CLEVELAND COMMUNITY COLLEGE

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2012

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Trustees
Cleveland Community College
Shelby, North Carolina

We have audited the accompanying financial statements of the business-type activity and the discretely presented component unit of Cleveland Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Cleveland Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditor.

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 financial statements are free of material misstatement. The financial statements of Cleveland Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland Community College and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cherry Bekaert LLP

Charlotte, North Carolina
February 25, 2013

The following is a discussion and analysis of Cleveland Community College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2012.

Overview of the Financial Statements

This discussion and analysis provides additional comparative information regarding the College's basic financial statements and notes to the financial statements.

There are three financial statements presented: The Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

The Statement of Net Assets presents all of the College's assets and liabilities with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the College's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as underlying events give rise to the change occur, regardless of cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows is also a basic financial statement included in this report. This statement provides information related to cash inflows and outflows summarized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the College's financial statements.

Condensed Statement of Net Assets
For Fiscal Years Ended June 30, 2012 and June 30, 2011

	06/30/2012	(Unaudited) 06/30/2011	Change
Current Assets	$ 4,983,639.74	$ 5,148,172.68	$ (164,532.94)
Noncurrent Assets	297,919.11	239,191.53	58,727.58
Capital Assets, Net	20,705,033.30	20,701,930.82	3,102.48
Total Assets	25,986,592.15	26,089,295.03	(102,702.88)
Current Liabilities	702,139.78	982,174.13	(280,034.35)
Long-Term Liabilities	1,272,917.33	1,381,681.57	(108,764.24)
Total Liabilities	1,975,057.11	2,363,855.70	(388,798.59)
Net Assets:			
Invested in Capital Assets, Net	20,705,033.30	20,701,930.82	3,102.48
Restricted	2,047,922.92	1,753,821.62	294,101.30
Unrestricted	1,258,578.82	1,269,686.89	(11,108.07)
	$ 24,011,535.04	$ 23,725,439.33	$ 286,095.71

Total assets decreased by $102,702.88. There was a net decrease of $49,949.94 in accounts receivable due to a $120,050.06 increase in the PELL receivable and a $170,000.00 increase in the allowance on accounts receivable. Most of this increase in the Pell receivable was due to Pell funds drawn in June and received in July. Also, there was an increase in restricted due from primary government of $192,502.99 for capital improvement funds receivable from the North Carolina Community College System Office. These funds were one-time transfers from State Appropriation to capital improvement. There was a decrease in noncurrent receivables of $50,958.26. This decrease is from the Duke Power Grant receivable that was received during this year. Cash and cash equivalents decreased by $177,832.20.

Total liabilities decreased $388,798.59. Accounts Payable decreased by $119,427.12 due to completion of the A&B building renovation project. Long-term liabilities decreased by $106,553.91 due to decrease in accrued leave balance. This decrease resulted from several long-term employees retiring during this year. Unearned revenue decreased by $98,836.14 due to lower Summer Term attendance resulting in lower Summer Term Revenue and lower Unearned Revenue. Funds held for others decreased by $88,463.42 due to a timing difference of the NC State Health Plan payment.

The items described above resulted in an increase in Net Total Assets of $286,095.71.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For Fiscal Years Ended June 30, 2012 and June 30, 2011

	06/30/2012	(Unaudited) 06/30/2011	Change
Operating Revenues:			
Student Tuition & Fees	$ 1,444,889.14	$ 2,496,877.82	$ (1,051,988.68)
Sales and Services, Net	313,395.79	365,097.23	(51,701.44)
Other Operating Revenue	5,122.47	2,266.90	2,855.57
Total Operating Revenue	1,763,407.40	2,864,241.95	(1,100,834.55)
Operating Expenses	28,634,757.01	32,017,420.88	(3,382,663.87)
Operating Loss	(26,871,349.61)	(29,153,178.93)	2,281,829.32
Nonoperating and Other Revenues(Expenses):			
State Aid and County Appropriations	14,755,074.49	15,144,259.63	(389,185.14)
Noncapital Grants and Gifts	10,219,897.25	10,800,972.24	(581,074.99)
Capital Contributions	2,147,816.25	3,702,507.81	(1,554,691.56)
Investment and Other Revenues	22,937.84	47,926.33	(24,988.49)
Other Nonoperating Revenues(Expenses)	11,719.49	(91,440.55)	103,160.04
Net Nonoperating and Other Revenues(Expenses)	27,157,445.32	29,604,225.46	(2,446,780.14)
Increase in Net Assets	286,095.71	451,046.53	(164,950.82)
NET ASSETS			
Net Assets - Beginning of Year	23,725,439.33	23,274,392.80	451,046.53
Net Assets - End of Year	$ 24,011,535.04	$ 23,725,439.33	$ 286,095.71

The College is better off as a result of this year's activities. There is an increase in Net Assets of $286,095.71.

Student Tuition and Fees decreased by $1,051,988.68 primarily due to selling of the college bookstore and the associated inventory. State Aid and County Appropriations decreased by $389,185.14. This amount is due to decrease in current State Aid appropriations. There was a decrease in noncapital grants of $581,074.99 which is mainly due to PELL decreasing by $369,328.65. Year round Pell was available in the prior year and not available FYE 06/30/2012. Also, there was a decrease of $109,383.03 in revenue from a Duke Power grant which ended in the 2011-2012 year. The Academic Competitiveness Grant decreased by $56,724.00 and the NC Student Incentive Grant decreased by $36,400.00 due to both grants no longer being funded.

There was a decrease in Capital Contributions of $1,554,691.56. This amount is due to a $603,813.72 decrease in capital grants due to completion of the A&B building renovation project and decrease in State Capital Aid of $950,877.84.

Operating Expenses decreased by $3,382,663.87 primarily due to decreased appropriations and grant funds available for expense. State Aid and State Capital Aid decreased by a total of $1,340,063.98 and Noncapital and Capital Grants decreased by a total of $1,184,888.71. Salaries and Benefits decreased by $304,029.05. Supplies and Materials decreased by $2,479,184.60 due primarily to decreased appropriations. Also, Supplies and Materials expense decreased by $875,107.81 due to the College no longer operating the bookstore. Scholarships and Fellowships decreased by $916,633.11. Scholarships and Fellowships decreased due to a reduction in Pell Grant Funds of $366,765.34 due to ending of year round Pell Grant. Also, Scholarships and Fellowships decreased by $436,964.18 due to tuition rate increase of $10 per credit hour.

Currently Known Facts – Cleveland Community College has experienced a decrease in enrollment. Cleveland Community College's state budget for the upcoming year is adequate to sustain College operations and growth.

Cleveland Community College
Statement of Net Assets
June 30, 2012 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 1,778,192.34
Restricted Cash and Cash Equivalents (Note 2)	1,114,004.39
Short-Term Investments (Note 2)	707,923.27
Restricted Short-Term Investments (Note 2)	219,816.57
Receivables, Net (Note 3)	928,298.79
Inventories	235,404.38
Total Current Assets	4,983,639.74
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note 2)	60,255.33
Restricted Due from Primary Government	237,663.78
Capital Assets - Nondepreciable (Note 4)	601,995.80
Capital Assets - Depreciable, Net (Note 4)	20,103,037.50
Total Noncurrent Assets	21,002,952.41
Total Assets	25,986,592.15
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	467,873.89
Unearned Revenue	94,908.77
Funds Held for Others	42,515.11
Long-Term Liabilities - Current Portion (Note 6)	96,842.01
Total Current Liabilities	702,139.78
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,272,917.33
Total Noncurrent Liabilities	1,272,917.33
Total Liabilities	1,975,057.11
NET ASSETS	
Invested in Capital Assets	20,705,033.30
Restricted for:	
Expendable:	
Scholarships and Fellowships	589,399.75
Capital Projects	373,203.83
Other	1,085,319.34
Unrestricted	1,258,578.82
Total Net Assets	$ 24,011,535.04

The accompanying notes to the financial statements are an integral part of this statement.

Cleveland Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	$	1,444,889.14
Sales and Services, Net (Note 7)		313,395.79
Other Operating Revenues		5,122.47
Total Operating Revenues		1,763,407.40
EXPENSES		
Operating Expenses:		
Salaries and Benefits		15,485,843.43
Supplies and Materials		2,943,257.27
Services		2,904,903.20
Scholarships and Fellowships		5,787,005.00
Utilities		464,887.52
Depreciation/ Amortization		1,048,860.59
Total Operating Expenses (Note 8)		28,634,757.01
Operating Loss		(26,871,349.61)
NONOPERATING REVENUES		
State Aid		13,339,944.49
County Appropriations		1,415,130.00
Noncapital Grants - Student Financial Aid		8,534,722.71
Noncapital Grants		1,685,174.54
Investment Income, Net		22,937.84
Other Nonoperating Revenues		11,719.49
Net Nonoperating Revenues		25,009,629.07
Loss Before Other Capital Aid and Gifts		(1,861,720.54)
CAPITAL AID AND GIFTS		
State Capital Aid		1,890,880.01
County Capital Aid		75,000.00
Capital Grants		181,936.24
Total Capital Aid and Gifts		2,147,816.25
Increase in Net Assets		286,095.71
NET ASSETS		
Net Assets, July 1, 2011		23,725,439.33
Net Assets, June 30, 2012	$	24,011,535.04

The accompanying notes to the financial statements are an integral part of this statement.

Cleveland Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,782,980.65
Payments to Employees and Fringe Benefits	(15,597,967.71)
Payments to Vendors and Suppliers	(6,375,501.78)
Payments for Scholarships and Fellowships	(5,787,005.00)
Other Payments	(88,463.42)
Net Cash Used in Operating Activities	(26,065,957.26)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	13,339,944.49
County Appropriations	1,415,130.00
Noncapital Grants - Student Financial Aid	8,175,698.76
Noncapital Grants Received	2,007,635.52
Net Cash Provided by Noncapital Financing Activities	24,938,408.77
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,698,377.02
County Capital Aid	75,000.00
Capital Grants Received	232,894.50
Proceeds from Sale of Capital Assets	23,312.26
Acquisition and Construction of Capital Assets	(1,063,555.84)
Interest Paid on Capital Debt and Leases	(33,356.14)
Net Cash Provided by Capital and Related Financing Activities	932,671.80
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	23,121.36
Purchase of Investments and Related Fees	(6,076.87)
Net Cash Provided by Investing Activities	17,044.49
Net Decrease in Cash and Cash Equivalents	(177,832.20)
Cash and Cash Equivalents, July 1, 2011	3,130,284.26
Cash and Cash Equivalents, June 30, 2012	$ 2,952,452.06

The accompanying notes to the financial statements are an integral part of this statement.

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(26,871,349.61)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		1,048,860.59
Changes in Assets and Liabilities:		
Receivables, Net		93,927.39
Inventories		18,046.82
Accounts Payable and Accrued Liabilities		(61,588.98)
Unearned Revenue		(98,836.14)
Funds Held for Others		(88,463.42)
Compensated Absences		(106,553.91)
Net Cash Used in Operating Activities	$	(26,065,957.26)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,778,192.34
Restricted Cash and Cash Equivalents		1,114,004.39
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		60,255.33
Total Cash and Cash Equivalents - June 30, 2012	$	2,952,452.06

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	645,837.95

The accompanying notes to the financial statements are an integral part of this statement.

Cleveland Community College Foundation
Statement of Financial Position
June 30, 2012

Exhibit B-1

		CCC Foundation
ASSETS		
Cash and Cash Equivalents	$	2,328,933
Investments		814,732
Cash Surrender Value of Life Insurance		38,730
Pledges Receivable/Promises		777,258
Other Assets		5,700,000
Total Assets	$	9,659,653
LIABILITIES		
Notes Payable	$	5,130,000
NET ASSETS		
Unrestricted		212,124
Temporarily Restricted		4,317,529
Total Net Assets		4,529,653
Total Liabilities and Net Assets	$	9,659,653

The accompanying notes to the financial statements are an integral part of this statement.

Cleveland Community College Foundation
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Exhibit B-2

		CCC Foundation
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Investment Return	$	33,419
Other		15,858
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		597,749
Total Unrestricted Revenues, Gains, and Other Support		647,026
Expenses and Losses:		
Scholarships		89,351
LeGrand Center		398,563
Brown Center Landscaping		101,510
Management and General		7,996
Fundraising		8,325
Total Expenses		605,745
Increase in Unrestricted Net Assets		41,281
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions		192,205
Title III		230,184
Planning Grant		90,000
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(597,749)
Decrease in Temporarily Restricted Net Assets		(85,360)
Decrease in Net Assets		(44,079)
Net Assets at Beginning of Year		4,573,732
Net Assets at End of Year	$	4,529,653

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cleveland Community College is a component unit of the state of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. Discretely presented component unit financial data is reported in separate financial statements because of the use of a different GAAP reporting model and to emphasize legal separateness.

Discretely Presented Component Units - Cleveland Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the College.

The Cleveland Community College Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Cleveland Community College Foundation is a private not-for-profit organization that reports its financial results under Financial

Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2012, the Foundation distributed $10,517.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from U.L. Patterson III, Executive Director of the Foundation.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply FASB pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes petty cash and cash on deposit with private banks.

E. Investments - This classification includes certificates of deposit.

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value date of gift, if donated.

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out, method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 15 to 60 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. **Net Assets** - The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating, nonoperating, or capital contributions and gifts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

O. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the college.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2012 was $1,900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was $3,878,291.90 and the bank balance was $4,019,078.59.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2012, the

College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Investments - Investments of the College's component unit, Cleveland Community College Foundation Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

As of June 30, 2012, the College had $927,739.84 in certificates of deposit reported as investments and are also a component of the deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2012, is as follows:

Cash on Hand	$	1,900.00
Carrying Amount of Deposits with Private Financial Institutions		3,878,291.90
Total Deposits and Investments	$	3,880,191.90
Current:		
Cash and Cash Equivalents	$	1,778,192.34
Restricted Cash and Cash Equivalents		1,114,004.39
Short-Term Investments		707,923.27
Restricted Short-Term Investments		219,816.57
Noncurrent:		
Restricted Cash and Cash Equivalents		60,255.33
Total	$	3,880,191.90

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 913,953.48	$ 559,467.75	$ 354,485.73
Student Sponsors	62,295.77	-	62,295.77
Intergovernmental	503,643.69	-	503,643.69
Investment Earnings	649.53	-	649.53
Other	7,224.07	-	7,224.07
Total Current Receivables	$ 1,487,766.54	$ 559,467.75	$ 928,298.79

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 458,400.00	$ -	$ -	$ 458,400.00
Construction in Progress	374,463.28	143,595.80	374,463.28	143,595.80
Total Capital Assets, Nondepreciable	832,863.28	143,595.80	374,463.28	601,995.80
Capital Assets, Depreciable:				
Buildings	23,583,265.65	310,700.08	-	23,893,965.73
Machinery and Equipment	6,545,760.29	854,620.32	322,442.46	7,077,938.15
General Infrastructure	329,789.16	129,102.92	-	458,892.08
Total Capital Assets, Depreciable	30,458,815.10	1,294,423.32	322,442.46	31,430,795.96
Less Accumulated Depreciation/Amortization for:				
Buildings	8,294,649.52	529,639.09	-	8,824,288.61
Machinery and Equipment	2,160,597.58	500,958.13	310,849.69	2,350,706.02
General Infrastructure	134,500.46	18,263.37	-	152,763.83
Other Intangible Assets	-	-	-	0.00
Total Accumulated Depreciation	10,589,747.56	1,048,860.59	310,849.69	11,327,758.46
Total Capital Assets, Depreciable, Net	19,869,067.54	245,562.73	11,592.77	20,103,037.50
Capital Assets, Net	$ 20,701,930.82	$ 389,158.53	$ 386,056.05	20,705,033.30

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES.

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	$ 260,620.68
Accrued Payroll	149,861.06
Contract Retainage	14,359.58
Other	43,032.57
Total Accounts Payable and Accrued Liabilities	$ 467,873.89

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	$ 1,476,313.25	$ 875,076.70	$ 981,630.61	$ 1,369,759.34	$ 96,842.01
Total Long-Term Liabilities	$ 1,476,313.25	$ 875,076.70	$ 981,630.61	$ 1,369,759.34	$ 96,842.01

NOTE 7 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 5,070,802.19	$ 3,066,445.30	$ 559,467.75	$ 1,444,889.14
Sales and Services:				
Sales and Services of Auxilliary Enterprises:				
Bookstore	$ 214,816.50	$ -	$ -	$ 214,816.50
Cosmetology	43,743.68	-	-	43,743.68
Vending Operations	844.51	-	-	844.51
Snackbar	9,385.00	-	-	9,385.00
Other	44,606.10	-	-	44,606.10
Total Sales and Services	$ 313,395.79	$ -	$ -	$ 313,395.79

NOTE 8 - OPERATING EXPENSES BY FUNCTION

For the year ended June 30, 2012, the College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 9,832,480.36	$ 1,631,565.68	$ 875,094.26	$ -	$ -	$ -	$ 12,339,140.30
Academic Support	1,845,458.05	821,717.04	414,948.06	-	-	-	3,082,123.15
Student Services	978,732.79	59,121.49	257,667.42	-	-	-	1,295,521.70
Institutional Support	2,458,684.60	180,941.00	802,985.52	-	-	-	3,442,611.12
Operations and Maintenance of Plant	349,401.63	227,623.76	549,597.32	-	464,887.52	-	1,591,510.23
Student Financial Aid	-	-	334.00	5,787,005.00	-	-	5,787,339.00
Auxiliary Enterprises	21,086.00	22,288.30	4,276.62	-	-	-	47,650.92
Depreciation/ Amortization	-	-	-	-	-	1,048,860.59	1,048,860.59
Total Operating Expenses	$ 15,485,843.43	$ 2,943,257.27	$ 2,904,903.20	$ 5,787,005.00	$ 464,887.52	$ 1,048,860.59	$ 28,634,757.01

NOTE 9 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (Plan) is a cost-sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of the state, its component units and local boards of education. The Plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $13,522,118.00, of which $9,367,615.49 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were **(A) $696,950.59** and **(B) $561,909.00**, respectively.

Required employer contribution rates for the years ended June 30, 2011 and 2010 were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were $696,950.59, $473,516.38, and $342,500.87, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

(A) **7.44% of TSERS covered payroll**
(B) **6% of TSERS covered payroll**

B. **Deferred Compensation and Supplemental Retirement Income Plans -** Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $16,290.00 for the year ended June 30, 2012.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to $151,766.00 for the year ended June 30, 2012.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year, the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011 and 2010 were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended

June 30, 2012, 2011, and 2010, which were $468,380.77, $470,634.94, and $431,723.78, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2011 and 2010 were .52%. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $48,711.60, $49,944.93, and $49,888.08, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the state of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 11 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the state of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation

Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $112,963.78 at June 30, 2012.

NOTE 13 - RELATED PARTIES

The Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from and expenses paid to the Foundation. Support received was $10,517.00 for the year ended June 30, 2012 and is included in Noncapital Gifts, Net. During the year ended June 30, 2012, the College made total payments of $254,559.00 to the Foundation. Of this amount, $230,184 was a transfer of combined Title III funds and matching funds from the College to be placed into an endowment per the grant agreement. This payment is included in Services Expense on the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 14 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through February 25, 2013, which is the date the financial statements were available to be issued.

This audit required 430 audit hours at a cost of $31,500 (including $1,500 out-of-pocket expenses). The cost represents 0.121% and 0.11% of the College's total assets and total expenses subjected to audit, respectively.

Cherry Bekaert LLP
CPAs & Advisors

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Cleveland Community College
Shelby, North Carolina

We have audited the financial statements of the business-type activity and the discretely presented component unit of Cleveland Community College (the "College") as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 25, 2013. Our report includes a reference to other auditors. 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. Another auditor audited the financial statements of Cleveland Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Cleveland Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated February 25, 2013.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekaert LLP

Charlotte, North Carolina
February 25, 2013