by fund.

General Fund. Total amendments to the General Fund increased budgeted revenues by \$7,016,038, appropriations of fund balance by \$1,589,278, and incoming transfers from other funds by \$615,000. The primary reasons for these increases were: (1) to carryforward budget related to a) unspent grant awards and other restricted resources (such as donations), b) unpaid obligations (i.e. year-end outstanding encumbrances), c) uncollected and undistributed property taxes for public schools, and d) other incomplete projects, (2) to accept new grants and other new resources for the purchase of various supplies, equipment, and services, or for school projects, (3) to accept new grants for recruiting new industry to locate facilities within Cleveland County, (4) to accept new public assistance grants that helped with residential heating costs and temporary employment, and (5) to accept a new grant on behalf of the regional mental health authority to assist with construction of a detoxification facility.

Capital Projects Fund. Budget amendments to the Capital Projects Fund increased revenues and expenditures by \$53,512,370 for various purposes: (1) to account for requested withdrawal of proceeds from the State lottery for renovations made to several school buildings for various upgrades, (2) to appropriate borrowed and reserve

funds for use in the construction of a new multi-purpose facility at the community college that will include the Early College High School, (3) for continuing projects that were incomplete when the year began (such as the renovation and expansion of the County's Detention Center Annex facility and construction of a new middle school in Shelby) including budget for items already spent to show total budget for the multi-year project on the current year's reports, and (4) to acknowledge the use of grant funds from external sources that will be used to finance the renovation of the historic courthouse in Shelby.

Solid Waste Fund. In the County's sole Enterprise Fund, total amendments to the Solid Waste Fund increased revenues and expenditures by \$601,346 primarily to account for the purchase of adjacent property to perpetuate the landfill operations for many years.

Non-Major Funds. Total amendments to non-major funds include the carryforward budget of incomplete special projects (including budget for items already spent to show total budget for the multi-year project on the current year's reports) and budget for new special projects.

The Community Development Fund is budgeted by project ordinance instead of the annual budget ordinance. The County budgeted \$2,600,000 in the Community Development Fund, which is reported as a Special Revenue Fund. Since this fund is not included in the original adopted budget, all budgeted expenditures (i.e. appropriations) are shown as budget amendments.

Table 7. Schedule of Budget Amendment Amounts by Fund

Fund	Original Adopted Budget	Amendments to Budget	Final Amended Budget
General Fund	\$ 94,102,632	\$ 9,220,316	\$ 103,322,948
Capital Projects Fund	4,558,400	53,512,370	58,070,770
Enterprise Fund	8,980,518	601,346	9,581,864
Non-Major Funds	6,613,942	3,271,214	9,885,156
Totals	\$ 114,255,492	\$ 66,605,246	\$ 180,860,738

ECONOMIC HIGHLIGHTS AND OTHER IMPORTANT FACTS

The area's unemployment rate has been higher than the State average for several years. In the past year, many industries have either reduced or relocated their workforce. Many others have closed operations. These actions have a significant impact on the County's revenues and expenditures since many of those formerly employed reduce personal spending and now seek services provided by the County. And, of course, the closure or reduction of activity also results in reduction of equipment and facilities subject to property taxation. In addition, lower personal spending has resulted in lower property taxes on personal vehicles and lower revenues from sales taxes

With the sudden downturn in retail sales that began in late September 2008 and has not recovered locally, sales tax revenues were significantly below original estimates. However, the collection of property taxes remained consistent compared to prior years. The Cleveland County Board of Commissioners lowered the property tax rates in fiscal year 2009 in the County-wide general district, County-wide school district, and County fire district, from a combined 76 cents per \$100 in assessed property value to 75 cents per \$100 in assessed property value, to help offset the increase in assessed property values due to a revaluation of property values. Although the County's current cycle is to conduct property revaluations every four years, the next revaluation has been delayed to the fiscal year beginning July 1, 2014.

The total County budget for fiscal year 2012 decreased by 0.47% from the prior year. The biggest factor in this decrease stems from decreases in the Solid Waste Fund offset by increases in the General Fund. Last year, the budget for the Solid Waste Fund included \$3,000,000 for the closure of a landfill cell that stopped accepting waste in January 2010. This year, the General Fund increased by \$2,486,776, or 2.69%, for various purposes. For a look

at the County's adopted budget for fiscal year 2012, review Subsection I.A, Message from the County Manager, found at the beginning of Section I.

Governmental Activities. An increase in assessed property values should lead to increased property tax revenues. However, revenues from the local option sales taxes continue to fall below budget. The County budgeted for normal increases in employee compensation, including funding compensation and benefits adjustments, and other planned expenditures. Due to payments on new borrowings, budgeted principal, and interest expenditures increased quite a bit in the Debt Service Fund.

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

Business-Type Activities. The budget for landfill activities in fiscal year 2012 decreased by 40.76% when compared to the prior year. This budget excludes \$3,000,000 that was added in the prior year to close an older landfill cell that stopped accepting waste in January 2010.

In addition, to set aside cash for future obligations related to closure and post-closure care costs, the County has increased its fees collected for landfill activities. The County will continue to monitor its revenues from these fees and adjust the fee structure as needed.

REQUESTS FOR ADDITIONAL FACTS

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

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