

**Cleveland County, North Carolina  
Annual Financial and Compliance Report  
For the Year Ended June 30, 2007**

**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

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## Martin Starnes & Associates, CPAs, P.A.

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*A Professional Association of Certified Public Accountants and Management Consultants*

### INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Cleveland County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cleveland County, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cleveland County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cleveland County, North Carolina, as of June 30, 2007, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and the school capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Required Supplementary Information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2007, on our consideration of Cleveland County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on financial statements that collectively comprise the basic financial statements of Cleveland County, North Carolina. The combining and individual nonmajor fund statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Other data in this report, designated as "Introductory Section" and "Statistical Section" in the table of contents, except as noted above, have not been audited by us and, accordingly, we express no opinion on such data.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
October 5, 2007

Cleveland County, North Carolina  
Annual Financial and Compliance Report  
For the Fiscal Year Ended June 30, 2007  
**II: FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**B. Management's Discussion and Analysis**

Via this subsection entitled "Management's Discussion and Analysis," management of Cleveland County, North Carolina offer readers of this *Annual Financial and Compliance Report For the Fiscal Year Ended June 30, 2007* a narrative overview and analysis of the County's fiscal performance. This subsection follows "Subsection A: Report from the Independent Auditor" and serves as an introduction to "Section II: Financial Statements and Supplementary Information." To gain valuable insight, please read the following discussion in conjunction with the financial statements and supplementary information furnished in this section.

**SIGNIFICANT FINANCIAL HIGHLIGHTS**

- On a government-wide basis, assets exceeded liabilities at the close of the fiscal year by \$116,595,109. This amount is also referred to as total net assets.
- On a government-wide basis, total net assets increased by \$10,787,652 from last year, primarily due to 1) donation of additions and renovations at Cleveland Healthcare System, which resides on County-owned land and 2) accumulation of current resources to finance construction of a new landfill facility and other planned assets.
- The ending fund balances of all governmental funds combined equals \$38,539,642, an increase of \$1,402,021 from last year. The use of conservative spending habits and the intentional accumulation of resources for future use has primarily contributed to an increase in cash. Of the total fund balance, \$29,507,810, or approximately 76.6%, is available for spending at the government's discretion. This amount is also referred to as unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$21,182,508, or 27.0% of total general fund expenditures for the fiscal year.
- Total bonded debt decreased by \$4,891,829 (29.5%) to \$11,666,458 during the current fiscal year due to making scheduled principal payments.

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

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

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

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

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

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

"Subsection D: Required Supplementary Information" has these five parts:

1. Law Enforcement Officers' Special Separation Allowance Financial Schedules,
2. Major Governmental Funds Financial Statements,
3. Non-major Governmental Funds Financial Statements,
4. Major Proprietary Fund Financial Schedule, and
5. Fiduciary Funds Financial Statement

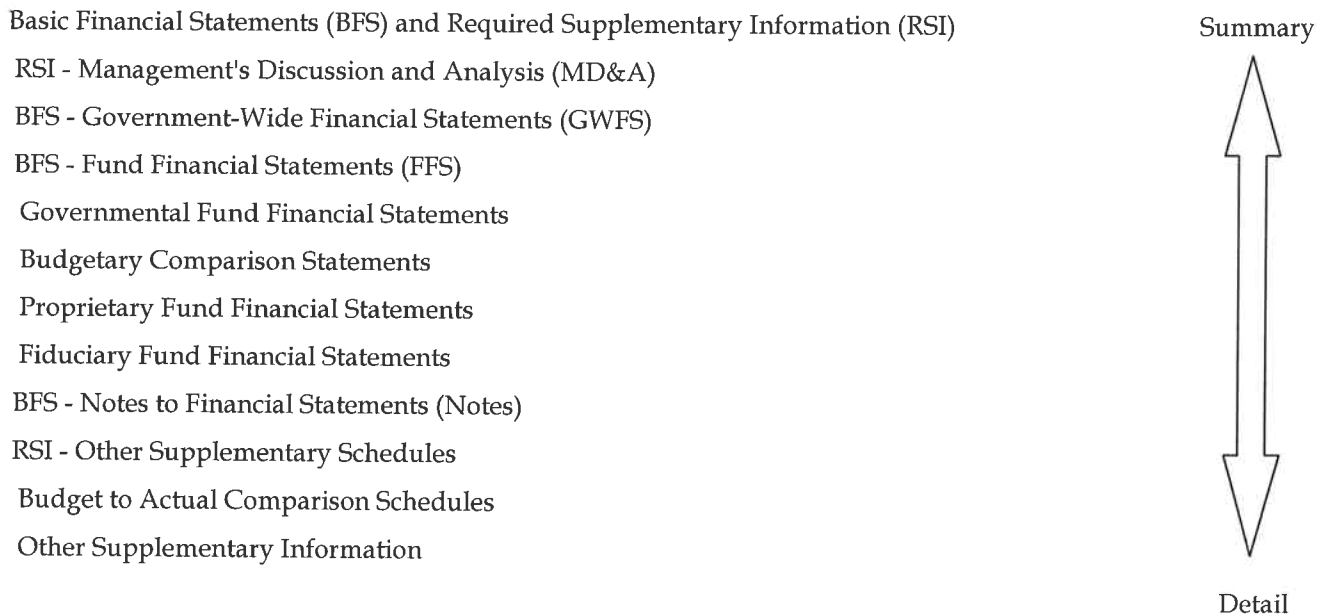


Figure 1. Level of Detail

**Basic Financial Statements**

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

**Government-Wide Financial Statements**

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

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

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