

**Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2012
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, 2012
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
1. Government-Wide Financial Statements

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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, 2012

With Comparative Totals as of June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Cash and cash equivalents	\$ 27,505,204	\$ 1,986,674	\$ 29,491,878	\$ 34,078,328
Taxes receivable, net	2,034,585	-	2,034,585	2,349,478
Accounts receivable, net	9,540,534	548,285	10,088,819	10,062,096
Inventories	91,497	-	91,497	133,331
Prepaid items	181,542	2,670	184,212	154,665
Restricted cash	1,652,151	-	1,652,151	20,197,899
Loan receivable	70,000	-	70,000	98,000
Capital assets				
Land and construction in progress	67,366,759	13,478,547	80,845,306	62,814,419
Other capital assets, net of accumulated depreciation	88,855,352	2,690,793	91,546,145	86,575,749
Total capital assets	156,222,111	16,169,340	172,391,451	149,390,168
Total Assets	\$ 197,297,624	\$ 18,706,969	\$ 216,004,593	\$ 216,463,965
LIABILITIES				
Accounts payable and accrued expenses	\$ 5,774,635	\$ 299,169	\$ 6,073,804	\$ 8,608,161
Unearned revenues	1,284,204	2,905	1,287,109	2,850,574
Accrued interest payable	752,042	-	752,042	798,601
Due to other taxing units	188,217	-	188,217	224,912
Long-term liabilities				
Current portion of long-term liabilities	4,973,763	33,385	5,007,148	4,980,353
Non-current portion of long-term liabilities	50,760,249	6,504,319	57,264,568	60,553,515
Total Long-term liabilities	55,734,012	6,537,704	62,271,716	65,533,868
Total Liabilities	\$ 63,733,110	\$ 6,839,778	\$ 70,572,888	\$ 78,016,116
NET ASSETS				
Invested in capital assets, net of related debt	\$ 112,383,657	\$ 16,169,340	\$ 128,552,997	\$ 100,733,761
Restricted net assets:				
Economic development	225,948	-	225,948	1,049,342
Education	6,175,604	-	6,175,604	5,367,706
Human services	-	-	-	398
Public Safety	1,374,764	-	1,374,764	1,994,735
Stabilization of State Statute	12,975,323	-	12,975,323	31,086,582
Other purposes	196,376	-	196,376	130,304
Total restricted net assets	20,948,015	-	20,948,015	39,629,067
Unrestricted net assets	232,842	(4,302,149)	(4,069,307)	(1,914,979)
Total Net Assets	\$ 133,564,514	\$ 11,867,191	\$ 145,431,705	\$ 138,447,849

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

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

(continued on next page)

For the Year Ended June 30, 2012

With Comparative Totals For the Year Ended June 30, 2011

PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS	Expenses	Program Revenues			Net Program Revenues (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
EXPENSES, PROGRAM REVENUES, AND NET RESULTS					
Governmental activities:					
General government	\$ (8,691,798)	\$ 2,395,705	\$ 1,000,766	\$ 14,141	\$ (5,281,186)
Transportation	(39,465)	-	-	-	(39,465)
Public safety	(24,749,538)	5,899,901	2,216,861	67,461	(16,565,315)
Human services	(35,480,842)	7,050,168	18,363,979	-	(10,066,695)
Education	(26,031,948)	10,608,208	-	3,947,837	(11,475,903)
Economic and physical development	(2,780,339)	38,150	1,840,163	1,268,978	366,952
Cultural and recreational	(1,212,620)	98,075	(112,460)	1,146,979	(80,026)
Interest on long-term liabilities	(2,209,258)	-	1,232,809	-	(976,449)
Subtotal governmental activities	(101,195,808)	26,090,207	24,542,118	6,445,396	(44,118,087)
Business-type activities					
Conference center operations	(216,822)	-	-	-	(216,822)
Solid waste collection and disposal	(5,789,166)	5,545,109	2,239,632	-	1,995,575
Total business-type activities	(6,005,988)	5,545,109	2,239,632	-	1,778,753
Total primary government	\$ (107,201,796)	\$ 31,635,316	\$ 26,781,750	\$ 6,445,396	\$ (42,339,334)

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

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PRIMARY GOVERNMENT FUNCTIONS / PROGRAMS NET PROGRAM REVENUES (EXPENSES)--FROM PRIOR PAGE	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
Governmental activities:				
General government	\$ (5,281,186)	\$ -	\$ (5,281,186)	\$ (3,357,392)
Transportation	(39,465)	-	(39,465)	(39,464)
Public safety	(16,565,315)	-	(16,565,315)	(17,002,386)
Human services	(10,066,695)	-	(10,066,695)	(12,527,731)
Education	(11,475,903)	-	(11,475,903)	(13,290,236)
Economic and physical development	366,952	-	366,952	(619,041)
Cultural and recreational	(80,026)	-	(80,026)	5,182
Interest on long-term liabilities	(976,449)	-	(976,449)	(1,484,724)
Subtotal governmental activities	(44,118,087)	-	(44,118,087)	(48,315,792)
Business-type activities				
Conference center operations	-	(216,822)	(216,822)	-
Solid waste collection and disposal	-	1,995,575	1,995,575	(1,388,846)
Total business-type activities	-	1,778,753	1,778,753	(1,388,846)
Total primary government	(44,118,087)	1,778,753	(42,339,334)	(49,704,638)
GENERAL REVENUES AND TRANSFERS:				
Property taxes	40,301,804	-	40,301,804	38,645,416
Local option sales taxes	8,077,072	-	8,077,072	7,405,889
Other taxes and licenses	461,395	-	461,395	426,626
Grants and contributions, general	380,000	-	380,000	190,000
Investment earnings, general	100,740	2,179	102,919	246,268
Total general revenues	49,321,011	2,179	49,323,190	46,914,199
Transfers:	2,563,743	(2,563,743)	-	-
Total general revenues and transfers	51,884,754	(2,561,564)	49,323,190	46,914,199
CHANGE IN NET ASSETS	7,766,667	(782,811)	6,983,856	(2,790,439)
Net assets -- beginning (July 1)	125,797,847	12,650,002	138,447,849	141,238,288
Net assets -- ending (June 30)	\$ 133,564,514	\$ 11,867,191	\$ 145,431,705	\$ 138,447,849

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

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Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Year Ended June 30, 2012
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
2. Fund Financial Statements

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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

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June 30, 2012

With Comparative Totals as of June 30, 2011

	Governmental Funds				
	General	Capital Projects	Other Non-major Funds	Totals	
				2012	2011
ASSETS					
Cash and cash equivalents	\$ 17,266,668	\$ 8,698,971	\$ 1,539,565	\$ 27,505,204	\$ 28,687,969
Taxes receivable, net	1,781,277	-	34,418	1,815,695	2,117,043
Accounts receivable, net	7,968,787	1,441,168	130,579	9,540,534	9,498,256
Due from other governmental funds	3,473,613	-	22,663	3,496,276	2,226,697
Inventories	91,497	-	-	91,497	133,331
Prepaid items	173,487	1,207	6,848	181,542	154,282
Restricted cash	-	1,652,151	-	1,652,151	20,197,899
Total assets	\$ 30,755,329	\$ 11,793,497	\$ 1,734,073	\$ 44,282,899	\$ 63,015,477
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	\$ 2,517,023	\$ 2,589,358	\$ 32,378	\$ 5,138,759	\$ 7,329,472
Contract retainage	30,591	569,193	36,092	635,876	576,942
Unearned revenues	1,098,231	-	185,973	1,284,204	2,847,894
Deferred revenues	1,834,890	8,000	34,418	1,877,308	3,168,790
Due to other governmental funds	22,663	3,473,613	-	3,496,276	2,226,697
Due to other taxing units	188,217	-	-	188,217	224,912
Total liabilities	5,691,615	6,640,164	288,861	12,620,640	16,374,707
Fund balances					
Non-spendable					
Inventories	91,497	-	-	91,497	133,331
Prepaid items	173,487	1,207	6,848	181,542	154,282
Restricted					
Stabilization of State Statute	11,388,787	1,433,168	153,368	12,975,323	31,086,582
School Capital Projects	-	3,718,958	-	3,718,958	419,319
Emergency Telephone	-	-	1,308,538	1,308,538	1,444,202
County Fire Service District	-	-	42,975	42,975	463,062
Library	196,375	-	-	196,375	130,303
Economic and Physical Development	44,420	-	-	44,420	23,688
Public Safety	16,727	-	-	16,727	17,252
Human Services	-	-	-	-	398
Assigned					
Subsequent year's expenditures	5,596,601	-	-	5,596,601	4,437,361
Public health - not budgeted	2,003,965	-	-	2,003,965	2,200,500
Incomplete projects	266,565	-	-	266,565	449,617
Unassigned	5,285,290	-	(66,517)	5,218,773	5,680,873
Total fund balances	25,063,714	5,153,333	1,445,212	31,662,259	46,640,770
Total liabilities and fund balances	\$ 30,755,329	\$ 11,793,497	\$ 1,734,073	\$ 44,282,899	\$ 63,015,477

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.

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

(continued from previous page)

June 30, 2012

With Comparative Totals as of June 30, 2011

	2012	2011
Total fund balances of governmental funds	\$ 31,662,259	\$ 46,640,770
<p>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</p>		
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:	218,890	232,435
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:	70,000	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 is:	207,650,376	181,123,364
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:	(51,428,265)	(46,772,943)
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:	1,877,308	3,168,790
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:	(752,042)	(798,601)
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.	(55,734,012)	(57,893,968)
Total net assets of governmental activities	<u>\$ 133,564,514</u>	<u>\$ 125,797,847</u>

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

(continued on next page)

For the Year Ended June 30, 2012

With Comparative Totals For the Year Ended June 30, 2011

	Governmental Funds				
	General	Capital Projects	Other Non-major Funds	Totals	
				2012	2011
REVENUES					
Ad valorem property taxes	\$ 51,208,217	\$ -	\$ 881,659	\$ 52,089,876	\$ 49,785,232
Other taxes	8,538,179	2,605,434	622,220	11,765,833	11,139,095
Unrestricted intergovernmental revenues	420,067	-	-	420,067	467,601
Restricted intergovernmental revenues	21,576,574	2,438,166	3,052,473	27,067,213	23,792,640
Licenses, fees, and permits	943,235	-	-	943,235	865,693
Sales and services	11,919,725	-	-	11,919,725	10,479,805
Investment earnings	100,756	64,863	2,290	167,909	266,555
Miscellaneous	1,709,962	168,746	-	1,878,708	551,634
Total revenues	96,416,715	5,277,209	4,558,642	106,252,566	97,348,255
EXPENDITURES					
General government	8,880,334	123,324	-	9,003,658	8,719,355
Transportation	39,465	-	-	39,465	39,464
Public safety	19,201,726	554,673	2,066,925	21,823,324	22,687,964
Human services	33,936,655	-	-	33,936,655	33,850,242
Education	22,431,550	17,813,371	-	40,244,921	46,964,327
Economic and physical development	2,445,624	3,618,933	1,268,543	7,333,100	4,944,404
Cultural and recreational	1,128,074	1,553,809	-	2,681,883	2,025,905
Schools capital outlay	3,040,000	-	-	3,040,000	3,936,014
Debt service, principal reduction	65,605	-	3,370,393	3,435,998	2,847,048
Debt service, interest and fees	3,619	-	2,252,197	2,255,816	1,711,550
Total expenditures	91,172,652	23,664,110	8,958,058	123,794,820	127,726,273
Excess (deficiency) of revenues over expenditures	5,244,063	(18,386,901)	(4,399,416)	(17,542,254)	(30,378,018)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,641,957	4,285,390	4,013,691	9,941,038	7,219,385
Transfers out	(4,103,945)	(3,204,253)	(69,097)	(7,377,295)	(6,883,460)
Installment financing issued	-	-	-	-	17,582,950
Total other financing sources (uses)	(2,461,988)	1,081,137	3,944,594	2,563,743	17,918,875
Net change in fund balances	2,782,075	(17,305,764)	(454,822)	(14,978,511)	(12,459,143)
FUND BALANCES					
Beginning fund balances	22,281,639	22,459,097	1,900,034	46,640,770	59,099,913
Ending fund balances	\$ 25,063,714	\$ 5,153,333	\$ 1,445,212	\$ 31,662,259	\$ 46,640,770

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

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

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Cleveland County, North Carolina

b.i. Reconciliation of the 'Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balances' to the 'Government-Wide Statement of Activities'

For the Year Ended June 30, 2012

With Comparative Totals For the Year Ended June 30, 2011

(continued from previous page)

	2012	2011
Net change in fund balances of governmental funds	\$ (14,978,511)	\$ (12,459,143)
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 foci and bases of accounting, specifically relating to the following reasons:		
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:	(73,878)	(196,323)
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:	26,835,521	32,167,044
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:	(4,966,643)	(4,716,693)
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.	(1,276,042)	(1,310,799)
5. Whereas, governmental funds record a deferred revenue (liability) for uncollected receivables because the monies are not available, uncollected receivables are recognized as revenues on the Statement of Activities when the monies are earned. The net increase (decrease) in deferred revenues of governmental funds from prior fiscal year is recognized as a change in current revenues of governmental activities.	(1,256,336)	714,355
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:	3,435,998	2,847,048
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.	46,558	(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)
Total net change in net assets of governmental activities	\$ 7,766,667	\$ (1,109,721)

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

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Cleveland County, North Carolina

c. General Fund: Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget to Actual

For the Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance - Over (Under)
REVENUES				
Ad valorem property taxes	\$ 48,692,575	\$ 49,409,969	\$ 51,208,217	\$ 1,798,248
Other taxes	8,419,000	8,419,000	8,538,179	119,179
Unrestricted intergovernmental revenues	429,000	429,000	420,067	(8,933)
Restricted intergovernmental revenues	20,782,762	28,336,032	21,576,574	(6,759,458)
Licenses, fees, and permits	886,500	886,500	943,235	56,735
Sales and services	10,315,492	9,995,155	11,919,725	1,924,570
Investment earnings	565,000	565,000	100,756	(464,244)
Miscellaneous	274,200	329,236	1,709,962	1,380,726
Total revenues	90,364,529	98,369,892	96,416,715	(1,953,177)
EXPENDITURES				
General government	10,315,766	9,971,728	8,880,334	(1,091,394)
Transportation	39,465	39,465	39,465	-
Public safety	18,019,707	20,014,030	19,201,726	(812,304)
Human services	37,098,597	39,341,029	33,936,655	(5,404,374)
Education	21,903,343	22,598,083	22,431,550	(166,533)
Economic and physical development	1,259,535	6,433,484	2,445,624	(3,987,860)
Cultural and recreational	1,208,574	1,268,291	1,128,074	(140,217)
Schools capital outlay	3,040,000	3,040,000	3,040,000	-
Debt service, principal reduction	65,606	65,606	65,605	(1)
Debt service, interest and fees	3,620	3,620	3,619	(1)
Total expenditures	92,954,213	102,775,336	91,172,652	(11,602,684)
Excess of revenues over (under) expenditures	(2,589,684)	(4,405,444)	5,244,063	9,649,507
OTHER FINANCING SOURCES (USES)				
Transfers in	1,625,320	1,627,994	1,641,957	13,963
Transfers out	(3,472,997)	(4,238,474)	(4,103,945)	134,529
Fund balance appropriated	4,437,361	7,015,924	-	(7,015,924)
Total other financing sources (uses)	2,589,684	4,405,444	(2,461,988)	(6,867,432)
Net change in fund balance	\$ -	\$ -	2,782,075	\$ 2,782,075
FUND BALANCES				
Beginning fund balances, as restated			22,281,639	
Ending fund balances			<u>\$ 25,063,714</u>	

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

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

June 30, 2012

With Comparative Totals as of June 30, 2011

	Enterprise Funds			
	Solid Waste	Conference Center	Totals	
			2012	2011
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,986,674	\$ -	\$ 1,986,674	\$ 5,390,359
Accounts receivable, net	548,285	-	548,285	563,840
Prepaid items	375	2,295	2,670	383
Total current assets:	<u>2,535,334</u>	<u>2,295</u>	<u>2,537,629</u>	5,954,582
Non-current assets:				
Capital assets				
Land, land improvements, and construction in progress	13,478,547	-	13,478,547	11,768,149
Other capital assets, net of accumulated depreciation	2,690,793	-	2,690,793	3,271,598
Total capital assets	<u>16,169,340</u>	<u>-</u>	<u>16,169,340</u>	15,039,747
Total non-current assets	<u>16,169,340</u>	<u>-</u>	<u>16,169,340</u>	15,039,747
Total assets	\$ 18,704,674	\$ 2,295	\$ 18,706,969	\$ 20,994,329
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 157,040	\$ -	\$ 157,040	\$ 663,867
Contract retainages	142,129	-	142,129	37,880
Unearned revenues / customer deposits	2,905	-	2,905	2,680
Compensated absences	33,385	-	33,385	45,923
Total current liabilities	<u>335,459</u>	<u>-</u>	<u>335,459</u>	750,350
Non-current liabilities:				
Accrued landfill closure and post-closure care costs	6,083,482	-	6,083,482	7,259,762
Net OPEB obligation for retirees' healthcare coverage	334,771	-	334,771	248,480
Compensated absences	86,066	-	86,066	85,735
Total non-current liabilities	<u>6,504,319</u>	<u>-</u>	<u>6,504,319</u>	7,593,977
Total liabilities	6,839,778	-	6,839,778	8,344,327
NET ASSETS				
Invested in capital assets	16,169,340	-	16,169,340	15,039,747
Unrestricted net assets	(4,304,444)	2,295	(4,302,149)	(2,389,745)
Total net assets	\$ 11,864,896	\$ 2,295	\$ 11,867,191	\$ 12,650,002

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

Cleveland County, North Carolina

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

For the Year Ended June 30, 2012

With Comparative Totals For the Year Ended June 30, 2011

	Enterprise Funds			
	Solid Waste	Conference Center	Totals	
			2012	2011
OPERATING REVENUES				
Household user fees	\$ 1,428,628	\$ -	\$ 1,428,628	\$ 1,428,027
Departmental fees	4,116,481	-	4,116,481	3,561,976
Other operating revenue	30,062	-	30,062	200,196
Total operating revenues	5,575,171	-	5,575,171	5,190,199
OPERATING EXPENSES				
Salaries / benefits	1,897,204	-	1,897,204	1,828,173
Other expenses	2,724,523	216,822	2,941,345	2,607,100
Depreciation	672,310	-	672,310	677,696
Landfill closure and postclosure care	495,129	-	495,129	3,527,692
Total operating expenses	5,789,166	216,822	6,005,988	8,640,661
Operating income (loss)	(213,995)	(216,822)	(430,817)	(3,450,462)
NONOPERATING REVENUES AND EXPENSES				
Share of state's disposal, white goods, and scrap tire taxes	480,154	-	480,154	440,791
Intergovernmental revenues, restricted	84,168	-	84,168	130,666
Investment earnings	2,179	-	2,179	44,053
Capitalized expenditures from reserve liability for closure and post-closure care	1,671,409	-	1,671,409	1,500,710
Gain (loss) on disposal of capital assets	(26,161)	-	(26,161)	(10,551)
Total nonoperating revenues and expenses	2,211,749	-	2,211,749	2,105,669
Income before contributions and transfers	1,997,754	(216,822)	1,780,932	(1,344,793)
Transfer from (to) governmental funds	(2,782,860)	219,117	(2,563,743)	(335,925)
Change in net assets	(785,106)	2,295	(782,811)	(1,680,718)
Net assets, beginning	12,650,002	-	12,650,002	14,330,720
Net assets, ending	\$ 11,864,896	\$ 2,295	\$ 11,867,191	\$ 12,650,002

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, 2012

With Comparative Totals For the Year Ended June 30, 2011

	Solid Waste Fund-Collection and Disposal	
	Totals	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from household user fees	\$ 1,428,628	\$ 1,428,027
Cash received from customers	4,122,274	3,399,223
Cash received from sale of waste and recyclable materials	29,035	196,876
Cash received from other operations	1,027	3,320
Cash paid to employees for services	(1,823,480)	(1,750,698)
Cash paid for goods and services	(3,314,878)	(2,221,192)
Net cash flows from operating activities	442,606	1,055,556
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Government grants	84,168	130,666
Transfer to governmental funds (General Fund)	(2,782,860)	(335,925)
Net cash flows from non-capital financing activities	(2,698,692)	(205,259)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(156,655)	(1,027,093)
Capitalized expenditures from reserve liability for closure and post-closure care	(1,671,409)	(1,500,713)
Proceeds on disposal of capital assets	198,132	197,473
Share of state's white goods and scrap tire taxes	480,154	440,791
Net cash flows from capital and related financing activities	(1,149,778)	(1,889,542)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	2,179	44,053
Net cash flows from investing activities	2,179	44,053
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,403,685)	(995,192)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: beginning balance	5,390,359	6,385,551
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: ending balance	\$ 1,986,674	\$ 5,390,359
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	\$ (213,995)	\$ (3,450,462)
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	15,255	(162,732)
2. Decrease (increase) in prepayments	8	(12)
3. Increase (decrease) in accounts payable and contract retainages	(600,050)	383,819
4. Increase (decrease) in customer deposits	225	2,080
5. Increase (decrease) in accrued compensatory leave and retirement benefits	73,724	77,475
6. Increase (decrease) in accrued landfill closure and post-closure care costs	495,129	3,527,692
7. Depreciation expense (not a cash expenditure, no effect on cash flow)	672,310	677,696
Net cash flows from operating activities	\$ 442,606	\$ 1,055,556

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

Cleveland County, North Carolina
g. Enterprise Fund: Conference Center Fund: Statement of Cash Flows

For the Year Ended June 30, 2012

With Comparative Totals For the Year Ended June 30, 2011

	Conference Center Fund	
	Totals	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid for goods and services	\$ (219,117)	\$ -
Net cash flows from operating activities	(219,117)	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to governmental funds (General Fund)	219,117	-
Net cash flows from non-capital financing activities	219,117	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
none	-	-
Net cash flows from capital and related financing activities	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	-	-
Net cash flows from investing activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: beginning balance	-	-
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: ending balance	\$ -	\$ -
Schedule of Non-Cash Capital and Related Financing Activities		
Trade-in allowance on purchase of capital asset	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ (216,822)	-
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 prepayments	(2,295)	-
Net cash flows from operating activities	\$ (219,117)	\$ -

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

Cleveland County, North Carolina

h. Fiduciary Funds: Agency Funds: Statement of Fiduciary Net Assets

June 30, 2012

With Comparative Totals as of June 30, 2011

	Agency Funds	
	Totals	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 145,494	\$ 102,163
Taxes receivable, net	32,220	35,203
Accounts receivable, net	718,429	805,406
Intergovernmental receivable	188,147	225,356
Total assets	\$ 1,084,290	\$ 1,168,128
LIABILITIES		
Accounts payable and accrued expenses	\$ 288,332	\$ 283,455
Due to other taxing units	795,958	884,673
Total liabilities	\$ 1,084,290	\$ 1,168,128

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, 2012
II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
C. Basic Financial Statements (includes Notes to Financial Statements)
3. Notes to Financial Statements

	<u>Identifier</u>	<u>Page No.</u>
a. Summary of Significant Accounting Policies	Note a	54
b. Detail Notes on Important Items	Note b	62
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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.

Cleveland County, North Carolina
Annual Financial and Compliance Report
For the Fiscal Year Ended June 30, 2012
C. Basic Financial Statements
3. Notes to 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. There were no significant changes due to any applicable pronouncements implemented for the year ended June 30, 2012. 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 for budgeting and reporting purposes.

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 budgeting and reporting purposes.

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 funds:

Solid Waste Fund-Collection and Disposal. This fund accounts for the operation, maintenance, and ongoing development of the County landfill facilities and each collection/recycling center.

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.

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 reconciliation is included in the Fund Financial Statements. The reconciliation 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 funds are charges to customers for services. Operating expenses for the enterprise funds 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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. The taxes for vehicles registered from March 2012 and afterward and due on or after July 1, 2012 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. Budgetary Data

The County's budgets are adopted as required by NCGS 159. The annual budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual budget ordinance can be adopted. An annual budget ordinance sets equal amounts for estimated revenues and for appropriations (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, the Solid Waste Fund, and the Conference Center Fund. Unencumbered annual appropriations lapse at fiscal year-end. Project ordinances are adopted for some grant funded and other projects that overlap multiple fiscal years, such as for the Community Development Fund and the Capital Projects Fund. 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 other 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 accept a CDBG grant of \$400,000 to rehabilitate some residences, accept State grants for expansion of social services programs (primarily crisis and employment assistance), accept additional grant funds for the interior renovation of the County's historic courthouse, to transfer funds from Solid Waste Fund to Capital Projects Fund to develop a large tract of land for recruitment of new industry, to drawdown lottery funds for the renovation of school facilities,

and accept State and other grants to assist with recruitment and expansion of 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 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 funds. 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 Enterprise 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 funds. When applicable, 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 funds, 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 funds, 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 non-exempt 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 funds, 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 in the next couple of pages.

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:

1) 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.

2) 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, other library materials, library equipment, and new library facilities.

Restricted for Economic and Physical Development – portion of spendable fund balance available and restricted to pay for cooperative extension programs, such as basket weaving and 4-H, and soil conservation activities.

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.

3) 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.

4) 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.

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.

5) 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 18% 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. Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

A schedule of reconciliations is required to explain the differences both 1) between total net assets of governmental activities shown in 'Government-Wide Statement of Net Assets' and total fund balances shown in 'Governmental Funds: Balance Sheet'; and 2) between the change in net assets of governmental activities shown in the 'Government-Wide Statement of Activities' and the net change in fund balance shown in 'Governmental Funds: Statement of Revenues, Expenditures, and Changes in Fund Balance.'

Following the governmental fund Balance Sheet, 'Exhibit II.C.2.a.i' in Part 2 of Subsection C of Section II provides the reconciliation between 1) total fund balance of governmental funds as reported in the governmental fund Balance Sheet and 2) total net assets of governmental activities as reported in the Government-Wide Statement of Net Assets. The primary differences result from the treatment of capital assets and long-term liabilities.

Following the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances, 'Exhibit II.C.2.b.i' in Part 2 of Subsection C of Section II provides the reconciliation between 1) changes in total fund balances of the governmental funds as reported in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and 2) changes in net assets of governmental activities as reported in the Government-Wide Statement of Activities. The primary differences result from the treatment of capital assets and long-term liabilities.

Note b: DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the County's deposits are either insured or collateralized by using one of two methods, dedicated and pooling. Under the dedicated method, all deposits exceeding the federal depository insurance coverage (FDIC) level are collateralized with securities held by the County's agents in the County's name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by an agent of the North Carolina Department of State Treasurer in the name of the North Carolina Department of State Treasurer (DST). Since DST is acting in a fiduciary capacity for the County, these deposits are considered as held by the County's agent in the County's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the pooling method report to the DST on the adequacy of their pooled collateral covering uninsured deposits. DST does not confirm this information with the County or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under the pooling method, the potential exists for 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, 2012, the County's deposits had a carrying amount of \$20,236,273 and a bank balance of \$19,165,491. Of the bank balance, \$705,655 was covered by federal depository insurance, \$16,361,653 in certificates of deposit was covered by collateral held under the dedicated method, and the remaining \$2,098,183 in interest bearing deposits was covered by collateral held under the pooling method. Also at June 30, 2012, Cleveland County had \$15,904 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 has a carrying amount of \$16,361,653 in certificates of deposit. Of this balance, \$4,296,982 was scheduled to mature within 3 months, \$10,055,191 was scheduled to mature within 3 to 12 months, and \$2,009,480 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, 2012, the County's investment balances and maturities were as follows:

Investment Type	Fair Market	Due to Mature Within:		
	Value	up to 1 year	1 to 2 years	2 to 3 years
NCCMT -- Cash Portfolio	11,037,346	n/a	n/a	n/a
Total Investments	\$ 11,037,346	\$ -	\$ -	\$ -

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, 2012, 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, 2012, 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, 2012 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, 2012, the County held 6.78% 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, 2012:

Tax Year Levied	Additional Tax	Interest	Total
2012	\$ 1,489,217	\$ -	\$ 1,489,217
2011	1,470,155	84,534	1,554,689
2010	1,466,902	216,368	1,683,270
2009	1,467,063	348,427	1,815,490
Total	\$ 5,893,337	\$ 649,329	\$ 6,542,666

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 above chart refers to the calendar year.

4. Receivables

Receivables reported on the Government-Wide Financial Statements and Fund Financial Statements at June 30, 2012 are reported net of an allowance for uncollectible accounts as follows:

	Taxes & Other Assessments	Accounts	Total
Governmental Activities:			
General Fund	\$ 3,035,397	\$ 13,700,120	\$ 16,735,517
Capital Projects Fund	-	1,441,168	1,441,168
Nonmajor Governmental Funds	57,343	130,579	187,922
Accrued Interest (Government-Wide reporting)	813,560	-	813,560
Total Receivables	3,906,300	15,271,867	19,178,167
General Fund	(1,254,207)	(5,731,333)	(6,985,453)
Nonmajor Governmental Funds	(22,925)	-	(22,925)
Accrued Interest (Government-Wide reporting)	(594,670)	-	(594,670)
Total Allowances for Uncollectible Accounts	(1,871,715)	(5,731,333)	(7,603,048)
Total Governmental Activities	\$ 2,034,585	\$ 9,540,534	\$ 11,575,119
Business-Type Activities:			
Solid Waste Fund-Collection and Disposal	\$ 208,639	\$ 577,305	\$ 785,944
Allowances for Uncollectible Accounts	(208,639)	(29,020)	(237,659)
\$ -	\$ -	\$ 548,285	\$ 548,285

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	\$ 8,171,214	\$ 99,839	\$ (106,037)	\$ 20,051	\$ 8,185,067
Public Safety	34,655,772	1,624,307	(247,397)	(18,662)	36,014,021
Human Services	96,721,304	1,446,751	(5,340)	(20,650)	98,142,065
Education	27,301,877	17,327,202	-	-	44,629,079
Economic and Physical Dev.	5,542,870	4,738,764	(15,361)	-	10,266,273
Cultural and Recreational	8,730,326	1,683,545	-	-	10,413,871
Total Capital Assets	181,123,364	26,920,408	(374,135)	(19,261)	207,650,376
Less Accumulated Depreciation:					
General Government	(2,831,298)	(317,959)	44,077	(20,051)	(3,125,231)
Public Safety	(14,135,480)	(1,951,726)	218,529	42,776	(15,825,901)
Human Services	(28,312,813)	(2,409,216)	5,340	20,650	(30,696,039)
Education	-	(87)	-	-	(87)
Economic and Physical Dev.	(90,670)	(152,036)	-	-	(242,706)
Cultural and Recreational	(1,402,682)	(135,619)	-	-	(1,538,301)
Total Accumulated Deprec.	(46,772,943)	(4,966,643)	267,946	43,375	(51,428,265)
Total Capital Assets, Net	\$134,350,421	\$21,953,765	\$ (106,189)	\$ 24,114	\$156,222,111

Capital asset activity, by asset class, for the year ended June 30, 2012 was as follows for Governmental Activities:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land and Land Improvements	\$ 15,620,884	\$ 3,865,881	\$ (77,321)	\$ 912,650	\$20,322,097
Construction in Progress	35,425,386	19,545,608	-	(7,926,329)	47,044,665
Subtotal	51,046,270	23,411,489	(77,321)	(7,013,679)	67,336,759
Capital Assets Being Depreciated:					
Buildings and Improvements	108,303,646	2,394,541	-	7,013,679	117,711,866
Equipment (including Vehicles)	14,607,557	1,114,378	(296,814)	(19,261)	15,405,860
Leasehold Improvements	425,178	-	-	-	425,178
Infrastructure	6,740,713	-	-	-	6,740,713
Subtotal	130,077,094	3,508,919	(296,814)	6,994,418	140,283,617
Total Capital Assets	181,123,364	26,920,408	(374,135)	(19,261)	207,650,376
Less Accumulated Depreciation:					
Buildings and Improvements	(35,194,017)	(2,949,549)	-	-	(38,143,566)
Equipment (including Vehicles)	(10,417,336)	(1,552,270)	267,946	43,375	(11,658,285)
Leasehold Improvements	(189,919)	(14,212)	-	-	(204,131)
Infrastructure	(971,671)	(450,612)	-	-	(1,422,283)
Total Accumulated Deprec.	(46,772,943)	(4,966,643)	267,946	43,375	(51,428,265)
Total Capital Assets, Net	\$134,350,421	\$ 21,953,765	\$ (106,189)	\$ 24,114	\$156,222,111

All business-type activities relate to the environmental protection expenditure function. Capital asset activity, by asset class, for the year ended June 30, 2012 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	\$ 10,323,787	\$ 1,710,398	\$ -	\$ 1,444,362	\$ 13,478,547
Construction in Progress	1,444,362	-	-	(1,444,362)	-
Subtotal	11,768,149	1,710,398	-	-	13,478,547
Capital Assets Being Depreciated:					
Buildings and Improvements	1,041,006	36,931	-	-	1,077,937
Equipment (including Vehicles)	5,414,511	80,395	(221,985)	19,261	5,292,522
Leasehold Improvements	16,518	-	-	-	16,518
Infrastructure	4,130,636	-	-	-	4,130,636
Subtotal	10,602,671	117,666	(221,985)	19,261	10,517,613
Total Capital Assets	22,370,820	1,828,064	(221,985)	19,261	23,996,160
Less Accumulated Depreciation:					
Buildings and Improvements	(182,306)	(27,500)	-	-	(209,806)
Equipment (including Vehicles)	(3,638,981)	(368,128)	195,825	(19,261)	(3,830,545)
Leasehold Improvements	(7,378)	(553)	-	-	(7,931)
Infrastructure	(3,502,408)	(276,130)	-	-	(3,778,538)
Total Accumulated Deprec.	(7,331,073)	(672,311)	195,825	(19,261)	(7,826,820)
Total Capital Assets, Net	\$ 15,039,747	\$ 1,155,753	\$ (26,160)	\$ -	\$ 16,169,340

6. Construction Commitments

The County is involved with the following incomplete construction/renovation projects as of June 30, 2012:

Project Name	Spent-To-Date	Remaining Commitments
Detention Center Annex Expansion / Renovation	\$ 6,638,017	\$ 101,087
New Middle School Construction in Shelby, NC	14,177,384	4,413,970
Multi-Purpose Facility Construction at Community College	17,973,162	1,219,227
Roadway / Railspur for New Industry	1,700,235	237,246
Landfill Cell Closure	2,700,443	177,277
Renovation of Middle School	-	8,979,040
Waterline extensions for New Industry	-	831,978
Total	\$ 43,189,241	\$ 15,959,824

B. Liabilities

1. Payables

Payables at the Government-Wide and Fund level at June 30, 2012 were as shown in the following table.

	Vendors	Employee Benefits	Cash Held in Trust	Insurance Claims *	Total
Governmental Activities:					
General Fund	\$ 1,460,901	\$ 447,549	\$ 9,164	\$ 630,000	\$ 2,547,614
Capital Projects Fund	3,158,551	-	-	-	3,158,551
Nonmajor Governmental Funds	68,470	-	-	-	68,470
Total Governmental Activities	\$ 4,687,922	\$ 447,549	\$ 9,164	\$ 630,000	\$ 5,774,635
Business-Type Activities:					
Solid Waste Fund	\$ 299,169	\$ -	\$ -	\$ -	\$ 299,169
Fiduciary Activities:					
Agency Funds	\$ 142,838	\$ -	\$ 145,494	\$ -	\$ 288,332

* The estimated liability for outstanding claims from health insurance coverage, dental plan, and workers' compensation coverage includes \$630,000 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, 2012 for employees not engaged in law enforcement and for law enforcement officers is 6.96% and 7.04%, 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, 2013, the County's contribution rates have decreased to 6.74% and 6.77% 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, 2012 is \$1,909,791. 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, 2012, the County made contributions to the State for death benefits of \$24,305. 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, 2012, the LEOSSA's membership consisted of:

<u>Member Category</u>	<u>No.</u>
retirees currently receiving benefits	11
terminated plan members entitled to but not yet receiving benefits	-
active plan members:	
Vested	76
non-vested	15
total members	102

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, 2012, the County had no assets to pay future liabilities. The actuarial accrued liability for benefits and the unfunded actuarial liability (UAAL) was \$1,546,105. The annual payroll of active employees covered under this plan (covered payroll) was \$3,526,273 and the ratio of the UAAL to the covered payroll was 43.845%. 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, 2012 is \$135,023. 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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial

assumptions included projected salary increases of 4.25% to 7.85% 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 4.7373% of annual covered payroll. The remaining amortization period at December 31, 2010 was 20 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, 2012 are \$161,260 and \$467,896, respectively.

Net OPEB Obligation, as of June 30, 2011		\$	441,659
annual required contribution	\$	162,822	
adjustment to annual required contribution		(23,645)	
interest on net OPEB obligation		22,083	
annual OPEB cost		\$	161,260
Contributions			(135,023)
Change in Net OPEB Obligation		\$	26,237
Net OPEB Obligation, as of June 30, 2012		\$	467,896

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, 2012 were \$244,596, which consisted of \$178,052 from the County and \$66,544 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, 2012 were \$1,702,115, which consisted of \$1,208,791 from the County and \$493,324 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, 2012, the County's required and actual contributions were \$5,399. For **trend information**, see Exhibit III.E.5 in Subsection E of Section III of this report.

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

Plan Description. As a single-employer defined benefit plan, Cleveland County provides healthcare coverage to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (LGERS), 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-nine (69) 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. 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. A separate report has not been issued for this benefit plan. At December 31, 2010 (which is the date of the latest actuarial valuation), the OPEB-RHC's membership consisted of:

<u>Member Category</u>	<u>LEO No.</u>	<u>Other No.</u>
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, 2010), 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, 2012, the County made payments for claims due to post-employment healthcare coverage of \$142,575. 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, 2010 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 4.1199% of annual covered payroll. The remaining amortization period at December 31, 2010 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, 2012 are \$1,397,755 and \$4,921,081, 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, 2011		\$	3,665,901
annual required contribution	\$	1,377,628	
adjustment to annual required contribution		(126,509)	
interest on net OPEB obligation		146,636	
annual OPEB cost		\$	1,397,755
Contributions			(142,575)
Change in Net OPEB Obligation		\$	1,255,180
Net OPEB Obligation, as of June 30, 2012		\$	4,921,081

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 \$6,083,482 reported as landfill closure and post-closure care liability at June 30, 2012 represents a cumulative amount reported to-date following an increase of \$495,129 in the reported liability for future costs and a reduction of \$1,671,409 for closure costs paid during the year.

The County is required to increase its reported liability at least \$346,114 annually hereafter until the total amount reaches \$9,601,718. 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, 2012 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	\$ 135,026	\$ -
Other accounts, net	805,536	53,614
Taxes receivable, net	157,669	1,781,276
Subtotal	1,098,231	1,834,890
Capital Projects Fund, grant receivables	-	8,000
County Fire Service District Fund, taxes receivable, net	4,445	34,418
Community Development Fund, grant receivables	181,528	-
Total Governmental Activities	\$ 1,284,204	\$ 1,877,308
Solid Waste Fund-Collection and Disposal:		
Prepaid fees not yet earned	\$ 2,905	\$ -
Total Business-Type Activities	\$ 2,905	\$ -

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 \$500,000 for incurred and unpaid claims as of June 30, 2012. 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 \$30,000 for incurred and unpaid claims as of June 30, 2012. 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, 2012 is \$400,000 per occurrence. The estimated liability for outstanding losses includes \$100,000 for incurred and unpaid claims as of June 30, 2012. 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, 2012	June 30, 2011
General Fund:		
Health insurance coverage	\$ 500,000	\$ 610,007
Dental plan	30,000	30,949
Workers' compensation coverage	100,000	100,000
Total	\$ 630,000	\$ 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, 2012, 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 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. Another agreement to lease computer equipment for the Information Technology department was executed in July 2009 and required 60 monthly payments of \$1,494. 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, 2012, the County's leased equipment had a value of:

<u>Governmental Activities</u>	<u>Recorded Value of Asset</u>	<u>Accumulated Depreciation</u>	<u>Net Present Value</u>
Computer equipment (Social Services)	\$ 75,075	\$ (75,075)	\$ -
Imaging equipment (Register of Deeds)	180,715	(141,425)	39,290
Computer equipment (Info. Tech.)	81,095	(45,321)	35,774
Total	\$ 336,885	\$ (261,821)	\$ 75,064

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

b. General Obligation and Limited Obligation Bonds

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. Installment Purchase Loans

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 in 2010. 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. Contractual Obligations

The County entered a contract with the City of Shelby to help finance the costs of constructing the Broad River Waterline. In FY 2005, the City of Shelby issued \$12,255,000 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*.

General Obligation Bonds	Outstanding at June 30, 2012
\$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%	\$ 1,100,000
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	19,840,000
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	4,400,000
\$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	5,376,000
\$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	15,824,655
Subtotal Installment Purchase Loans	25,600,655
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	507,730
Total	\$ 47,048,385

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
2012	1,330,000	1,037,658	2,040,393	1,214,447	65,606	3,619	3,435,998	2,255,724
Maturities								
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
2017	1,185,000	831,859	2,044,276	773,395	-	-	3,229,276	1,605,253
Sum 5 yrs.	6,520,000	4,629,096	10,213,611	4,749,741	49,950	1,717	16,783,562	9,380,554
Next 5 yrs. (2018 to 2022)	5,475,000	3,432,713	10,238,725	2,538,507	-	-	15,713,725	5,971,219
Next 5 yrs. (2023 to 2027)	5,690,000	1,978,865	5,573,972	501,464	-	-	11,263,972	2,480,329
Next 5 yrs. (2028 to 2032)	3,255,000	395,157	82,076	5,736	-	-	3,337,076	400,893
Sum	\$20,940,000	\$10,435,830	\$26,108,385	\$7,795,447	\$ 49,950	\$1,717	47,098,335	18,232,997
							Less Capitalized Leases:	(49,950) (1,717)
							Total Long-Term Debt:	\$47,048,385 \$18,231,277

e. Total Indebtedness

In addition to the County's own needs, the County issues debt on behalf of both the public schools and the community college and makes the necessary and related debt service payments. 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, 2012, Cleveland County had an amount of bonds authorized but un-issued of \$-0- and a legal debt margin of \$463,668,871. During the year, the County did not use short-term borrowings or interest rate swaps.

The previous tables provide certain information on the County's general obligation bonds, limited obligation bonds, installment purchase loans, contractual obligations, and capital leases payable at June 30, 2012.

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, 2012, there were three series of industrial revenue bonds outstanding, with an aggregate principal amount payable of \$21,170,000. 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 for accrued leave relate to environmental protection expenditure function. Accrued leave activity, by type of leave, for the year ended June 30, 2012 was as follows for Business-Type Activities.

Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Difference (or Expense)
Vacation Leave (accrued)	\$ 100,865	\$ 73,535	\$ (73,146)	\$ 101,254	\$ 389
Holiday Leave (accrued)	17,580	43,046	(51,856)	8,770	(8,810)
Compensatory Leave (accrued)	13,214	8,450	(12,237)	9,427	(3,787)
Subtotal (accrued)	131,659	125,031	(137,239)	119,451	(12,208)
Compensatory Leave (unaccrued)	3,733	6,943	(7,477)	3,199	(534)
Sick Leave (unaccrued)	97,928	46,959	(46,581)	98,306	378
Subtotal (unaccrued)	101,661	53,902	(54,058)	101,505	(156)
Grand Totals	\$ 233,320	\$ 178,933	\$ (191,297)	\$ 220,956	\$ (12,364)

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)	\$ 2,355,439	\$2,087,544	\$ (2,078,450)	\$ 2,364,533	\$ 9,094
General Government	304,140	254,826	(253,651)	305,315	1,175
Public Safety	818,510	715,994	(712,835)	821,669	3,159
Human Services	1,157,370	1,059,567	(1,055,099)	1,161,838	4,468
Cultural (Library)	45,490	31,566	(31,390)	45,666	176
Other	29,929	25,591	(25,475)	30,045	116
Subtotal	2,355,439	2,087,544	(2,078,450)	2,364,533	9,094
Holiday Leave (accrued)	677,930	1,336,125	(1,273,345)	740,710	62,780
General Government	7,179	133,421	(133,061)	7,539	360
Public Safety	669,162	534,812	(472,933)	731,041	61,879
Human Services	1,589	636,278	(635,737)	2,130	541
Cultural (Library)	-	20,448	(20,448)	-	-
Other	-	11,166	(11,166)	-	-
Subtotal	677,930	1,336,125	(1,273,345)	740,710	62,780
Compensatory Leave (accrued)	467,187	471,552	(462,511)	476,228	9,041
General Government	38,470	24,647	(25,874)	37,243	(1,227)
Public Safety	262,097	205,040	(199,648)	267,489	5,392
Human Services	148,871	239,130	(231,801)	156,200	7,329
Cultural (Library)	17,633	1,167	(4,019)	14,781	(2,852)
Other	116	1,568	(1,169)	515	399
Subtotal	467,187	471,552	(462,511)	476,228	9,041
Subtotal (accrued)	3,500,556	3,895,221	(3,814,306)	3,581,471	80,915
Compensatory Leave (unaccrued)	519,362	308,785	(318,145)	510,002	(9,360)
General Government	176,834	52,596	(68,538)	160,892	(15,942)
Public Safety	103,617	59,513	(22,090)	141,040	37,423
Human Services	222,413	176,397	(207,319)	191,491	(30,922)
Cultural (Library)	15,845	15,218	(15,091)	15,972	127
Other	653	5,061	(5,107)	607	(46)
Subtotal	519,362	308,785	(318,145)	510,002	(9,360)
Sick Leave (unaccrued)	2,600,430	1,323,950	(1,313,910)	2,610,470	10,040
General Government	338,586	145,550	(144,243)	339,893	1,307
Public Safety	927,114	449,791	(446,211)	930,694	3,580
Human Services	1,260,778	694,121	(689,253)	1,265,646	4,868
Cultural (Library)	43,066	22,307	(22,141)	43,232	166
Other	30,886	12,181	(12,062)	31,005	119
Subtotal	2,600,430	1,323,950	(1,313,910)	2,610,470	10,040
Subtotal (unaccrued)	3,119,792	1,632,735	(1,632,055)	3,120,472	680
Grand Totals	\$ 6,620,348	\$ 5,527,956	\$ (5,446,361)	\$ 6,701,943	\$ 81,596

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, 2012:

Governmental Activities	Next Year Interest Payable	Next Year Obligation	Future Year Obligation	Total
G.O. Bonds (non-capital related)	\$ 51,700	\$ 250,000	\$ 850,000	\$ 1,151,700
L.O. Bonds (capital related)	956,928	1,080,000	18,760,000	20,796,928
Bank Financed Loans	1,103,391	2,020,197	23,580,458	26,704,046
Contractual Obligations	22,964	20,972	486,758	530,694
Total Bonds	2,134,983	3,371,169	43,677,216	49,183,368
Capitalized Leases	1,271	30,975	18,975	51,221
Net Pension Obligation	-	-	467,896	467,896
Net OPEB Obligation	-	-	4,586,310	4,586,310
Accrued Leave (earned, unpaid)	-	1,571,618	2,009,853	3,581,471
Totals	\$ 2,136,254	\$ 4,973,762	\$ 50,760,250	\$ 57,870,266

Business-type Activities

Landfill Closure/Post-Closure	\$ -	\$ -	\$ 6,083,482	\$ 6,083,482
Net OPEB Obligation	-	-	334,771	334,771
Accrued Leave (earned, unpaid)	-	33,385	86,066	119,451
Totals	\$ -	\$ 33,385	\$ 6,504,319	\$ 6,537,704

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Bonds (non-capital related)	1,350,000	-	(250,000)	1,100,000
L.O. Bonds (non-capital related)	20,920,000	-	(1,080,000)	19,840,000
Bank Financed Loans	27,620,852	-	(2,020,197)	25,600,655
Contractual Obligations	527,926	-	(20,196)	507,730
Capitalized Leases	115,557	-	(65,607)	49,950
Net Pension Obligation	441,659	26,237	-	467,896
Net OPEB Obligation	3,417,421	1,168,889	-	4,586,310
Accrued Leave (earned, unpaid)	3,500,554	3,895,221	(3,814,306)	3,581,471
Totals	\$ 57,893,970	\$ 5,090,347	\$ (7,250,305)	\$ 55,734,012

By purpose:

County	\$ 10,624,000	\$ -	\$ (848,000)	\$ 9,776,000
Community College	18,346,852	-	(1,422,197)	16,924,655
Public Schools (K-12)	20,920,000	-	(1,080,000)	19,840,000
Waterline	527,926	-	(20,196)	507,730
Equipment--Capitalized Leases	115,557	-	(65,607)	49,950
Employment/Post-employment	7,359,634	5,090,347	(3,814,306)	8,635,677
Totals	\$ 57,893,970	\$ 5,090,347	\$ (7,250,305)	\$ 55,734,012

Business-type Activities

Landfill Closure/Post-Closure	\$ 7,259,762	\$ -	\$ (1,176,280)	\$ 6,083,482
Net OPEB Obligation	248,480	86,291	-	334,771
Accrued Leave (earned, unpaid)	131,659	125,031	(137,239)	119,451
Totals	\$ 7,639,901	\$ 211,322	\$ (1,313,519)	\$ 6,537,704

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, 2012 consists of the following:

Activity description	Amount
From General Fund to Community Development Fund for portion of roadway expansion above the amount of the grant	\$ 3,910
From General Fund to Debt Service Fund for payments on outstanding long-term debt	2,095,528
From General Fund to Capital Projects Fund for current capital projects activity and accumulating resources for future capital projects	1,535,390
From General Fund to Solid Waste Fund to accumulate resources for future capital projects in supporting fund activities	250,000
From General Fund to Conference Center Fund for medical insurance on employees	219,117
Subtotal from General Fund	4,103,945
From Capital Projects Fund to General Fund for current capital projects activity of the school system	1,290,000
From Capital Projects Fund to Debt Service Fund for payments on outstanding long-term debt used for construction of school buildings	1,914,253
Subtotal from Capital Projects Fund	3,204,253
From Emergency Telephone Fund to General Fund for a portion of costs of personnel involved in supporting fund activities	69,097
Subtotal from Emergency Telephone Fund	69,097
From Solid Waste Fund to General Fund for a portion of costs of personnel involved in supporting fund activities and for workers' compensation	282,860
From Solid Waste Fund to Capital Projects Fund to accumulate resources for future capital projects in supporting fund activities	2,750,000
Total interfund activity	\$ 10,410,155

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, 2012 is as follows:

Reporting Fund	Due from General Fund	Due from Other Funds	Due to Other Funds
Governmental Funds			
General Fund	\$ -	\$ 3,473,613	\$ 22,663
Capital Projects Fund	-	-	3,473,613
Emergency Telephone Fund	1,184	-	-
County Fire Service District Fund	5,722	-	-
Community Development Fund	15,757	-	-
Total Interfund Balances	22,663	3,473,613	3,496,276

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	\$ 17,266,668	\$ 10,351,122	\$ 1,539,565
Liabilities	(5,691,615)	(6,640,164)	(288,987)
Deferred revenues not arising from cash receipts	1,834,890	8,000	34,418
Fund balance available for appropriation	13,409,943	3,718,958	1,284,996
Restricted for Stabilization of State Statute			
Total fund balance	25,063,714	5,153,333	1,445,212
Fund balance available for appropriation	(13,409,943)	(3,718,958)	(1,284,996)
Fund balance not available for appropriation	11,653,771	1,434,375	160,216
Nonspendable fund balance	(264,984)	(1,207)	(6,848)
Restricted for Stabilization of State Statute	\$ 11,388,787	\$ 1,433,168	\$ 153,368

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 18% 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, 2012, consists of the following:

Governmental activities	Beginning Balance	Activity	Ending Balance
Public safety	1,994,735.42	- 619,970.97	1,374,764.45
E911 Service Cash (FD26)	1,508,027.44	-197,410.79	1,310,616.65
Fire Districts Cash (FD28)	469,455.83	-422,035.48	47,420.35
Unspent Dare Program Donations	3,923.60	42.53	3,966.13
Unspent Sheriff Donations	12,499.95	-568.55	11,931.40
Unspent Reading Fathers Donations	7.50	0.00	7.50
Unspent Emergency Management Donations	140.73	1.32	142.05
Unspent EMS Donations	680.37	0.00	680.37
Human services	398.06	-398.06	0.00
Unspent grants to Social Services	15.66	-15.66	0.00
Unspent Health Donations	382.40	-382.40	0.00
Education	5,367,705.45	807,898.29	6,175,603.74
Public Schools Capital Reserve Cash (FD42)	5,367,705.45	807,898.29	6,175,603.74
Economic and physical development	1,049,342.30	-823,394.15	225,948.15
Community Development Cash (FD29)	997,283.00	-815,755.22	181,527.78
Unspent Coop Exp Special Project	23,687.53	-7,689.88	15,997.65
Unspent Soil Conservation Special Project	28,371.77	50.95	28,422.72
Culture and recreation	130,303.74	66,071.70	196,375.44
Unspent Library Donations	130,303.74	66,071.70	196,375.44
Total	8,542,484.97	-569,793.19	7,972,691.78

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, 2012, consists of the following:

Governmental Activities:	Beginning Balance	Activity	Ending Balance
Capital Assets	\$ 181,123,364	\$ 26,527,012	\$ 207,650,376
Adjustments for depreciation and related debt			
Depreciation on capital assets	(46,772,943)	(4,655,322)	(51,428,265)
Unspent debt proceeds	-	1,652,151	1,652,151
Bonds issued for capital purposes, current portion	(3,100,196)	-	(3,100,196)
Leases issued for capital equipment, current portion	(65,606)	34,630	(30,976)
Bonds issued for capital purposes, future portion	(45,440,655)	3,100,197	(42,340,458)
Leases issued for capital equipment, future portion	(49,950)	30,975	(18,975)
Subtotal adjustments	(95,429,350)	(1,489,521)	(96,918,871)
Invested in Capital Assets, Net of Related Debt	\$ 85,694,014	\$ 26,689,643	\$ 112,383,657

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, the County budgets a functional allocation to Cleveland County Chamber, which is a separate non-profit entity, for said purposes. In essence, all occupancy taxes are distributed in accordance with State law.

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 \$1,415,130 for operating purposes and an additional \$75,000 for capital purposes during the fiscal year ended June 30, 2012 to Cleveland Community College.

The County paid an additional \$557 to CCC for training courses and course materials for employees. And, \$-0- 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, 2012. 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 \$1,172,197 on installment purchase loan from BB&T issued for community college capital facilities. After these payments, \$1,100,000 in general obligation bond debt remains outstanding and \$15,824,655 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 \$16,573 to IPDC during the fiscal year ended June 30, 2012. The County paid an additional \$81,407 to IPDC to coordinate and administer the Community Development Block Grant and related grant awards and \$36 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, 2012:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>State or Pass-Thru Grantor Number</u>	<u>Federal (Direct and Pass-Thru) Expenditures</u>	<u>State (Direct and Pass-Thru) Expenditures</u>
<u>U.S. Dept. of Health & Human Services</u>				
<u>Passed-through the N.C. Dept. of Health and Human Services:</u>				
<u>Divisions of Aging (thru Isothermal Planning and Development) and Social Services</u>				
III-B Grants for Supportive Services and Senior Centers – In-Home Services	93.044	-	\$ 132,076	\$ 8,252
<u>U.S. Dept. of Housing and Urban Development</u>				
<u>Passed-through N.C. Dept of Commerce, thru Isothermal Planning and Development</u>				
Community Development Block Grant-Housing Rehabilitation	14.228	10-C-2187	\$ 71,263	-
Community Development Block Grant-Economic Development (CDBG-ED): Roadway/Railway expansion	14.228	09-E-2081	558,354	-
Total pass-thru grants awards from IPDC			<u>\$ 761,693</u>	<u>\$ 8,252</u>

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	-	\$ 2,116,666	\$ -
Medical Assistance	93.778	-	105,788,387	62,002,458
Participation in Budgeted County Expenditures				
IV-D Offset Fees-ESC	93.563	-	357	-
IV-D Offset Fees-Federal	93.563	-	5,468	-
Links Transitional Funds	93.674	-	6,954	-
IV-E Adoption Subsidy	93.659	-	653,418	176,683
AFDC Payments and Penalties	93.560	-	(1,271)	(348)
AFDC/TANF Unemployed				
Parents Assistance	93.560	-	(100)	(43)
TANF Payments and Penalties	93.558	-	1,167,018	(126)
Child Welfare Services Adoption Subsidy		-	-	421,966
State-County / Special Assistance Domicillary Care Payments		-	-	1,237,547
Total participation in budgeted county expenditures			<u>1,831,844</u>	<u>1,835,677</u>
Total direct benefit payments			<u>\$ 109,736,896</u>	<u>\$ 63,838,135</u>

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.