

**Cleveland County, North Carolina**  
**Annual Financial and Compliance Report**  
**For the Fiscal Year Ended June 30, 2012**  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**B. Management's Discussion and Analysis**

Via this subsection entitled "Management's Discussion and Analysis," management of Cleveland County, North Carolina offer readers of this *Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 2012* a narrative overview and analysis of the County's fiscal performance. This subsection follows "Subsection A: Report from the Independent Auditor" and serves as an introduction to "Section II: Financial Statements and Supplementary Information." To gain valuable insight, please read the following discussion in conjunction with the financial statements and supplementary information furnished in this section.

**SIGNIFICANT FINANCIAL HIGHLIGHTS**

- On a government-wide basis, assets exceeded liabilities at the close of the fiscal year by \$145,431,705. This amount is also referred to as total net assets.
- On a government-wide basis, total net assets increased by \$6,983,856 from last year, primarily due to larger than expected increases in property tax and sales tax revenues, much greater use of non-County funds to support expenditures, and recognition of a large amount of revenue that was classified as unearned revenue last year.
- The ending fund balances of all governmental funds combined equals \$31,662,259, a decrease of \$14,978,511 from prior year and nearly \$29.3 million from two years ago. This decrease is primarily due to spending virtually all of \$40 million of debt proceeds included in fund balance of prior years.
- At the end of the fiscal year, fund balance available for appropriation in the General Fund was \$13,409,943, or 14.7% of total general fund expenditures for the fiscal year.
- The County added \$23,001,283 (15.4%) to its total capital assets during the fiscal year, to achieve an ending balance of \$172,391,451. Many recent building projects have completed.
- Total long-term liabilities decreased by \$3,262,152 (5.0%) to \$62,271,716 during the fiscal year due primarily to making scheduled principal payments and recognition of a large amount of revenue that was classified as unearned revenue last year

**DESCRIPTION OF SECTION II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

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

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

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

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

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

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

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

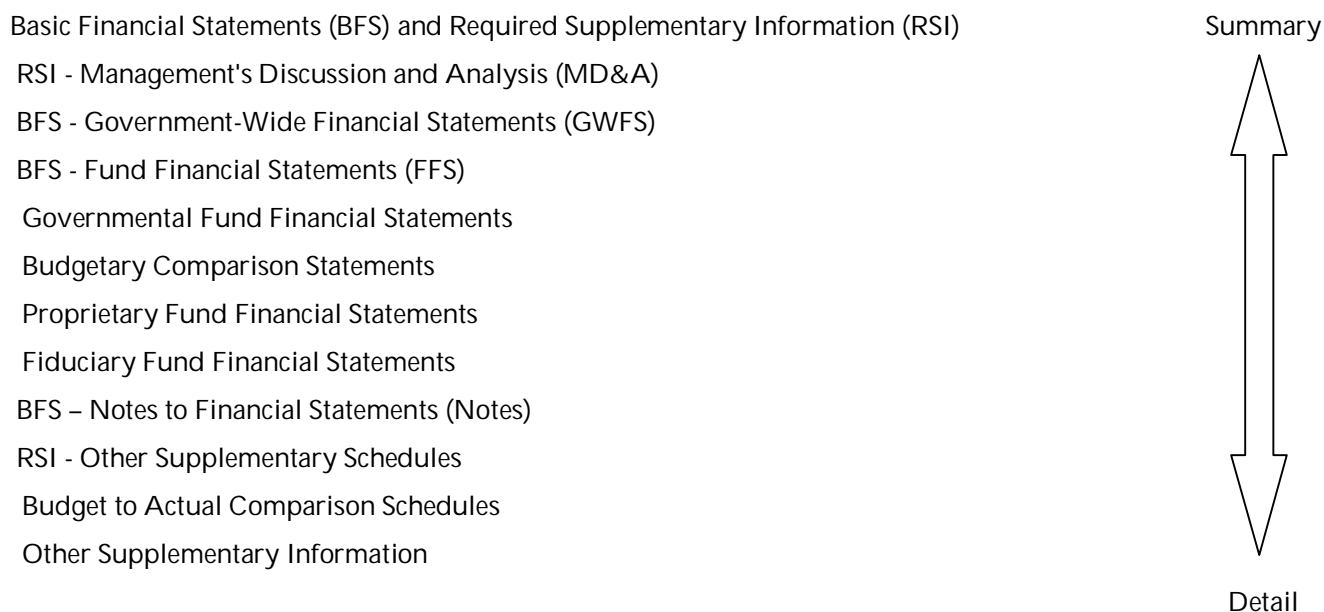


Figure 1. Level of Detail

### Basic Financial Statements

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

### Government-Wide Financial Statements

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

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

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

## Fund Financial Statements

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

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

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

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

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

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

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

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

### **Notes to Financial Statements**

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

### **Required Supplementary Information and Other Supplementary Information**

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

## **GOVERNMENT-WIDE FINANCIAL HIGHLIGHTS**

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

### **Net Assets and Changes in Net Assets**

In the fiscal year ended June 30, 2012, net assets increased by \$6,983,856 to \$145,431,705. This increase is primarily due to larger than expected increases in property tax and sales tax revenues, much greater use of non-County funds to support expenditures, and recognition of a large amount of revenue that was classified as unearned revenue last year.

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

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

Table 1. Condensed Statement of Net Assets

Category	Governmental Activities			Business-type Activities		
	2012	2011	2010	2012	2011	2010
	(amounts depicted in thousands of dollars)					
Current and other assets	\$ 41,076	\$ 61,120	\$ 66,612	\$ 2,538	\$ 5,954	\$ 6,787
Capital assets	156,222	134,350	107,003	16,169	15,040	13,200
<b>Total assets</b>	<b>197,298</b>	<b>195,470</b>	<b>173,615</b>	<b>18,707</b>	<b>20,994</b>	<b>19,987</b>
Current and other liabilities	7,999	11,778	4,861	302	704	121
Long-term liabilities	55,734	57,894	41,847	6,538	7,640	5,535
<b>Total liabilities</b>	<b>63,733</b>	<b>69,672</b>	<b>46,708</b>	<b>6,840</b>	<b>8,344</b>	<b>5,656</b>
Invested in capital assets, net	112,384	85,694	73,352	16,169	15,040	13,200
Restricted	20,948	39,629	13,034	-	-	-
Unrestricted	233	475	40,521	(4,302)	(2,390)	1,131
<b>Total net assets</b>	<b>\$ 133,565</b>	<b>\$ 125,798</b>	<b>\$ 126,907</b>	<b>\$ 11,867</b>	<b>\$ 12,650</b>	<b>\$ 14,331</b>

Table 2. Condensed Statement of Activities

Category	Governmental Activities			Business-type Activities		
	2012	2011	2010	2012	2011	2010
	(amounts depicted in thousands of dollars)					
Revenues:						
Program revenues						
Charges for services	\$ 26,090	\$ 23,496	\$ 23,005	\$ 5,545	\$ 4,990	\$ 4,392
Program grants & contributions	30,988	28,309	24,774	2,240	2,262	297
General revenues						
Property and other taxes	48,840	46,478	46,097	-	-	-
General grants & contributions	380	190	-	-	-	-
Investment earnings	101	202	546	2	44	15
<b>Total revenues</b>	<b>106,399</b>	<b>98,675</b>	<b>94,422</b>	<b>7,787</b>	<b>7,296</b>	<b>4,704</b>
Program expenses:						
General government	8,692	6,759	9,028	-	-	-
Transportation	39	39	39	-	-	-
Public safety	24,750	23,198	21,698	-	-	-
Human services	35,481	36,593	33,914	-	-	-
Education	26,032	26,348	25,447	-	-	-
Economic and phys. development	2,780	3,882	2,349	-	-	-
Cultural	1,213	1,017	1,103	217	-	-
Solid waste/environmental	-	-	-	5,789	8,641	3,614
Interest on long-term liabilities	2,209	2,284	644	-	-	-
<b>Total expenses</b>	<b>101,196</b>	<b>100,120</b>	<b>94,222</b>	<b>6,006</b>	<b>8,641</b>	<b>3,614</b>
<b>Excess (deficiency) before transfers</b>	<b>5,203</b>	<b>(1,445)</b>	<b>200</b>	<b>1,781</b>	<b>(1,345)</b>	<b>1,090</b>
Transfers	2,564	336	335	(2,564)	(336)	(335)
<b>Change in net assets</b>	<b>7,767</b>	<b>(1,109)</b>	<b>535</b>	<b>(783)</b>	<b>(1,681)</b>	<b>755</b>
Net assets, beginning	125,798	126,907	126,372	12,650	14,331	13,576
Net assets, ending	\$ 133,565	\$ 125,798	\$ 126,907	\$ 11,867	\$ 12,650	\$ 14,331

Table 3. Condensed Statement of Activities (Percentages)

Category	Governmental Activities			Business-type Activities		
	2012	2011	2010	2012	2011	2010
Revenues:						
Program revenues						
Charges for services	24.52%	23.81%	24.36%	71.21%	68.39%	93.37%
Program grants & contributions	29.12%	28.69%	26.24%	28.76%	31.00%	6.31%
General revenues						
Property and other taxes	45.90%	47.10%	48.82%	0.00%	0.00%	0.00%
General grants & contributions	0.36%	0.19%	0.00%	0.00%	0.00%	0.00%
Investment earnings	0.10%	0.21%	0.58%	0.03%	0.61%	0.32%
<b>Total revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Program expenses:						
General government	8.59%	6.75%	9.58%	0.00%	0.00%	0.00%
Transportation	0.04%	0.04%	0.04%	0.00%	0.00%	0.00%
Public safety	24.46%	23.17%	23.03%	0.00%	0.00%	0.00%
Human services	35.06%	36.55%	36.00%	0.00%	0.00%	0.00%
Education	25.72%	26.31%	27.01%	0.00%	0.00%	0.00%
Economic and phys. development	2.75%	3.88%	2.49%	0.00%	0.00%	0.00%
Cultural	1.20%	1.02%	1.17%	3.61%	0.00%	0.00%
Solid waste/environmental	0.00%	0.00%	0.00%	96.39%	100.00%	100.00%
Interest on long-term liabilities	2.18%	2.28%	0.68%	0.00%	0.00%	0.00%
<b>Total expenses</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

Of total revenues, about 42.77% stems from property and other taxes, 29.10% from program grants and contributions, and 27.71% from charges for services. Of total expenses, about 33.10% is spent toward human service programs, 24.28% toward education programs, and 23.09% on public safety programs. To summarize, the County's total revenues are about \$114.2 million and total expenses are about \$107.2 for the year ended June 30, 2011, adding about \$7.0 million to the total net assets of the County. See Table 2 and Table 3 above.

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

- 1) total margin ratio = (total resource inflow) divided by (total resource outflow)
- total resource inflow = \$114,185,652, which is total general revenues and transfers (\$49,323,190) plus program revenues (\$31,635,316 + \$26,781,750 + \$6,445,396) of the County (from Exhibit II.C.1.b)
  - total resource outflow = \$107,201,796, which is total expenses of the County (from Exhibit II.C.1.b)
  - total margin ratio =  $\$114,185,652 / \$107,201,796 = 1.065$
- 2) percentage (%) change in net assets = (change in net assets) divided by (beginning net assets)
- change in net assets = \$6,983,856 (from Exhibit II.C.1.b)
  - beginning net assets = \$138,447,849 (from Exhibit II.C.1.b)
  - percentage (%) change in net assets =  $\$6,983,856 / \$138,447,849 = 5.0\%$
- 3) debt service ratio = (principal payments plus interest payments) divided by (total resource outflow plus principal payments)
- principal payments = \$65,605 + \$3,370,393 = \$3,435,998 (from Exhibits II.D.3.a and II.D.4.h)
  - interest payments = \$3,619 + \$2,252,197 = \$2,255,816 (from Exhibits II.D.3.a and II.D.4.h)
  - debt service ratio =  $(\$3,435,998 + \$2,255,816) / (\$107,201,796 + \$3,435,998) = 0.051$
- 4) quick ratio =(cash and cash equivalents) divided by (current liabilities)
- cash and cash equivalents = \$29,491,878 (from Exhibit II.C.1.a)
  - current liabilities = \$6,073,804 + \$1,287,109 + \$752,042 + \$188,217 = \$8,301,172 (from Exhibit II.C.1.a)
  - quick ratio =  $\$29,491,878 / \$8,301,172 = 3.553$
- 5) net assets ratio = (unrestricted net assets) divided by (total liabilities)
- unrestricted net assets = - \$4,069,307 (from Exhibit II.C.1.a)
  - total liabilities = \$70,572,888 (from Exhibit II.C.1.a)
  - net assets ratio =  $-\$4,069,307 / \$70,572,888 = (0.058)$
- 6) debt-to-assets ratio = (outstanding long-term liabilities) divided by (total assets)
- outstanding long-term liabilities = \$62,271,716 (from Exhibit II.C.1.a)
  - total assets = \$216,004,593 (from Exhibit II.C.1.a)
  - debt-to-assets ratio =  $\$62,271,716 / \$216,004,593 = 0.288$
- 7) capital assets condition ratio = (1.000) less ((accumulated depreciation) divided by (capital assets being depreciated))
- accumulated depreciation = \$51,428,265 + \$7,826,820 = \$59,255,085 (from Note b.A.5 on Capital Assets)
  - capital assets being depreciated = \$140,283,617 + \$10,517,613 = \$150,801,230 (from Note b.A.5 on Capital Assets)
  - capital assets condition ratio =  $1.000 - (\$59,255,085 / \$150,801,230) = 0.607$

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

<b>Indicator Name / Result</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
total margin ratio	1.065	0.974	1.013	0.985	1.243	1.110	1.180
% change in net assets	0.050	(0.020)	0.009	(0.011)	0.214	0.102	0.191
debt service ratio	0.051	0.041	0.039	0.030	0.049	0.053	0.057
quick ratio	3.553	2.730	6.291	7.657	8.916	10.663	9.510
net assets ratio	(0.058)	(0.025)	0.795	0.864	1.279	1.419	1.112
debt-to-assets ratio	0.288	0.303	0.245	0.167	0.122	0.132	0.170
capital assets condition ratio	0.607	0.615	0.642	0.651	0.676	0.637	0.646

## Governmental Activities

Governmental activities increased the County's net assets by \$7,766,667, thereby responsible for the overall increase in total government-wide net assets. See both Table 2 and Table 3 above. This increase in net assets is primarily due to larger than expected increases in property tax and sales tax revenues, much greater use of non-County funds to support expenditures, and recognition of a large amount of revenue that was classified as unearned revenue last year.

## Business-Type Activities

Business-type activities decreased the County's net assets by \$782,811, thereby partially offsetting the overall increase in total government-wide net assets. See both Table 2 and Table 3 above. A large transfer from the Solid Waste Fund to the Capital Projects Fund led to the decrease in net assets. The County's General Fund will be transferring these funds back to the Solid Waste Fund over several years.

Due to the nature of the landfill business and the large expense of opening and closing landfill sites, we intend to return to building cash reserves now, after the closing of the older landfill site and opening of the newer landfill site. Generally, increases in assets beget increases in net assets. And, a large amount of cash reserves is needed to fund the construction of additional landfill sites. The older landfill site remained open until January 2010 and has been closed and capped.

The newest fund at the County is the Conference Center Fund. During the year, this fund was created to account for the purchase of equipment and other assets needed for establishing and furnishing this new facility. In future years, this fund will account for the operation, maintenance, and continued development of the County's conference center facilities housed in the LeGrand Center on the campus of Cleveland Community College.

## FUND HIGHLIGHTS

As noted earlier, Cleveland County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds with either large balances at year-end or a large amount of activity during the year are classified as "major" funds and receive special attention throughout this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2012*.

**Governmental Funds.** The focus of Cleveland County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Cleveland County's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Across all governmental funds, the County has a fund balance available for appropriation of about \$18.41 million. Also, as a measure of a fund's liquidity, it may be useful to compare both fund balance available for appropriation and total fund balance to total fund expenditures. For all governmental funds, fund balance available for appropriation amounts to 14.9% and total fund balance amounts to 25.6% of total expenditures. More financial indicators are shown in Table 5 below, preceded by a description of each indicator.

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

On June 30, 2012, the County reported \$31,662,259 as the combined fund balance of all governmental funds. The total decrease in the combined fund balance of all governmental funds of \$14,978,511 may be attributed to various causes. Primarily, the reasons for this decrease result from 1) spending loan proceeds that were unspent last year and 2) an increase in amounts paid for borrowings.



The General Fund is the chief operating fund of the County and a major fund. At the end of the current fiscal year, fund balance available for appropriation of the General Fund was \$13,409,943, while total fund balance reached \$25,063,714. The total increase in the fund balance of the General Fund of \$2,782,075 is primarily attributed to larger than expected increases in property tax and sales tax revenues and much greater use of non-County funds to support expenditures when compared to prior year. Fund balance available for appropriation represents 14.7% of total General Fund expenditures, while total fund balance represents 27.5% of that same amount. amounts that have deteriorated over recent years.

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

Due to a number of large ongoing projects, the Capital Projects Fund remains to be a major fund for the year ended June 30, 2012. The County plans to spend accumulated cash to help 1) finance current and future projects and 2) purchase planned assets while continuing to add cash contributions for these purposes.

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

- total revenues plus transfers in = \$116,193,604, which is total revenues (\$106,252,566) plus transfers in (\$9,941,038) of the County's governmental funds (from Exhibit II.C.2.b)
- transfers in to capital project-type funds = \$4,285,390, which is total transfers in to Capital Projects Fund (from Exhibit II.E.02)
- total expenditures plus transfers out = \$131,172,115, which is total expenditures (\$123,794,820) plus transfers out (\$7,377,295) of the County's governmental funds (from Exhibit II.C.2.b)
- proceeds from capital leases and installment financing = \$0 (from Exhibit II.C.2.b)
- transfers out from capital projects-type funds = \$3,204,253, which is total transfers out from Capital Projects Fund (from Exhibit II.E.02)
- operations ratio =  $(\$116,193,604 - \$4,285,390) / (\$131,172,115 - \$0 - \$3,204,253) = 0.875$

2) percentage (%) change in fund balance = (change in fund balance) divided by (beginning fund balance)

- change in fund balance = - \$14,978,511 (from Exhibit II.C.2.b)
- beginning fund balance = \$46,640,770 (from Exhibit II.C.2.b)
- percentage change in fund balance =  $-\$14,978,511 / \$46,640,770 = -32.1\%$

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

- principal payments = \$3,435,998 (from Exhibit II.C.2.b)
- interest payments = \$2,255,816 (from Exhibit II.C.2.b)
- debt service ratio =  $(\$3,435,998 + \$2,255,816) / (\$131,172,115 - \$0 - \$3,204,253) = 0.044$

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

- cash and cash equivalents = \$27,505,204 (from Exhibit II.C.2.a)
- current liabilities--not including deferred revenues =  $\$5,138,759 + \$635,876 + \$1,284,204 + \$3,496,276 + \$188,217 = \$10,743,332$  (from Exhibit II.C.2.a)
- quick ratio =  $\$27,505,204 / \$10,743,332 = 2.560$

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

- available fund balance = \$18,413,897 (from Exhibit II.C.2.a)

- available fund balance-to-expenditures ratio =  $\$18,413,897 / (\$131,172,115 - \$0 - \$3,204,253) = 0.144$

6) debt-to-assessed value ratio = (long-term debt) divided by (total assessed value used for property tax purposes)

- long-term debt = \$47,098,335 (from detail notes in Exhibit II.C.3.b.B.7.e)
- total assessed value used for property tax purposes = \$6,988,722,082 (from Exhibit II.E.03)
- debt-to-assessed value ratio =  $\$47,098,335 / \$6,988,722,082 = 0.0067$

7) intergovernmental ratio = (intergovernmental revenues) divided by ((total revenues) plus (transfers in) less (transfers in to capital projects-type funds))

- intergovernmental revenues = \$27,487,280 (from Exhibit II.C.2.b)
- intergovernmental ratio =  $\$27,487,280 / (\$116,193,604 - \$4,285,390) = 0.246$

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

Indicator Name / Result	2012	2011	2010	2009	2008	2007	2006
operations ratio	0.875	0.910	1.140	0.955	1.034	1.007	0.990
% change in fund balance	(0.321)	(0.211)	0.317	(0.000005)	0.164	0.038	(0.002)
debt service ratio	0.044	0.040	0.045	0.030	0.052	0.055	0.057
quick ratio	2.560	2.172	5.590	6.817	8.290	7.614	7.291
available fund balance-to-expenditures	0.144	0.139	0.330	0.318	0.356	0.292	0.294
debt-to-assessed value ratio	0.0067	0.0076	0.0054	0.0025	0.0021	0.0020	0.0028
intergovernmental ratio	0.246	0.235	0.213	0.214	0.222	0.224	0.211

**Proprietary Funds.** Cleveland County's proprietary (i.e. enterprise) funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Fund and Conference Center Fund at the end of the fiscal year amounted to - \$4,302,149 and total net assets of the funds are \$11,867,191. Factors concerning the finances of these enterprise funds have already been addressed in the discussion of Cleveland County's business-type activities.

## CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

Table 6. Capital Assets, net of Accumulated Depreciation

Category	Governmental Activities			Business-type Activities		
	2012	2011	2010	2012	2011	2010
	(amounts depicted in thousands of dollars)					
Land and land improvements	\$ 20,322	\$ 15,621	\$ 13,783	\$ 13,478	\$ 10,324	\$ 9,777
Construction in progress	47,045	35,425	8,202	-	1,444	-
Buildings and improvements	79,568	73,110	75,342	868	859	819
Equipment (including vehicles)	3,748	4,190	3,118	1,462	1,776	1,691
Leasehold improvements	221	235	250	9	9	10
Infrastructure	5,318	5,769	6,308	352	628	903
<b>Total capital assets, net</b>	<b>\$ 156,222</b>	<b>\$ 134,350</b>	<b>\$ 107,003</b>	<b>\$ 16,169</b>	<b>\$ 15,040</b>	<b>\$ 13,200</b>

**Capital assets.** Cleveland County's capital assets for its governmental and business-type activities as of June 30, 2012 totals \$172,391,451 (net of accumulated depreciation), which represents an increase of \$23,001,283 from prior year. These assets include construction in progress, equipment and vehicles, buildings, land, improvements to both land and buildings, leasehold improvements, and infrastructure items. Major capital asset transactions during the year include:

- Continued development of a new landfill site (\$1,710,398 increase).

- Acquisition of capital assets other than equipment and vehicles through the purchase, major renovation, construction, or received donation of land and buildings (\$28,806,030 increase)
- Increase in accumulated depreciation, including depreciation expense on equipment and vehicles of \$1,920,398 and on capital assets other than equipment and vehicles of \$3,718,556 (\$5,638,954 decrease to reported capital assets).

The County's investments in capital assets increased over 15.40% from the previous year. Additional information on the County's capital assets can be found in the Notes to Financial Statements, see Note 1.E. and Note 3.A.

**Long-term Liabilities.** As of June 30, 2012, Cleveland County had total long-term liabilities outstanding of \$62,263,324, of which total indebtedness (debt backed by the full faith and credit of the County) amounted to \$47,098,335. During the year ended June 30, 2012, the change in total long-term liabilities was -\$3,270,544 (or - 4.99%) and the change in outstanding indebtedness was -\$3,435,999. During the year, the County met all normal debt service requirements (both principal and interest payments) of \$5,691,722.

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

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. After calculating the County's legal debt limit (which is 8% of total assessed value) and subtracting current outstanding long-term debt, the legal debt margin for Cleveland County is \$463,668,871. See Subsection III.C within Section III for more information on the calculation of the legal debt margin and other information concerning long-term debt. Additional information regarding the County's long-term obligations can be found in the Notes to Financial Statements, see Note a.D.8 and Note b.B.7.

## BUDGETARY HIGHLIGHTS

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

**General Fund:** Total amendments to the General Fund increased budgeted revenues by \$8,005,363, appropriations of fund balance by \$2,578,563, and incoming transfers from other funds by \$2,674. The primary reasons for these increases were: (1) to carry-forward budget related to a) unspent grant awards and other restricted resources (such as donations), b) unpaid obligations (i.e. year-end outstanding encumbrances), c) uncollected and undistributed property taxes for public schools, and d) other incomplete projects, (2) to accept new grants and other new resources for the purchase of various supplies, equipment, and services, or for school projects, (3) to accept new grants for recruiting new and expanding facilities at Curtiss-Wright, Baldor, Ultra Machines, Clearwater Paper, and other industry to locate and expand facilities within Cleveland County, and (4) to accept new public assistance grants that helped with residential heating costs and temporary employment.

**Capital Projects Fund.** Budget amendments to the Capital Projects Fund increased revenues and expenditures by \$37,688,801 for various purposes: (1) to appropriate \$8,979,040 of proceeds from the state lottery for renovations to convert part of an old school facility to use as administrative offices for school personnel, (2) for continuing projects that were incomplete when the year began (such as the construction of a new multi-purpose facility at the

community college that will include a new conference center and construction of a new middle school in Shelby), (3) to acknowledge the use of \$3,000,000 of funds transferred from the Solid Waste Fund for the creation of a large tract of land to entice a large new industrial taxpayer to the County, and (4) to accept a \$250,000 grant that will be used to finance part of the renovation of the historic courthouse in Shelby.

**Solid Waste Fund.** In the County's oldest enterprise fund, total amendments to the Solid Waste Fund increased revenues and expenditures by \$6,034,036 primarily to account for the continued closing and capping of an old landfill cell closed for use in 2010 and transfer \$3,000,000 to Capital Projects Fund.

**Conference Center Fund.** In the County's newest enterprise fund, total amendments to the Conference Center Fund increased revenues and expenditures by \$300,000 primarily to account for both the purchase of kitchen equipment, silverware, materials, and other hardware and provide support for the management company enlisted to oversee the pre-opening activities of the new conference center.

**Non-major Funds.** Total amendments to non-major funds of \$3,783,746 include the carry-forward budget of incomplete special projects and budget for new special projects (including grants), to budget for a new project to use a portion of special E911 funds for purchase of two ambulances, and to budget new federal community development block grant (CDBG) proceeds of \$400,000 for housing rehabilitation.

The Community Development Fund is budgeted by project ordinance instead of the annual budget ordinance. The County budgeted \$3,025,000 in the Community Development Fund, which is reported as a special revenue fund. Since this fund is not included in the original adopted budget, all budgeted expenditures (i.e. appropriations) are shown as budget amendments when compared to the final amended budget.

Table 7. Schedule of Budget Amendment Amounts by Fund

<b>Fund</b>	<b>Original Adopted Budget</b>	<b>Amendments to Budget</b>	<b>Final Amended Budget</b>
General Fund	\$ 96,427,210	\$ 10,586,600	\$ 107,013,810
Capital Projects Fund	4,704,254	37,688,801	42,393,055
Solid Waste Fund	5,569,951	6,034,036	11,603,987
Conference Center Fund	-	300,000	300,000
Non-major Funds	7,586,223	3,783,746	11,369,969
<b>Totals</b>	<b>\$ 114,287,638</b>	<b>\$ 58,393,183</b>	<b>\$ 172,680,821</b>

## **ECONOMIC HIGHLIGHTS AND OTHER IMPORTANT FACTS**

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

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

**Governmental Activities:** An increase in assessed property values should lead to increased property tax revenues. And, revenues from the local option sales taxes are showing sharp improvement. The County budgeted for normal increases in employee compensation, including funding compensation and benefits adjustments, and other planned expenditures.

The total County budget for fiscal year 2013 increased by \$245,953 (or 0.23%, or virtually unchanged) from the prior year. Still, there were some minor changes per fund. The General Fund increased by \$314,330, or 0.33%. The Capital Projects Fund decreased by \$333,746, or 9.26%. All other governmental funds combined for a net decrease of \$417,117. For a look at the County's adopted budget for fiscal year 2013, review Subsection I.A, Message from the County Manager, found at the beginning of Section I.

**Business – type Activities:** Landfill activities in fiscal year 2013 should see increases in collections of departmental fees when compared to prior year.

The Solid Waste Fund increased by \$682,496, or 12.83%. In addition, to set aside cash for future obligations related to closure and post-closure care costs, the County will continue to monitor its revenues from departmental fees and adjust the fee structure as needed.

## REQUESTS FOR ADDITIONAL FACTS

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

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