Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2011
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)

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The Basic Financial Statements provide a dual perspective summary overview of the financial position and operating results of the government as a whole ("Government-Wide Financial Statements") and of all funds ("Fund Financial Statements"). They also serve as a condensed introduction to the more detailed statements and schedules that follow. And, 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, 2011
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
1. Government-Wide Financial Statements

	Identifier	Page No.
a. Government-Wide Statement of Net Assets	Exhibit II.C.1.a	39
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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, 2011
With Comparative Totals as of June 30, 2010

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals 2011	Totals 2010
ASSETS				
Cash and cash equivalents	$ 28,687,969	$ 5,390,359	$ 34,078,328	$ 31,339,286
Taxes receivable, net	2,349,478	-	2,349,478	2,483,892
Accounts receivable, net	9,498,256	563,840	10,062,096	31,185,916
Inventories	133,331	-	133,331	86,552
Prepaid items	154,282	383	154,665	152,679
Restricted cash	20,197,899	-	20,197,899	8,053,089
Loan receivable	98,000	-	98,000	98,000
Capital assets				
Land and construction in progress	51,046,270	11,768,149	62,814,419	31,762,218
Other capital assets, net of accumulated depreciation	83,304,151	3,271,598	86,575,749	88,441,133
Total capital assets	134,350,421	15,039,747	149,390,168	120,203,351
Total Assets	195,469,636	20,994,329	216,463,965	193,602,765
LIABILITIES				
Accounts payable and accrued expenses	$ 7,906,414	$ 701,747	$ 8,608,161	$ 3,158,628
Unearned revenues	2,847,894	2,680	2,850,574	1,366,418
Accrued interest payable	798,601	-	798,601	226,341
Due to other taxing units	224,912	-	224,912	230,376
Long-term liabilities				
Current portion of long-term liabilities	4,934,430	45,923	4,980,353	3,788,538
Non-current portion of long-term liabilities	52,959,538	7,593,977	60,553,515	43,594,176
Total long-term liabilities	57,893,968	7,639,900	65,533,868	47,382,714
Total Liabilities	69,671,789	8,344,327	78,016,116	52,364,477
NET ASSETS				
Invested in capital assets, net of related debt	85,694,014	15,039,747	100,733,761	86,552,521
Restricted net assets:				
Economic development	1,049,342	-	1,049,342	53,267
Education	5,367,706	-	5,367,706	6,168,071
Human services	398	-	398	3,508,939
Public safety	1,994,735	-	1,994,735	3,326,318
Stabilization of State Statute	31,086,582	-	31,086,582	-
Other purposes	130,304	-	130,304	(22,687)
Total restricted net assets	39,629,067	-	39,629,067	13,033,908
Unrestricted net assets	474,766	(2,389,745)	(1,914,979)	41,651,859
Total Net Assets	$ 125,797,847	$ 12,650,002	$ 138,447,849	$ 141,238,288

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, 2011
With Comparative Totals For the Year Ended June 30, 2010

		Program Revenues			
PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Program Revenues (Expenses)
EXPENSES, PROGRAM REVENUES, AND NET RESULTS					
Governmental activities:					
General government	$ (6,758,722)	$ 2,283,008	$ 1,084,642	$ 33,680	$ (3,357,392)
Transportation	(39,464)	-	-	-	(39,464)
Public safety	(23,198,228)	5,486,734	682,837	26,271	(17,002,386)
Human services	(36,593,375)	5,470,082	18,590,542	5,020	(12,527,731)
Education	(26,348,019)	10,150,261	-	2,907,522	(13,290,236)
Economic and physical development	(3,882,363)	48,357	3,214,965	-	(619,041)
Cultural and recreational	(1,016,592)	57,589	559,339	404,846	5,182
Interest on long-term liabilities	(2,283,810)	-	799,086	-	(1,484,724)
Subtotal governmental activities	(100,120,573)	23,496,031	24,931,411	3,377,339	(48,315,792)
Business-type activities					
Solid waste collection and disposal	(8,640,661)	4,990,003	2,261,812	-	(1,388,846)
Total primary government	$ (108,761,234)	$ 28,486,034	$ 27,193,223	$ 3,377,339	$ (49,704,638)

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 2011	Totals 2010
NET PROGRAM REVENUES (EXPENSES)--FROM PRIOR PAGE				
Governmental activities:				
General government	$ (3,357,392)	$ -	$ (3,357,392)	$ (5,266,243)
Transportation	(39,464)	-	(39,464)	(39,464)
Public safety	(17,002,386)	-	(17,002,386)	(14,884,873)
Human services	(12,527,731)	-	(12,527,731)	(10,576,341)
Education	(13,290,236)	-	(13,290,236)	(12,485,329)
Economic and physical development	(619,041)	-	(619,041)	(2,200,942)
Cultural and recreational	5,182	-	5,182	(345,613)
Interest on long-term liabilities	(1,484,724)	-	(1,484,724)	(643,989)
Subtotal governmental activities	(48,315,792)	-	(48,315,792)	(46,442,794)
Business-type activities				
Solid waste collection and disposal	-	(1,388,846)	(1,388,846)	1,074,920
Total primary government	(48,315,792)	(1,388,846)	(49,704,638)	(45,367,874)
GENERAL REVENUES AND TRANSFERS:				
Property taxes	38,645,416	-	38,645,416	38,289,687
Local option sales taxes	7,405,889	-	7,405,889	7,429,274
Other taxes and licenses	426,626	-	426,626	378,380
Grants and contributions, general	190,000	-	190,000	-
Investment earnings, general	202,215	44,053	246,268	561,070
Total general revenues	46,870,146	44,053	46,914,199	46,658,411
Transfers:	335,925	(335,925)	-	-
Total general revenues and transfers	47,206,071	(291,872)	46,914,199	46,658,411
CHANGE IN NET ASSETS	(1,109,721)	(1,680,718)	(2,790,439)	1,290,537
Net Assets:				
Beginning of year - Juyly 1	126,907,568	14,330,720	141,238,288	139,947,751
End of year - June 30	$ 125,797,847	$ 12,650,002	$ 138,447,849	$ 141,238,288

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Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2011
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
2. Fund Financial Statements

	Identifier	Page No.
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d. Enterprise Fund: Solid Waste Fund: Statement of Fund Net Assets	Exhibit II.C.2.d	48
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g. Fiduciary Funds: Agency Funds: Statement of Fiduciary Net Assets	Exhibit II.C.2.g	51

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, 2011
With Comparative Totals as of June 30, 2010

	Governmental Funds				
	General	Capital Projects	Other Non-Major Funds	Totals 2011	Totals 2010
ASSETS					
Cash and cash equivalents	$ 19,228,042	$ 6,485,161	$ 2,974,766	$ 28,687,969	$ 30,186,517
Taxes receivable, net	2,077,174	-	39,869	2,117,043	2,298,165
Accounts receivable, net	6,585,408	2,205,731	707,117	9,498,256	30,784,808
Due from other governmental funds	2,048,873	169,786	8,038	2,226,697	765,400
Inventories	133,331	-	-	133,331	86,552
Prepaid items	152,370	1,080	832	154,282	152,308
Restricted cash	-	20,197,899	-	20,197,899	2,820,307
Total assets	$ 30,225,198	$ 29,059,657	$ 3,730,622	$ 63,015,477	$ 67,094,057
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	$ 2,981,059	$ 4,046,674	$ 301,739	$ 7,329,472	$ 2,820,316
Contract retainage	15,560	475,278	86,104	576,942	217,856
Unearned revenues	2,038,736	-	809,158	2,847,894	1,365,818
Deferred revenues	2,505,468	460,885	202,437	3,168,790	2,594,378
Due to other governmental funds	177,824	1,617,723	431,150	2,226,697	765,400
Due to other taxing units	224,912	-	-	224,912	230,376
Total liabilities	7,943,559	6,600,560	1,830,588	16,374,707	7,994,144
Fund balances					
Non-spendable					
Inventories	133,331	-	-	133,331	86,552
Prepaid items	152,370	1,080	832	154,282	147,308
Restricted					
Stabilization of State Statute	8,412,576	22,038,698	635,308	31,086,582	30,492,166
School capital projects	-	419,319	-	419,319	5,934,737
Emergency telephone	-	-	1,444,202	1,444,202	1,723,360
County Fire Service District	-	-	463,062	463,062	820,589
Library	130,303	-	-	130,303	147,446
Cooperative Extension	23,688	-	-	23,688	20,507
Public safety	17,252	-	-	17,252	21,453
Human services	398	-	-	398	16
Assigned					
Subsequent year's expenditures	4,437,361	-	-	4,437,361	5,206,199
Public health	2,200,500	-	-	2,200,500	1,505,293
Insurance claims	-	-	-	-	807,155
Incomplete projects	449,617	-	-	449,617	6,527,816
Unassigned	6,324,243	-	(643,370)	5,680,873	5,659,316
Total fund balances	22,281,639	22,459,097	1,900,034	46,640,770	59,099,913
Total liabilities and fund balances	$ 30,225,198	$ 29,059,657	$ 3,730,622	$ 63,015,477	$ 67,094,057

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, 2011
With Comparative Totals as of June 30, 2010

	2011	2010
Total fund balances of governmental funds	**$ 46,640,770**	$ 59,099,913

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

	2011	2010
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:	**232,435**	185,727
2. 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 is:	**98,000**	98,000
3. 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:	**181,123,364**	149,393,833
4. 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:	**(46,772,943)**	(42,390,673)
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 deferred revenue balance is:	**3,168,790**	2,594,378
6. 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:	**(798,601)**	(226,341)
7. 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.	**(57,893,968)**	(41,847,269)
Total net assets of governmental activities	**$ 125,797,847**	$ 126,907,568

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

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Cleveland County, North Carolina

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

For the Year Ended June 30, 2011

With Comparative Totals For the Year Ended June 30, 2010

	Governmental Funds				
	General	Capital Projects	Other Non-Major Funds	Totals 2011	Totals 2010
REVENUES					
Ad valorem property taxes	$ 48,913,675	$ -	$ 871,557	$ 49,785,232	$ 49,833,593
Other taxes	7,833,962	2,496,533	808,600	11,139,095	11,127,982
Unrestricted intergovernmental revenues	467,601	-	-	467,601	475,320
Restricted intergovernmental revenues	20,963,409	813,789	2,015,442	23,792,640	20,877,245
Licenses, fees, and permits	865,693	-	-	865,693	883,785
Sales and services	10,479,805	-	-	10,479,805	9,709,237
Investment earnings	202,277	49,928	14,350	266,555	875,926
Miscellaneous	386,721	167,387	(2,474)	551,634	750,285
Total revenues	90,113,143	3,527,637	3,707,475	97,348,255	94,533,373
EXPENDITURES					
General government	8,411,876	307,479	-	8,719,355	8,742,463
Transportation	39,464	-	-	39,464	39,464
Public safety	17,922,241	2,490,554	2,275,169	22,687,964	23,355,577
Human services	33,850,242	-	-	33,850,242	33,882,871
Education	21,973,653	24,990,674	-	46,964,327	21,918,571
Economic and physical development	3,078,402	637,094	1,228,908	4,944,404	3,105,600
Cultural and recreational	1,184,258	841,647	-	2,025,905	1,645,917
Schools capital outlay	3,936,014	-	-	3,936,014	6,125,420
Debt service, principal reduction	63,273	-	2,783,775	2,847,048	3,250,871
Debt service, interest and fees	6,585	-	1,704,965	1,711,550	643,989
Total expenditures	90,466,008	29,267,448	7,992,817	127,726,273	102,710,743
Excess (deficiency) of revenues over expenditures	(352,865)	(25,739,811)	(4,285,342)	(30,378,018)	(8,177,370)
OTHER FINANCING SOURCES (USES)					
Transfers in	2,341,036	1,283,781	3,594,568	7,219,385	15,084,077
Transfers out	(3,288,660)	(3,525,703)	(69,097)	(6,883,460)	(14,749,018)
Installment financing issued	-	17,582,950	-	17,582,950	22,081,095
Total other financing sources (uses)	(947,624)	15,341,028	3,525,471	17,918,875	22,416,154
Net change in fund balances	(1,300,489)	(10,398,783)	(759,871)	(12,459,143)	14,238,784
FUND BALANCES					
Beginning fund balances	23,582,128	32,857,880	2,659,905	59,099,913	44,861,129
Ending fund balances	$ 22,281,639	$ 22,459,097	$ 1,900,034	$ 46,640,770	$ 59,099,913

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.

(continued on next page)

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, 2011
With Comparative Totals For the Year Ended June 30, 2010

	2011	2010
Net change in fund balances of governmental funds	**$ (12,459,143)**	$ 14,238,784

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:

	2011	2010
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:	**(196,323)**	(762,957)
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:	**32,167,044**	12,752,450
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:	**(4,716,693)**	(4,466,297)
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.	**(1,310,799)**	(964,372)
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.	**714,355**	(1,431,261)
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:	**2,847,048**	3,250,871
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.	**(572,260)**	-
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:	**(17,582,950)**	(22,081,095)
Total net change in net assets of governmental activities	**$ (1,109,721)**	$ 536,123

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

(continued from previous page)

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, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance - Over (Under)
REVENUES				
Ad valorem property taxes	$ 47,145,399	$ 47,900,137	$ 48,913,675	$ 1,013,538
Other taxes	8,519,000	8,519,000	7,833,962	(685,038)
Unrestricted intergovernmental revenues	455,000	455,000	467,601	12,601
Restricted intergovernmental revenues	20,417,654	26,058,662	20,963,409	(5,095,253)
Licenses, fees, and permits	895,000	895,000	865,693	(29,307)
Sales and services	8,556,472	8,557,972	10,479,805	1,921,833
Investment earnings	780,000	780,000	202,277	(577,723)
Miscellaneous	300,500	919,292	386,721	(532,571)
Total revenues	87,069,025	94,085,063	90,113,143	(3,971,920)
EXPENDITURES				
General government	10,015,214	9,534,371	8,411,876	(1,122,495)
Transportation	39,464	39,464	39,464	-
Public safety	17,572,558	18,556,124	17,922,241	(633,883)
Human services	36,095,138	38,354,045	33,850,242	(4,503,803)
Education	21,353,592	22,102,920	21,973,653	(129,267)
Economic and physical development	1,315,358	5,637,592	3,078,402	(2,559,190)
Cultural and recreational	1,202,910	1,296,144	1,184,258	(111,886)
Schools capital outlay	3,400,000	4,015,000	3,936,014	(78,986)
Debt service, principal reduction	63,276	63,276	63,273	(3)
Debt service, interest and fees	6,586	6,586	6,585	(1)
Total expenditures	91,064,096	99,605,522	90,466,008	(9,139,514)
Excess of revenues over (under) expenditures	(3,995,071)	(5,520,459)	(352,865)	5,167,594
OTHER FINANCING SOURCES (USES)				
Transfers in	1,797,704	2,412,704	2,341,036	(71,668)
Transfers out	(3,038,536)	(3,717,426)	(3,288,660)	428,766
Fund balance appropriated	5,235,903	6,825,181	-	(6,825,181)
Total other financing sources (uses)	3,995,071	5,520,459	(947,624)	(6,468,083)
Net change in fund balance	$ -	$ -	(1,300,489)	$ (1,300,489)
FUND BALANCES				
Beginning fund balances, as restated			23,582,128	
Ending fund balances			$ 22,281,639	

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

Cleveland County, North Carolina
d. Enterprise Fund: Solid Waste Fund: Statement of Fund Net Assets

June 30, 2011
With Comparative Totals as of June 30, 2010

	Solid Waste Fund-Collection & Disposal	
	Totals	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,390,359**	$ 1,152,769
Accounts receivable, net	**563,840**	401,108
Prepaid items	**383**	371
Total current assets:	**5,954,582**	1,554,248
Non-current assets:		
Restricted cash	**-**	5,232,782
Capital assets		
Land, land improvements, and construction in progress	**11,768,149**	9,776,908
Other capital assets, net of accumulated depreciation	**3,271,598**	3,423,283
Total capital assets	**15,039,747**	13,200,191
Total non-current assets	**15,039,747**	18,432,973
Total assets	**20,994,329**	19,987,221
LIABILITIES		
Current liabilities:		
Accounts payable	**663,867**	120,456
Contract retainages	**37,880**	-
Unearned revenues/customer deposits	**2,680**	600
Compensated absences	**45,923**	60,884
Total current liabilities	**750,350**	181,940
Non-current liabilities:		
Accrued landfill closure and post-closure care costs	**7,259,762**	5,232,782
Net OPEB obligation for retirees' healthcare coverage	**248,480**	162,550
Compensated absences	**85,735**	79,229
Total non-current liabilities	**7,593,977**	5,474,561
Total liabilities	**8,344,327**	5,656,501
NET ASSETS		
Invested in capital assets	**15,039,747**	13,200,191
Unrestricted net assets	**(2,389,745)**	1,130,529
Total net assets	**$ 12,650,002**	$ 14,330,720

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

Cleveland County, North Carolina

e. Enterprise Fund: Solid Waste Fund: Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Year Ended June 30, 2011
With Comparative Totals For the Year Ended June 30, 2010

	Solid Waste Fund-Collection & Disposal	
	Totals	
	2011	2010
OPERATING REVENUES		
Household user fees	**$ 1,428,027**	$ 1,446,245
Departmental fees	**3,561,976**	2,945,976
Other operating revenue	**200,196**	316,481
Total operating revenues	**5,190,199**	4,708,702
OPERATING EXPENSES		
Salaries / benefits	**1,828,173**	1,865,858
Other expenses	**2,607,100**	2,586,906
Depreciation	**677,696**	664,964
Landfill closure and post-closure care	**3,527,692**	(1,503,808)
Total operating expenses	**8,640,661**	3,613,920
Operating income (loss)	**(3,450,462)**	1,094,782
NONOPERATING REVENUES AND EXPENSES		
Share of State's disposal, white goods, and scrap tire taxes	**440,791**	423,888
Intergovernmental revenues, restricted	**130,666**	48,945
Investment earnings	**44,053**	14,553
Capitalized expenditures from reserve liability for closure and post-closure care	**1,500,710**	-
Gain (loss) on disposal of capital assets	**(10,551)**	(501,195)
Total non-operating revenues and expenses	**2,105,669**	(13,809)
Income before contributions and transfers	**(1,344,793)**	1,080,973
Capital contributions	**-**	8,500
Transfer from(to) governmental funds (i.e. General Fund)	**(335,925)**	(335,059)
Change in net assets	**(1,680,718)**	754,414
Net assets, beginning	**14,330,720**	13,576,306
Net assets, ending	**$ 12,650,002**	$ 14,330,720

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

Cleveland County, North Carolina
f. Enterprise Fund: Solid Waste Fund: Statement of Cash Flows

For the Year Ended June 30, 2011
With Comparative Totals For the Year Ended June 30, 2010

	Solid Waste Fund-Collection & Disposal	
	Totals	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from household user fees	$ 1,428,027	$ 1,446,245
Cash received from customers	3,399,223	2,907,560
Cash received from sale of waste and recyclable materials	196,876	316,319
Cash received from other operations	3,320	162
Cash paid to employees for services	(1,750,698)	(1,775,616)
Cash paid for goods and services	(2,221,192)	(3,062,523)
Net cash flows from operating activities	1,055,556	(167,853)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Government grants	130,666	48,945
Transfer to governmental funds (General Fund)	(335,925)	(335,059)
Net cash flows from non-capital financing activities	(205,259)	(286,114)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,027,093)	(874,601)
Capitalized expenditures from reserve liability for closure and post-closure care	(1,500,710)	-
Government grant for capital purchase	-	8,500
Proceeds on disposal of capital assets	197,476	132,622
Share of state's white goods and scrap tire taxes	440,791	423,888
Net cash flows from capital and related financing activities	(1,889,536)	(309,591)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	44,053	14,553
Net cash flows from investing activities	44,053	14,553
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(995,186)	(749,005)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: beginning balance	6,385,551	7,134,556
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: ending balance	$ 5,390,365	$ 6,385,551
Schedule of Non-cash Capital and Related Financing Activities		
Trade-in allowance on purchase of capital asset	$ 16,000	$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ (3,450,462)	$ 1,094,782
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:		
1. Decrease (increase) in accounts receivable, net	(162,732)	(37,535)
2. Decrease (increase) in prepayments	(12)	(171)
3. Increase (decrease) in accounts payable and contract retainages	383,819	(474,472)
4. Increase (decrease) in customer deposits	2,080	(1,855)
5. Increase (decrease) in accrued compensatory leave and retirement benefits	77,475	90,242
6. Increase (decrease) in accrued landfill closure and post-closure care costs	3,527,692	(1,503,808)
7. Depreciation expense (not a cash expenditure, no effect on cash flow)	677,696	664,964
Net cash flows from operating activities	$ 1,055,556	$ (167,853)

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

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

June 30, 2011
With Comparative Totals as of June 30, 2010

	Agency Funds	
	Totals	
	2011	2010
ASSETS		
Cash and cash equivalents	**$ 102,163**	$ 69,655
Taxes receivable, net	**35,203**	37,589
Accounts receivable, net	**805,406**	1,793,585
Intergovernmental receivable	**225,356**	230,376
Total assets	**$ 1,168,128**	$ 2,131,205
LIABILITIES		
Accounts payable and accrued expenses	**283,455**	243,503
Due to other taxing units	**884,673**	1,887,702
Total liabilities	**$ 1,168,128**	$ 2,131,205

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, 2011
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
3. Notes to Financial Statements

	Identifier	Page No.
a. Summary of Significant Accounting Policies	Note a	53
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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, 2011, the County implemented changes in its fund structure and fund balance reporting in accordance with Governmental Accounting Standards Board (GASB) Statements No. 54 (*"Fund Balance Reporting and Governmental Fund Type Definitions"*). 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.

Although the County has statutory responsibility to provide school facilities, the local education authority (Cleveland County Schools) is a legally separate entity, not a component unit.

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.

(Enterprise funds are a type of proprietary funds.) Any 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). Due to implementation of GASB Statement No. 54, the previously reported Public Schools Fund and Revaluation Fund are now consolidated into the General Fund. See 'Note h' for more details.

Capital Projects 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; for various proceeds that are restricted by certain laws of the State of North Carolina to support buildings, renovations, and other capital needs of County schools; and for various capital improvement projects funded by the aforementioned proceeds. Due to implementation of GASB Statement No. 54, the County consolidated three funds (County Capital Reserve Fund, Schools Capital Reserve Fund, and County Capital Projects Fund) into one for reporting purposes. See 'Note h' for more details.

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

Also, the County reports the following major enterprise fund:

Solid Waste Fund-Collection and Disposal. 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 specific inmates; 3) the Rescue Squad Fund, which accounts for monies that the County holds for the benefit of five rescue squad 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 (agency funds have no revenues or expenditures). 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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. The taxes for vehicles registered from March 2011 and afterward and due on or after July 1, 2011 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 in the agency funds.

Sales taxes collected and held on behalf of the County by the State for sales occurring prior to year-end 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. <u>Budgetary Data</u>

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 (or estimated expenditures) by fund and is adopted for all annually budgeted funds, which includes the General Fund, the Emergency Telephone Fund, the County Fire Service District Fund, the Debt Service Fund, and the Solid Waste Fund. Unencumbered annual appropriations lapse at fiscal year-end. Project ordinances are adopted for large projects that overlap multiple fiscal years, such as for the Community Development Fund and the Capital Projects Fund, and some 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 and to carry forward unspent budget for continuing projects.

However, except for ongoing projects, the governing board must consider for approval all amendments that alter total estimated revenues or total appropriations. During the year, the governing board approved to finance up to $18,000,000 of construction costs for a multi-use facility at Cleveland Community College, accept a grant of $1,543,000 to renovate the historic courthouse, and accept several sizable grants to assist with recruitment of new industry. Several other less significant new 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 a bond sale and installment purchase loans issued by the County are classified as restricted assets in the Capital Projects Fund since their use is completely restricted to the purpose for which the loan was originally issued.

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 and building improvements, $100,000; computer equipment, electronic items, firearms, furniture, other equipment, utility trailers, and vehicles, $5,000; and land, land improvements, and buildings at $0. The cost of normal maintenance and repairs that do neither add to the value of the asset nor materially extend the estimated life of the asset are not capitalized.

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

Capital Asset Category	Estimated 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 all at once. 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, fund balance is composed of five reported classifications designed to disclose the hierarchy of constraints placed on how fund balance may be spent.

The governmental fund types classify fund balances as follows:

Nonspendable – portion of fund balance that cannot be spent because they are either (a) not in spendable form (e.g. inventories) or (b) legally or contractually required to be maintained intact (e.g. principal of an endowment).

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

Restricted – portion of spendable fund balance restricted to specific purposes that are externally imposed by creditors or law.

> Restricted for Stabilization of State Statute - portion of spendable fund balance 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.
>
> Restricted for School Capital Projects – portion of spendable fund balance available and legally restricted to pay for school capital projects and funded by a portion of sales taxes.
>
> Restricted for Emergency Telephone – portion of spendable fund balance available and legally restricted to pay for approved items for operation of emergency telephone system.
>
> Restricted for County Fire Service District – portion of spendable fund balance available and legally restricted to pay for fire protection services within County Fire Service District.
>
> Restricted for Library – portion of spendable fund balance available and restricted by donors to pay for library books and other library materials.

Restricted for Cooperative Extension – portion of spendable fund balance available and restricted to pay for cooperative extension programs, such as basket weaving and 4-H.

Restricted for Public Safety – portion of spendable fund balance available and restricted by donors and other outside parties to pay for items of a public safety nature, such as canine care.

Restricted for Human Services – portion of spendable fund balance available and restricted by donors to pay for items of a human services nature, such as medications and eyeglasses for needy persons.

Committed – portion of spendable fund balance committed to specific purposes that are imposed by Board of County Commissioners (highest level of decision-making authority); any changes or removal of specific purposes requires majority action by same board.

Assigned – portion of spendable fund balance assigned to specific purposes that are either budgeted by Board of County Commissioners or manifested by the County Manager.

Subsequent year's expenditures - portion of spendable fund balance that is appropriated in the adopted budget ordinance of the following fiscal year and not classified as either restricted or committed.

Public health - portion of spendable fund balance that is assigned for future expenditures for public health based on the amount of unspent resources calculated by Health Department staff and not classified as either restricted, committed, or assigned for subsequent year's expenditures.

Insurance claims – portion of spendable fund balance that is assigned for future liabilities arising from both current and future workers' compensation, health insurance, and dental insurance claims and not classified as either restricted, committed, or assigned for subsequent year's expenditures.

Incomplete projects – portion of spendable fund balance that is assigned for future expenditures of continuing projects and not classified as either restricted, committed, or assigned for subsequent year's expenditures.

Unassigned – portion of spendable fund balance that does not meet the classification requirements of restricted, committed, or assigned fund balance.

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. This calculated amount represents fund balance available for appropriation. After accounting for nonspendable fund balance, Restricted for Stabilization of State Statute is the remaining non-appropriable portion of fund balance. The Board of County Commissioners seeks to conduct the financial affairs of the County in such a manner so as to achieve a fund balance available for appropriation in the General Fund of at least 8% of appropriations (a.k.a. budgeted expenditures).

Remaining fund balances may be restricted, committed, or assigned for other purposes. Unassigned fund balance represents the amount of fund balance that could still be committed or assigned.

To provide guidance in situations involving multiple revenue sources, the County will use resources in the following order: cost-reimbursement grant funds, federal-source funds, state-source funds, other non-debt third-party-source funds, debt proceeds, and County funds. Likewise, the County intends to expend resources that have been classified as fund balance in the following order: restricted, committed, assigned, and unassigned. The County Finance Director is authorized to deviate from this policy to comply with funding stipulations and when in the best interest of the County.

F. <u>Reconciliation of Government-Wide Financial Statements and Fund Financial Statements</u>

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: <u>DETAIL NOTES ON ALL FUNDS</u>

A. <u>Assets</u>

1. <u>Deposits</u>

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

For bank deposits, custodial credit risk is the risk that, in the event of the failure of a financial institution, the County will not be able to recover its deposits or collateral securities that are in the possession of the financial institution or another counterparty. In an effort to minimize the County's exposure to custodial credit risk, the County's policy states that periodic evaluations will be conducted to determine the creditworthiness of each financial institution. Also, the County complies with the provisions of NCGS 159-31 when designating official depositories and verifying that deposits are properly secured 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, 2011, the County's deposits had a carrying amount of $41,437,444 and a bank balance of $42,517,221. Of the bank balance, $1,000,000 was covered by federal depository insurance, $20,336,552 in certificates of deposit was covered by collateral held under the dedicated method, and the remaining $21,160,205 in interest bearing deposits was covered by collateral held under the pooling method. Also at June 30, 2011, Cleveland County had

$11,519 cash on hand. During the year, the County met its cash flow needs from its deposits and matured investments; the County did not use any short-term borrowings.

The County had a carrying amount of $20,336,552 in certificates of deposit. Of this balance, $4,026,320 was scheduled to mature within 3 months, $12,041,756 was scheduled to mature within 3 to 12 months, and $4,268,476 was scheduled to mature within 1 to 2 years.

2. Investments

For a schedule of cash and investment balances by fund and other information, see 'Exhibit II.E.01' in Subsection E of Section II of this report. At June 30, 2011, 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**
NCCMT -- Cash Portfolio	12,929,427	n/a	n/a	n/a
Total Investments	**$ 12,929,427**	**$ -**	**$ -**	**$ -**

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, 2011, 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, 2011, 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, 2011 was $-0- and ($-0-), 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 certificates of deposits at First National Bank of Shelby at 33% of the total portfolio. At June 30, 2011, the County held 17.60% of its deposits and investments in the form of certificates of deposit with First National Bank of Shelby. Remaining deposits and investments are held 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 verifies 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, 2011:

Tax Year Levied	Additional Tax	Interest	Total
2011	$ 1,470,155	$ -	$ 1,470,155
2010	1,466,902	84,347	1,551,249
2009	1,467,063	216,392	1,683,455
2008	1,487,187	353,207	1,840,394
Total	**$ 5,891,307**	**$ 653,946**	**$ 6,545,253**

Property taxes are billed on a calendar year basis, not fiscal year basis. The value is set on January 1, billed in July, due September 1, and late as of the following January 6. If a property loses eligibility for present-use value taxation between January 1 and June 30, the current year taxes will become due when billed in July. The year under "Tax Year Levied" in the following chart refers to the calendar year.

4. Receivables

Receivables reported on the Government-Wide Financial Statements and Fund Financial Statements at June 30, 2011 are reported net of an allowance for uncollectible accounts as follows:

	Accounts	Taxes & Other Assessments	Total
Governmental Activities:			
General Fund	$ 11,215,925	$ 3,345,461	$ 14,561,386
Capital Projects Fund	2,205,731	-	2,205,731
Nonmajor Governmental Funds	707,117	62,845	769,962
Accrued Interest (Government-Wide reporting)	-	801,367	801,367
Total Receivables	**14,128,773**	**4,209,673**	**18,338,446**
General Fund	(4,630,517)	(1,268,287)	(5,898,804)
Nonmajor Governmental Funds	-	(22,976)	(22,976)
Accrued Interest (Government-Wide reporting)	-	(568,932)	(568,932)
Total Allowances for Uncollectible Accounts	**(4,630,517)**	**(1,860,195)**	**(6,490,712)**
Total Governmental Activities	**$ 9,498,256**	**$ 2,349,478**	**$ 11,847,734**
Business-Type Activities:			
Solid Waste Fund-Collection and Disposal	$ 583,378	$ 216,866	$ 800,244
Allowances for Uncollectible Accounts	(19,538)	(216,866)	(236,404)
Total Business-Type Activities	**$ 563,840**	**$ -**	**$ 563,840**

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	$ 7,982,215	$ 174,004	$ (15,893)	$ 30,888	$ 8,171,214
Public Safety	31,334,683	3,678,944	(337,955)	(19,899)	34,655,773
Human Services	96,364,772	347,860	-	8,672	96,721,304
Education	2,749,555	24,552,322	-	-	27,301,877
Economic and Physical Dev.	3,448,777	2,181,982	(87,889)	-	5,542,870
Cultural and Recreational	7,513,831	1,232,873	(16,378)	-	8,730,326
Total Capital Assets	**149,393,833**	**32,167,985**	**(458,115)**	**19,661**	**181,123,364**
Less Accumulated Depreciation:					
General Government	(2,526,112)	(288,765)	15,893	(32,314)	(2,831,298)
Public Safety	(12,711,071)	(1,755,854)	320,978	10,467	(14,135,480)
Human Services	(25,786,726)	(2,524,323)	-	(1,764)	(28,312,813)
Education	-	-	-	-	-
Economic and Physical Dev.	(71,655)	(23,800)	4,785	-	(90,670)
Cultural and Recreational	(1,295,109)	(123,951)	16,378	-	(1,402,682)
Total Accumulated Deprec.	**(42,390,673)**	**(4,716,693)**	**358,034**	**(23,611)**	**(46,772,943)**
Total Capital Assets, Net	**$107,003,160**	**$27,451,292**	**$ (100,081)**	**$ (3,950)**	**$134,350,421**

Capital asset activity, by asset class, for the year ended June 30, 2011 was as follows for Governmental Activities:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land and Land Improvements	$ 13,782,846	$ 1,838,038	$ -	$ -	$15,620,884
Construction in Progress	8,202,464	27,538,273	-	(315,351)	35,425,386
Subtotal	21,985,310	29,376,311	-	(315,351)	51,046,270
Capital Assets Being Depreciated:					
Buildings and Improvements	107,790,296	285,888	(87,889)	315,351	108,303,646
Equipment (including Vehicles)	12,392,336	2,505,786	(370,226)	109,661	14,607,557
Leasehold Improvements	425,178	-	-	-	425,178
Infrastructure	6,830,713	-	-	(90,000)	6,740,713
Subtotal	127,408,523	2,791,674	(458,115)	335,012	130,077,094
Total Capital Assets	**149,393,833**	**32,167,985**	**(458,115)**	**19,661**	**181,123,364**
Less Accumulated Depreciation:					
Buildings and Improvements	(32,448,610)	(2,750,192)	4,785	-	(35,194,017)
Equipment (including Vehicles)	(9,244,018)	(1,502,956)	353,249	(23,611)	(10,417,336)
Leasehold Improvements	(175,746)	(14,173)	-	-	(189,919)
Infrastructure	(522,299)	(449,372)	-	-	(971,671)
Total Accumulated Deprec.	**(42,390,673)**	**(4,716,693)**	**358,034**	**(23,611)**	**(46,772,943)**
Total Capital Assets, Net	**$107,003,160**	**$ 27,451,292**	**$ (100,081)**	**$ (3,950)**	**$134,350,421**

All business-type activities relate to the environmental protection expenditure function. Capital asset activity, by asset class, for the year ended June 30, 2011 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	$ 9,776,908	$ 546,879	$ -	$ -	$ 10,323,787
Construction in Progress	-	1,444,362	-	-	1,444,362
Subtotal	9,776,908	1,991,241	-	-	11,768,149
Capital Assets Being Depreciated:					
Buildings and Improvements	975,815	65,191	-	(16,361)	1,041,006
Equipment (including Vehicles)	5,219,457	487,371	(275,956)	-	5,414,511
Leasehold Improvements	16,518	-	-	-	16,518
Infrastructure	4,130,636	-	-	-	4,130,636
Subtotal	10,342,426	552,562	(275,956)	(16,361)	10,602,671
Total Capital Assets	**20,119,334**	**2,543,803**	**(275,956)**	**(16,361)**	**22,370,820**
Less Accumulated Depreciation:					
Buildings and Improvements	(156,460)	(25,846)	-	-	(182,306)
Equipment (including Vehicles)	(3,528,824)	(375,923)	249,405	16,361	(3,638,981)
Leasehold Improvements	(6,828)	(550)	-	-	(7,378)
Infrastructure	(3,227,031)	(275,377)	-	-	(3,502,408)
Total Accumulated Deprec.	**(6,919,143)**	**(677,696)**	**249,405**	**16,361**	**(7,331,073)**
Total Capital Assets, Net	**$ 13,200,191**	**$ 1,866,107**	**$ (26,551)**	**$ -**	**$ 15,039,747**

6. Construction Commitments

The County is involved with the following incomplete construction / renovation projects as of June 30, 2011:

Project Name	**Spent-To-Date**	**Remaining Commitments**
Detention Center Annex Expansion / Renovation	$ 6,507,565	$ 401,976
New Middle School Construction in Shelby, NC	13,134,939	5,456,415
Multi-Purpose Facility Construction at Community College	6,889,452	13,125,407
EMS Base Station (No. Three area) Renovations	7,171	146,118
Historic Courthouse Renovations	558,172	984,628
Landfill Cell Closure	1,417,413	1,479,878
Total	**$ 28,514,711**	**$ 21,594,423**

B. Liabilities

1. Payables

Payables at the Government-Wide and Fund level at June 30, 2011 were as shown in the following table.

	Vendors	Employee Benefits	Cash Held in Trust	Insurance Claims *	Total
Governmental Activities:					
General Fund	$ 1,825,721	$ 429,942	$ -	$ 740,956	$ 2,996,619
County Capital Reserve Fund	4,521,952	-	-	-	4,521,952
Nonmajor Governmental Funds	387,843	-	-	-	387,843
Total Governmental Activities	**$ 6,735,516**	**$ 429,942**	**$ -**	**$ 740,956**	**$ 7,906,414**
Business-Type Activities:					
Solid Waste Fund	**$ 701,747**	**$ -**	**$ -**	**$ -**	**$ 701,747**
Fiduciary Activities:					
Agency Funds	**$ 181,292**	**$ -**	**$ 102,163**	**$ -**	**$ 283,455**

* The estimated liability for outstanding losses from health insurance coverage, dental plan, and workers' compensation coverage includes $740,956 for incurred but not reported claims.

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System (LGERS)

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 rate effective in the year ended June 30, 2011 for employees not engaged in law enforcement and for law enforcement officers is 6.44% and 6.41%, 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. In year ending June 30, 2012, the County's contribution rates have increased to 6.96% and 7.04% for employees not engaged in law enforcement and for law enforcement officers, respectively. The County's normal benefit contributions to LGERS for the year ended June 30, 2011 is $1,752,277. 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 0.08% 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, 2011, the County made contributions to the State for death benefits of $23,734. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The County considers these contributions to be immaterial. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

b. Law Enforcement Officers' Special Separation Allowance (LEOSSA)

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. And, a separate report has not been issued for this pension plan. See more details in Part II.D.1 of this annual financial report. All full-time County law enforcement officers are covered by the LEOSSA. At June 30, 2011, the LEOSSA's membership consisted of:

Member Category	No.
retirees currently receiving benefits	10
terminated plan members entitled to but not yet receiving benefits	-
active plan members:	
Vested	75
non-vested	14
total members	99

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, 2010) and through June 30, 2011, the County had no assets to pay future liabilities. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $1,546,105. The annual payroll of active employees covered under this plan (covered payroll) was $3,336,824 and the ratio of the UAAL to the covered payroll was 46.335%. 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. Therefore, without advanced contributions, the County has no pension trust plan. 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, 2011 is $94,007. 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, 2009 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 current rate is 4.4648% of annual covered payroll. The remaining amortization period at December 31, 2009 was 21 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, 2011 are $153,076 and $441,659, 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 (SRIP)

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, 2011 were $249,742, which consisted of $172,195 from the County and $77,547 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, 2011 were $1,661,123, which consisted of $1,205,919 from the County and $455,204 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 (RODSPF)

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, 2011, the County's required and actual contributions were $5,012. For trend information, see Exhibit III.E.5 in Subsection E of Section III of this report.

f. <u>Other Post-Employment Benefits -- Retirees Healthcare Coverage (OPEB-RHC)</u>

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), are at least 50 years of age, and have twenty or more years of creditable service with the County until they attain the age for Medicaid eligibility. At June 30, sixty-seven 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. This report includes results from an actuarial study of the plan, thus comparative information from prior years is limited. At December 31, 2009 (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	7	52
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members:		
Vested	8	83
Non-vested and eligible for LGERS benefits	64	250
Non-vested and non-eligible for LGERS benefits	39	259
Total members	**118**	**644**

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, 2009), the County had no assets to pay future liabilities. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) is $13,359,447. The annual payroll of active employees covered under this plan (covered payroll) was $28,517,138, and the ratio of the UAAL to the covered payroll was 46.847%. For multi-year 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, 2011, the County made payments for claims due to post-employment healthcare coverage of $140,961. 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, 2009 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, 2009 is 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, 2011 are $1,390,893 and $3,665,901, 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.

Net OPEB Obligation, as of June 30, 2010					$	2,415,969
annual required contribution	$	1,377,628				
adjustment to annual required contribution		(83,374)				
interest on net OPEB obligation		96,639				
annual OPEB cost			$	1,390,893		
contributions				(140,961)		
Change in Net OPEB Obligation					$	1,249,932
Net OPEB Obligation, as of June 30, 2011					$	3,665,901

For more information and additional calculations, 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 permit 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, 2011, the County closed its reserve fund by removing $5,232,782. The County has also met the requirements of a local government financial test that is one option under State and federal laws and regulations that help determine if a unit is financially able to meet closure and post-closure care requirements. The County has elected to use the local government financial test to prove its ability to afford closure and post-closure care costs as needed.

State and federal laws and regulations require the County to place a final cover on its landfill facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period in advance of any cash payments. The $7,259,762 reported as landfill closure and post-closure care liability at June 30, 2011 represents a cumulative amount reported to-date following an increase of $3,527,692 in the reported liability for future costs and a reduction of $1,500,710 for closure costs paid during the year.

The County is required to increase its reported liability at least $321,878 annually hereafter until the total amount reaches $9,404,230. 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 activities in the year ended June 30, 2011 and the fact that the County closed an existing municipal solid waste facility in the winter of 2009/2010 and expects to close the current construction and demolition facility in 2018. Post-closure care and corrective action costs, if any, are not included in this calculation. 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	$ 120,657	$ -
Other accounts, net	1,732,318	428,294
Taxes receivable, net	185,761	2,077,174
Subtotal	2,038,736	2,505,468
Capital Projects Fund, grant receivables	**-**	**460,885**
County Fire Service District Fund, taxes receivable, net	**5,702**	**39,869**
Community Development Fund, grant receivables	**803,456**	**162,568**
Total Governmental Activities	**$ 2,847,894**	**$ 3,168,790**
Solid Waste Fund-Collection and Disposal:		
Prepaid fees not yet earned	$ 2,680	$ -
Total Business-Type Activities	**$ 2,680**	**$ -**

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 $610,007 for incurred and unpaid claims as of June 30, 2011. 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, 2011. 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, 2011 is $400,000 per occurrence. The estimated liability for outstanding losses includes $100,000 for incurred and unpaid claims as of June 30, 2011. 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, 2010	June 30, 2011
General Fund:		
Health insurance coverage	$ 537,813	$ 610,007
Dental plan	30,949	30,949
Workers' compensation coverage	100,000	100,000
Total	**$ 668,762**	**$ 740,956**

In accordance with NCGS 159-29, County employees that have access to County funds are performance bonded through a commercial surety bond. The County 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, 2011, 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 (see 'Net Present Value' in table below) 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 2009 and required 60 monthly payments of $1,494. Another agreement to lease computer equipment for the Social Services department was executed in June 2007 and requires 60 monthly payments of $1,464. And, 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 agreements, 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, along with interest payments scheduled for the ensuing year, are recorded in the Government-Wide Statement of Net Assets.

At June 30, 2011, the County's leased equipment had a value of:

Governmental Activities		Recorded Value of Asset		Accumulated Depreciation		Net Present Value
Computer equipment (Social Services)	$	75,075	$	(58,692)	$	16,383
Imaging equipment (Register of Deeds)		180,715		(108,341)		72,374
Computer equipment (Info. Tech.)		81,095		(29,182)		51,913
Total	$	336,885	$	(196,215)	$	140,670

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

b. <u>General Obligation and Limited Obligation Bonds</u>

All general obligation serviced by the County are collateralized by the full faith, credit, and taxing power of the County. The County sold limited obligation bonds to investors to finance the construction of a new middle school in Shelby and such bonds are considered a variation of the installment purchase loan mentioned below. 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. <u>Installment Purchase Loans</u>

The County has entered contracts to help finance the costs of implementing a Public Safety Communication System in 2007, the costs of expanding and renovating the Detention Center Annex Expansion in 2009, and the costs of constructing a multi-use facility at Cleveland Community College through direct loans from a financial institution. When due, principal and interest payments are appropriated in the County's Debt Service Fund. The face value of the outstanding loans 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. <u>Contractual Obligations</u>

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 $12,255,000 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. <u>Total Indebtedness</u>

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. Prior to 2010, the public schools and the community college, however, held title to these constructed assets. Beginning with debt that the County issued in 2010, the County will hold title until the loan is paid.

At June 30, 2011, Cleveland County had an amount of bonds authorized but un-issued of $-0- and a legal debt margin of $453,744,179. During the year, the County did not use short-term borrowings or interest rate swaps.

The County's general obligation bonds, limited obligation bonds, installment purchase loans, and contractual obligations payable at June 30, 2011 are comprised of the following individual issues:

General Obligation Bonds	Outstanding at June 30, 2011
$3,100,000 - Community College Bonds, Series 1998; due in annual installments of $100,000 to $250,000 through June 1, 2017; interest from 4.60% to 4.70%	$ 1,350,000
Limited Obligation Bonds	
$22,000,000 - New Middle School in Shelby, Series 2010A&B; due in annual installments of $1,080,000 to $1,140,000 through March 2030; interest from 4.49% to 6.07%; interest payments partially subsidized by federal govt; payments due to Wells Fargo Bank	20,920,000
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%; payments due to BB&T	4,800,000
$6,720,000 - Detention Center Annex Expansion Project, Series 2009; due in semi-annual installments of $224,000 through April 2024; interest at 3.57%; payments due to BB&T	5,824,000
$17,582,950 - Community College Building Project, Series 2010C&D; due in semi-annual installments of $586,098.33 through September 2025; interest at 4.91%; interest payments partially subsidized by federal govt; payments due to BB&T	16,996,852
Subtotal Installment Purchase Loans	27,620,852
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 ($634,599) per contract with City of Shelby are due in annual installments of $16,312 to $41,944 through May 1, 2029; interest at 5.00%; payments due to City of Shelby	527,926
Total	$ 50,418,778

Annual debt service requirements to maturity for general and limited obligation bonds, other long-term debt (comprised of installment purchase loans and contractual obligations), and capitalized leases are as follows:

	General and Limited Obligation Bonds:		*Other Long-Term Debt:*		*Capitalized Leases:*		*Total Debt Service:*	
	Principal	**Interest**	**Principal**	**Interest**	**Prncpl.**	**Intrst.**	**Principal**	**Interest**
2011	1,330,000	791,821	1,453,775	905,096	63,273	6,585	2,847,048	1,703,502
Maturities								
2012	1,330,000	1,037,658	2,040,393	1,214,447	65,606	3,619	3,435,998	2,255,724
2013	1,330,000	1,008,628	2,041,169	1,126,355	30,975	1,270	3,402,947	2,136,253
2014	1,335,000	974,198	2,041,946	1,038,212	17,486	442	3,394,431	2,012,852
2015	1,335,000	930,893	2,042,723	950,016	1,489	5	3,379,212	1,881,004
2016	1,335,000	883,428	2,043,499	861,763	-	-	3,378,499	1,745,191
Sum 5 yrs.	6,665,000	4,634,895	10,209,728	5,190,793	115,556	5,337	16,990,284	10,031,024
Next 5 yrs. (2017 to 2021)	5,525,000	3,678,283	10,232,511	2,981,769	-	-	15,757,511	6,660,051
Next 5 yrs. (2022 to 2026)	5,685,000	2,300,657	7,586,143	826,029	-	-	13,271,143	3,126,685
Next 5 yrs. (2027 to 2031)	4,395,000	659,654	120,395	11,304	-	-	4,515,395	670,958
Sum	$22,270,000	$11,473,488	$28,148,778	$9,009,894	$115,556	$5,337	50,534,334	20,488,718
				Less Capitalized Leases:			(115,556)	(5,337)
				Total Long-Term Debt:			$50,418,778	$20,483,382

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, 2011, there were four series of industrial revenue bonds outstanding, with an aggregate principal amount payable of $23,130,000. Neither the County, the Authority, the State, nor any political subdivision thereof is obligated in any manner for the repayment of these 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, 2011 was as follows for Business-Type Activities.

Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Difference (or Expense)
Vacation Leave (accrued)	$ 93,211	$ 68,516	$ (60,862)	$ 100,865	$ 7,654
Holiday Leave (accrued)	19,438	53,246	(55,104)	17,580	(1,858)
Compensatory Leave (accrued)	27,464	8,407	(22,657)	13,214	(14,250)
Subtotal (accrued)	**140,113**	**130,169**	**(138,623)**	**131,659**	**(8,454)**
Compensatory Leave (unaccrued)	7,071	6,340	(9,678)	3,733	(3,338)
Sick Leave (unaccrued)	91,863	58,086	(52,021)	97,928	6,065
Subtotal (unaccrued)	**98,934**	**64,426**	**(61,699)**	**101,661**	**2,727**
Grand Totals	**$ 239,047**	**$ 194,595**	**$ (200,322)**	**$ 233,320**	**$ (5,727)**

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)
Vacation Leave (accrued)	$ 2,289,558	$ 1,879,862	$ (1,813,981)	$ 2,355,439	$ 65,881
General Government	293,144	242,380	(231,384)	304,140	10,996
Public Safety	780,996	632,216	(594,702)	818,510	37,514
Human Services	1,141,323	952,913	(936,866)	1,157,370	16,047
Cultural (Library)	43,982	27,986	(26,478)	45,490	1,508
Other	30,113	24,367	(24,551)	29,929	(184)
Subtotal	2,289,558	1,879,862	(1,813,981)	2,355,439	65,881
Holiday Leave (accrued)	671,008	1,403,780	(1,396,857)	677,930	6,923
General Government	6,715	148,454	(147,991)	7,179	463
Public Safety	662,239	561,611	(554,686)	669,162	6,925
Human Services	2,054	659,426	(659,981)	1,589	(465)
Cultural (Library)	-	20,972	(20,972)	-	-
Other	-	13,317	(13,317)	-	-
Subtotal	671,008	1,403,780	(1,396,857)	677,930	6,923
Compensatory Leave (accrued)	452,262	462,806	(447,882)	467,187	14,924
General Government	40,125	25,277	(26,932)	38,470	(1,655)
Public Safety	246,885	200,735	(185,524)	262,097	15,211
Human Services	151,895	219,516	(222,540)	148,871	(3,024)
Cultural (Library)	13,004	15,716	(11,087)	17,633	4,629
Other	353	1,562	(1,799)	116	(237)
Subtotal	452,262	462,806	(447,882)	467,187	14,924
Subtotal (accrued)	**3,412,828**	**3,746,448**	**(3,658,720)**	**3,500,556**	**87,728**
Compensatory Leave (unaccrued)	495,384	389,931	(365,953)	519,362	23,978
General Government	193,985	86,717	(103,868)	176,834	(17,151)
Public Safety	64,615	65,944	(26,942)	103,617	39,002
Human Services	223,849	220,371	(221,807)	222,413	(1,436)
Cultural (Library)	12,386	12,155	(8,696)	15,845	3,459
Other	549	4,744	(4,640)	653	104
Subtotal	495,384	389,931	(365,953)	519,362	23,978
Sick Leave (unaccrued)	2,602,267	1,426,051	(1,427,888)	2,600,430	(1,837)
General Government	342,038	161,950	(165,402)	338,586	(3,452)
Public Safety	906,909	507,321	(487,116)	927,114	20,205
Human Services	1,275,755	719,374	(734,351)	1,260,778	(14,977)
Cultural (Library)	46,385	22,878	(26,197)	43,066	(3,319)
Other	31,180	14,528	(14,822)	30,886	(294)
Subtotal	2,602,267	1,426,051	(1,427,888)	2,600,430	(1,837)
Subtotal (unaccrued)	**3,097,651**	**1,815,982**	**(1,793,841)**	**3,119,792**	**22,141**
Grand Totals	**$ 6,510,479**	**$ 5,562,430**	**$ (5,452,561)**	**$ 6,620,348**	**$ 109,869**

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, 2011:

Governmental Activities	Next Year Interest Payable	Next Year Obligation	Future Year Obligation	Total
G.O. Bonds (non-capital related)	$ 63,450	$ 250,000	$ 1,100,000	$ 1,413,450
L.O. Bonds (capital related)	974,208	1,080,000	19,840,000	21,894,208
Bank Financed Loans	1,190,827	2,020,197	25,600,655	28,811,679
Contractual Obligations	23,620	20,196	507,730	551,546
Total Bonds	2,252,105	3,370,393	47,048,385	52,670,883
Capitalized Leases	3,619	65,606	49,951	119,176
Net Pension Obligation	-	-	441,659	441,659
Net OPEB Obligation	-	-	3,417,421	3,417,421
Accrued Leave (earned, unpaid)	-	1,498,431	2,002,123	3,500,554
Totals	**$ 2,255,724**	**$ 4,934,430**	**$ 52,959,538**	**$ 60,149,693**
Business-type Activities				
Landfill Closure/Post-Closure	$ -	$ -	$ 7,259,762	$ 7,259,762
Net OPEB Obligation	-	-	248,480	248,480
Accrued Leave (earned, unpaid)	-	45,923	85,735	131,658
Totals	**$ -**	**$ 45,923**	**$ 7,593,977**	**$ 7,639,900**

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Bonds (non-capital related)	1,600,000	-	(250,000)	1,350,000
L.O. Bonds (non-capital related)	22,000,000	-	(1,080,000)	20,920,000
Bank Financed Loans	11,472,000	17,582,950	(1,434,098)	27,620,852
Contractual Obligations	547,603	-	(19,677)	527,926
Capitalized Leases	178,830	-	(63,273)	115,557
Net Pension Obligation	382,590	59,069	-	441,659
Net OPEB Obligation	2,253,419	1,164,002	-	3,665,901
Accrued Leave (earned, unpaid)	3,412,827	3,746,448	(3,658,721)	3,500,554
Totals	**$ 41,847,269**	**$ 22,552,469**	**$ (6,505,769)**	**$ 57,893,968**
By purpose:				
County	$ 11,472,000	$ -	$ (848,000)	$ 10,624,000
Community College	1,600,000	17,582,950	(836,098)	18,346,852
Public Schools (K-12)	22,000,000	-	(1,080,000)	20,920,000
Waterline	547,603	-	(19,677)	527,926
Equipment--Capitalized Leases	178,830	-	(63,273)	115,557
Employment/Post-employment	6,048,836	4,969,519	(3,658,721)	7,359,634
Totals	**$ 41,847,269**	**$ 22,552,469**	**$ (6,505,769)**	**$ 57,893,968**
Business-type Activities				
Landfill Closure/Post-Closure	$ 5,232,782	$ 2,026,980	-	$ 7,259,762
Net OPEB Obligation	162,550	85,930	-	248,480
Accrued Leave (earned, unpaid)	140,113	130,169	(138,624)	131,658
Totals	**$ 5,535,445**	**$ 2,243,079**	**$ (138,624)**	**$ 7,639,900**

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, 2011 consists of the following:

Activity description	Amount
From General Fund to Community Development Fund	$ 94,913
for portion of roadway expansion above the amount of the grant	
From General Fund to Debt Service Fund	1,909,966
for payments on outstanding long-term debt	
From General Fund to Capital Projects Fund	1,283,781
for current capital projects activity and accumulating resources for future capital projects	
Subtotal from General Fund	3,288,660
From Capital Projects Fund to General Fund	1,936,014
for current capital projects activity of the school system	
From Capital Projects Fund to Debt Service Fund	1,589,689
for payments on outstanding long-term debt used for construction of school buildings	
Subtotal from Capital Projects Fund	3,525,703
From Emergency Telephone Fund to General Fund	69,097
for a portion of costs of personnel involved in supporting fund activities	
From Solid Waste Fund to General Fund	335,925
for a portion of costs of personnel involved in supporting fund activities and for workers' compensation	
Total interfund activity	**$ 7,219,385**

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, 2011 is as follows:

Reporting Fund	Due from General Fund	Due from Other Funds	Due to Other Funds
Governmental Funds			
General Fund	$ -	$ 2,048,873	$ 177,824
Capital Projects Fund	169,786	-	1,617,723
Emergency Telephone Fund	507	-	-
County Fire Service District Fund	7,531	-	-
Community Development Fund	-	-	288,179
Debt Service Fund	-	-	142,971
Total Interfund Balances	**177,824**	**2,048,873**	**2,226,697**

D. Fund Balance

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 less liabilities (not including deferred revenues not arising from cash receipts) and less encumbrances as calculated at the end of the fiscal year preceding the appropriation. This calculated amount represents fund balance available for appropriation and is reflected in the following table:

Item Description	General Fund	Capital Projects Fund	Other Non-Major Funds
Fund balance available for appropriation			
Cash and Investments	$ 19,228,042	$ 26,683,060	$ 2,974,766
Liabilities	(7,943,559)	(6,600,560)	(1,830,588)
Deferred revenues not arising from cash receipts	2,505,468	460,885	202,437
Encumbrances	(206,589)	(20,124,066)	(82,721)
Fund balance available for appropriation	**13,583,362**	**419,319**	**1,263,894**
Restricted for Stabilization of State Statute			
Total fund balance	22,281,639	22,459,097	1,900,034
Fund balance available for appropriation	(13,583,362)	(419,319)	(1,263,894)
Fund balance not available for appropriation	8,698,277	22,039,778	636,140
Nonspendable fund balance	(285,701)	(1,080)	(832)
Restricted for Stabilization of State Statute	**$ 8,412,576**	**$ 22,038,698**	**$ 635,308**

Outstanding encumbrances are remaining amounts needed to pay incomplete commitments related to purchase orders and contracts at year-end.

After accounting for nonspendable fund balance, Restricted for Stabilization of State Statute is the remaining non-appropriable portion of fund balance. The Board of County Commissioners seeks to conduct the financial affairs of the County in such a manner so as to achieve a fund balance available for appropriation in the General Fund of at least 8% of appropriations (a.k.a. budgeted expenditures).

Remaining fund balances may be restricted, committed, or assigned for other purposes. Unassigned fund balance represents the amount of fund balance that could still be committed or assigned.

To provide guidance in situations involving multiple revenue sources, the County will use resources in the following order: cost-reimbursement grant funds, federal-source funds, state-source funds, other non-debt third-party-source funds, debt proceeds, and County funds. Likewise, the County intends to expend resources that have been classified as fund balance in the following order: restricted, committed, assigned, and unassigned. The County Finance Director is authorized to deviate from this policy to comply with funding stipulations and when in the best interest of the County.

E. Net Assets

Net assets in the Fund Financial Statements of the Solid Waste Fund and in the Government-Wide Financial Statements are classified as "unrestricted," "restricted," or "invested in capital assets, net of related debt." Restricted net assets represent constraints on resources that are either a) imposed by law through State statute or b) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. The balance of restricted net assets at June 30, 2011, consists of the following:

Governmental activities	Beginning Balance	Activity	Ending Balance
General government	-45,204.45	45,204.45	0.00
Register of Deeds Automation Fund (3.994.19)	-45,204.45	45,204.45	0.00
Public safety	3,326,317.90	-1,331,582.48	1,994,735.42
E911 Service Cash (FD26)	1,723,446.66	-215,419.22	1,508,027.44
Fire Districts Cash (FD28)	826,998.56	-357,542.73	469,455.83
Unspent Dare Program Donations	5,398.79	-1,475.19	3,923.60
Unspent Sheriff Donations	15,552.25	-3,052.30	12,499.95
Unspent Reading Fathers Donations	7.50	0.00	7.50
Unspent Emergency Management Donations	40.73	100.00	140.73
Unspent EMS Donations	454.12	226.25	680.37
Unspent Federal Forfeiture Monies	470,086.33	-470,086.33	0.00
Unspent State Forfeiture Monies	284,332.96	-284,332.96	0.00
Human services	3,508,938.92	-3,508,540.86	398.06
Unspent grants to Social Services	3,645.92	-3,630.26	15.66
Unspent Health Donations	0.00	382.40	382.40
Unspent earnings from Health Department	3,505,293.00	-3,505,293.00	0.00
Education	6,057,519.83	-800,365.38	5,367,705.45
Public Schools Capital Reserve Cash (FD42)	6,168,070.83	-800,365.38	5,367,705.45
Economic and physical development	53,266.99	996,075.31	1,049,342.30
Community Development Cash (FD29)	0.00	997,283.00	997,283.00
Unspent Coop Exp Special Project	24,895.22	-1,207.69	23,687.53
Unspent Soil Conservation Special Project	28,371.77	0.00	28,371.77
Culture and recreation	133,068.66	-2,764.92	130,303.74
Unspent Library Donations	133,068.66	-2,764.92	130,303.74
Total	**13,033,907.85**	**-4,601,973.88**	**8,542,484.97**

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 this account at June 30, 2011, consists of the following:

Governmental Activities:	Beginning Balance	Activity	Ending Balance
Capital Assets	$ 149,393,833	$ 31,729,531	$ 181,123,364
Adjustments for depreciation and related debt			
Depreciation on capital assets	(42,390,673)	(4,382,270)	(46,772,943)
Bonds issued for capital purposes, current portion	(1,928,000)	(1,172,196)	(3,100,196)
Leases issued for capital equipment, current portion	(63,274)	(2,332)	(65,606)
Bonds issued for capital purposes, future portion	(31,544,000)	(13,896,655)	(45,440,655)
Leases issued for capital equipment, future portion	(115,556)	65,606	(49,950)
Subtotal adjustments	(76,041,503)	(19,387,847)	(95,429,350)
Invested in Capital Assets, Net of Related Debt	**$ 73,352,330**	**$ 12,341,684**	**$ 85,694,014**

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

F. Occupancy Taxes

Under State law, all occupancy taxes shall be spent for tourism promotion and other economic development activities. To meet that purpose, all occupancy taxes are distributed to Cleveland County Chamber, which is a separate non-profit entity.

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 $1,415,129 for operating purposes and an additional $75,000 for capital purposes during the fiscal year ended June 30, 2011 to Cleveland Community College.

The County paid an additional $1,454 to CCC for training courses and course materials for employees. And, $626 was sent on behalf of clients to assist with tuition.

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 $35,800 to CCC for the fiscal year ended June 30, 2011. 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 borrows money for new and restructured facilities. In August 2010, the County borrowed $17,582,950 for a new multi-purpose facility to be named the LeGrand Center. During the fiscal year, the County made debt service payments of $250,000 on general obligation bonds and $586,098 on installment purchase loan from BB&T issued for community college capital facilities. After these payments, $1,350,000 in general obligation bond debt remains outstanding and $16,996,852 in installment purchase loan 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, 2011. The County paid an additional $43,566 to IPDC to coordinate and administer the Community Development Block Grant and related grant awards and $28 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, 2011:

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 & 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	-	$ 126,413	$ 7,898
U.S. Dept. of Housing and Urban Development				
Passed-through N.C. Dept of Commerce, thru Isothermal Planning and Development				
Community Development Block Grant-Economic Development (CDBG-ED): Roadway/Railway expansion	14.228	09-E-2081	361,616	499,371
Total pass-thru grants awards from IPDC			$ 488,029	$ 507,269

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, Children	10.557	-	$ 2,022,030	$ -
Medical Assistance	93.778	-	116,677,238	47,710,960
Participation in Budgeted County Expenditures				
IV-D Offset Fees-ESC	93.563	-	740	45
IV-D Offset Fees-Federal	93.563	-	4,958	-
Links Transitional Funds	93.674	-	7,431	-
IV-E Adoption Subsidy	93.659	-	622,687	137,102
Energy Assistance Payments	93.568	-	1,258,362	-
AFDC Payments and Penalties	93.560	-	(646)	(177)
AFDC Unemployed Parents Assistance	93.560	-	(123)	-
TANF Payments and Penalties	93.558	-	577,117	-
Child Welfare Services Adoption Subsidy		-	-	428,623
State-County / Special Assistance Domicillary Care Payments		-	-	1,246,355
Total participation in budgeted county expenditures			2,470,525	1,811948
Total direct benefit payments			$ 121,169,793	$ 49,522,907

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, the Community Development Fund has 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.

Note h: PRIOR PERIOD ADJUSTMENTS

With implementation of Governmental Accounting Standards Board (GASB) Statements No. 54 (*"Fund Balance Reporting and Governmental Fund Type Definitions"*), the County has consolidated certain funds for budgeting and reporting purposes. Both the Public Schools Fund and the Revaluation Fund reported in previous reports have now been consolidated into the General Fund. Also, both the Schools Capital Reserve Fund and the County Capital Reserve Fund reported in previous reports have now been consolidated into the Capital Projects Fund. As a result of these consolidations, the fund balance of these prior funds have been consolidated with their parent fund and the restated fund balances are shown in the financial statements. The reported ending fund balance of the General Fund for the fiscal year ended June 30, 2010 has increased by $51 from the Public Schools Fund and $-0- from the Revaluation Fund, resulting in an ending fund balance of $23,582,128. And, the reported ending fund balance of the Capital Projects Fund for the fiscal year ended June 30, 2010 has increased by $6,650,462 from the Schools Capital Reserve Fund and $26,341,019 from the County Capital Reserve Fund, resulting in an ending fund balance of $32,857,880. No other restatements were necessary.