

A large, abstract graphic on the left side of the page, composed of several overlapping curved shapes in various shades of green, ranging from a light lime green to a dark forest green.

CLEVELAND COMMUNITY COLLEGE

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2013

And Independent Auditor's Report

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1	
MANAGEMENT’S DISCUSSION AND ANALYSIS	3	
FINANCIAL STATEMENTS		
COLLEGE EXHIBITS		
A-1 STATEMENT OF NET POSITION.....	7	
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION ...	8	
A-3 STATEMENT OF CASH FLOWS	9	
COMPONENT UNIT EXHIBITS		
B-1 STATEMENT OF FINANCIAL POSITION	11	
B-2 STATEMENT OF ACTIVITIES	12	
NOTES TO THE FINANCIAL STATEMENTS	13	
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		29

Independent Auditor's Report

The Board of Trustees
Cleveland Community College
Shelby, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Cleveland Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 "Foundation") which are presented as component unit exhibits in the accompanying table of contents. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014, 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* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
February 18, 2014

CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 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, 2013.

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

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the College's assets changed during the most recent fiscal year. All changes in Net Position 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.

**CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Condensed Statements of Net Position
For Fiscal Years Ended June 30, 2013 and June 30, 2012**

	06/30/2013	06/30/2012	Change
Current Assets	\$ 6,008,705.61	\$ 4,983,639.74	\$ 1,025,065.87
Noncurrent Assets	404,797.50	297,919.11	106,878.39
Capital Assets	20,885,795.90	20,705,033.30	180,762.60
Total Assets	27,299,299.01	25,986,592.15	1,312,706.86
Current Liabilities	638,025.57	702,139.78	(64,114.21)
Noncurrent Liabilities	1,279,716.70	1,272,917.33	6,799.37
Total Liabilities	1,917,742.27	1,975,057.11	(57,314.84)
Net Position:			
Net Investment in Capital Assets	20,885,795.90	20,705,033.30	180,762.60
Restricted	2,743,730.21	2,047,922.92	695,807.29
Unrestricted	1,752,030.63	1,258,578.82	493,451.81
	<u><u>\$ 25,381,556.74</u></u>	<u><u>\$ 24,011,535.04</u></u>	<u><u>\$ 1,370,021.70</u></u>

Total assets increased by \$1,312,706.86. There was an \$825,000.00 increase in due from state of NC component units due to the Golden Leaf Grant received. Also, there was an increase in restricted due from primary government of \$108,656.03 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. Cash and cash equivalents increased by \$600,365.45. Accounts receivable net decreased by \$355,047.89 due to increase in allowance for doubtful accounts. Capital Assets increased by \$180,762.60. This was due to additions for equipment, net of depreciation. Inventories decreased by \$49,741.65.

Total liabilities decreased \$57,314.84. Accounts Payable decreased by \$75,333.29 due to completion of the A&B building renovation project. Long-term liabilities increased by \$32,055.42 due to increase in accrued leave balance. Unearned revenue increased by \$9,557.57 due to higher Summer Term attendance resulting in higher Summer Term Revenue and higher Unearned Revenue. Funds held for others decreased by \$23,594.54 due to timing differences in payments for scholarships, health insurance, and bookstore.

The College's net position at fiscal year ended June 30, 2013, was \$25,381,556.74, an increase of \$1,370,021.70, or 5.7% over the previous year. The increase in net position is primarily due to an increase in nonoperating revenues and a decrease in operating expenses.

**CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position
For Fiscal Years Ended June 30, 2013 and June 30, 2012**

	06/30/2013	06/30/2012	Change
Operating Revenues:			
Student Tuition & Fees	\$ 1,447,986.47	\$ 1,444,889.14	\$ 3,097.33
Sales and Services, Net	323,997.02	313,395.79	10,601.23
Other Operating Revenue	4,400.16	5,122.47	(722.31)
Total Operating Revenue	1,776,383.65	1,763,407.40	12,976.25
Operating Expenses	28,085,032.43	28,634,757.01	(549,724.58)
Operating Loss	(26,308,648.78)	(26,871,349.61)	562,700.83
Nonoperating and Other Revenues(Expenses):			
State Aid and County Appropriations	15,072,543.05	14,755,074.49	317,468.56
Noncapital Grants and Gifts	10,546,385.07	10,219,897.25	326,487.82
Capital Contributions	2,062,694.48	2,147,816.25	(85,121.77)
Investment and Other Revenues	10,977.21	22,937.84	(11,960.63)
Other Nonoperating Revenues(Expenses)	(13,929.33)	11,719.49	(25,648.82)
Net Nonoperating and Other Revenues(Expenses)	27,678,670.48	27,157,445.32	521,225.16
Increase in Net Position	1,370,021.70	286,095.71	1,083,925.99
Net Position - Beginning of Year	24,011,535.04	23,725,439.33	286,095.71
Net Position - End of Year	\$ 25,381,556.74	\$ 24,011,535.04	\$ 1,370,021.70

The College is better off as a result of this year's activities. There is an increase in Net Position of \$1,370,021.70.

State Aid and County Appropriations increased by \$317,468.56. This amount is due to an increase in current State Aid appropriations. There was an increase in noncapital grants of \$326,487.82 which is mainly due to Golden Leaf grant revenue of \$825,000.00 and PELL decreasing by \$565,096.07. There was a decrease in Capital Contributions of \$85,121.77.

CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Operating Expenses decreased by \$549,724.58 primarily due to decreased enrollment. Scholarships and Fellowships decreased by \$589,335.72. Scholarships and Fellowships decreased due to decreased enrollment which also resulted in a reduction in Pell Grant Funds of \$564,407.35 due to decreased Pell recipients. This decrease in Pell recipients is due in part to the Department of Education implementation of a 600% lifetime eligibility regulation. Now after receiving 6 years of federal assistance, students are no longer eligible for Pell. Salaries and Benefits increased by \$95,803.91.

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 Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,281,584.88
Restricted Cash and Cash Equivalents	1,212,754.94
Short-Term Investments	709,755.72
Restricted Short-Term Investments	220,696.44
Receivables, Net (Note 3)	573,250.90
Due from State of North Carolina Component Units	825,000.00
Inventories	185,662.73
	<hr/>
Total Current Assets	6,008,705.61

Noncurrent Assets:

Restricted Cash and Cash Equivalents	58,477.69
Restricted Due from Primary Government	346,319.81
Capital Assets - Nondepreciable (Note 4)	469,400.00
Capital Assets - Depreciable, Net (Note 4)	20,416,395.90
	<hr/>
Total Noncurrent Assets	21,290,593.40
	<hr/>
Total Assets	27,299,299.01

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	392,540.60
Unearned Revenue	104,466.34
Funds Held for Others	18,920.57
Long-Term Liabilities - Current Portion (Note 6)	122,098.06
	<hr/>
Total Current Liabilities	638,025.57

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,279,716.70
	<hr/>
Total Liabilities	1,917,742.27

NET POSITION

Net Investment in Capital Assets	20,885,795.90
Restricted for:	
Expendable:	
Scholarships and Fellowships	295,034.49
Capital Projects	462,041.38
Other	1,986,654.34
	<hr/>
Unrestricted	1,752,030.63
	<hr/>
Total Net Position	\$ 25,381,556.74

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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 1,447,986.47
Sales and Services, Net (Note 7)	323,997.02
Other Operating Revenues	4,400.16
	<hr/>
Total Operating Revenues	1,776,383.65
	<hr/>

EXPENSES

Operating Expenses:

Salaries and Benefits	15,581,647.34
Supplies and Materials	2,834,915.00
Services	3,013,017.56
Scholarships and Fellowships	5,197,669.28
Utilities	416,939.98
Depreciation/ Amortization	1,040,843.27
	<hr/>

Total Operating Expenses

 28,085,032.43

Operating Loss

 (26,308,648.78)

NONOPERATING REVENUES (EXPENSES)

State Aid	13,657,038.05
County Appropriations	1,415,505.00
Noncapital Grants - Student Financial Aid	7,972,438.30
Noncapital Grants	2,573,946.77
Investment Income, Net	10,977.21
Other Nonoperating Revenues (Expenses)	(13,929.33)
	<hr/>

Net Nonoperating Revenues

 25,615,976.00

Loss Before Other Revenues, Expenses, Gains, and Losses (692,672.78)

State Capital Aid	1,974,372.13
County Capital Aid	75,000.00
Capital Grants	2,322.35
Capital Gifts, Net	11,000.00
	<hr/>

Increase in Net Position 1,370,021.70

NET POSITION

Net Position, July 1, 2012

 24,011,535.04

Net Position, June 30, 2013

 \$ 25,381,556.74

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

***Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,785,662.14
Payments to Employees and Fringe Benefits	(15,554,238.59)
Payments to Vendors and Suppliers	(6,285,817.51)
Payments for Scholarships and Fellowships	(5,197,669.28)
Other Payments	(23,594.54)

Net Cash Used by Operating Activities	(25,275,657.78)
---------------------------------------	-----------------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,657,038.05
County Appropriations	1,415,505.00
Noncapital Grants - Student Financial Aid	8,302,154.21
Noncapital Grants Received	1,774,133.51

Net Cash Provided by Noncapital Financing Activities	25,148,830.77
--	---------------

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

State Capital Aid Received	1,865,716.10
County Capital Aid	75,000.00
Capital Grants Received	2,322.35
Proceeds from Sale of Capital Assets	41,731.51
Acquisition and Construction of Capital Assets	(1,266,266.71)

Net Cash Provided by Capital and Related Financing Activities	718,503.25
---	------------

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	11,401.53
Purchase of Investments and Related Fees	(2,712.32)

Net Cash Provided by Investing Activities	8,689.21
---	----------

Net Increase in Cash and Cash Equivalents	600,365.45
Cash and Cash Equivalents, July 1, 2012	2,952,452.06

Cash and Cash Equivalents, June 30, 2013	\$ 3,552,817.51
--	-----------------

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

Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2 of 2

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (26,308,648.78)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	1,040,843.27
Changes in Assets and Liabilities:	
Receivables, Net	(279.08)
Inventories	49,741.65
Accounts Payable and Accrued Liabilities	(75,333.29)
Unearned Revenue	9,557.57
Funds Held for Others	(23,594.54)
Compensated Absences	32,055.42
Net Cash Used by Operating Activities	<u><u>\$ (25,275,657.78)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,281,584.88
Restricted Cash and Cash Equivalents	1,212,754.94
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>58,477.69</u>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 3,552,817.51</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	11,000.00
Increase in Receivables Related to Nonoperating Income	933,656.03
Loss on Disposal of Capital Assets	(13,929.33)

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

Cleveland Community College Foundation
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	1,599,293.00
Investments		2,040,540.00
Real Estate Held for Resale		230,477.00
Pledges Receivable/Promises		2,375,998.00
		<hr/>
Total Assets		6,246,308.00
		<hr/>

LIABILITIES

Interest Payable		31,571.00
Funds Held for Others		472,147.00
Notes Payable		4,750,000.00
		<hr/>
Total Liabilities		5,253,718.00
		<hr/>

NET ASSETS

Unrestricted		370,420.00
Temporarily Restricted		622,170.00
		<hr/>
Total Net Assets	\$	992,590.00
		<hr/>

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, 2013

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 3,210,612.00
Investment Loss	(31,238.00)
Other	6,717.00
	<hr/>
Total Unrestricted Revenues and Gains	3,186,091.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	12,846.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	3,198,937.00
	<hr/>
Expenses and Losses:	
Scholarships	12,846.00
LeGrand Center	662,975.00
Brown Center Landscaping	30,340.00
Management and General	18,927.00
Grants	9,000.00
Fund Raising	16,075.00
	<hr/>
Total Expenses	750,163.00
	<hr/>
Increase in Unrestricted Net Assets	2,448,774.00
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Investment Income	59,287.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(12,846.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	46,441.00
	<hr/>
Increase in Net Assets	2,495,215.00
Net Assets at Beginning of Year	(1,502,625.00)
	<hr/>
Net Assets at End of Year	\$ 992,590.00
	<hr/>

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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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's financial data is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their 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 its 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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013, the Foundation distributed \$12,846.00 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 at 137 South Post Road. Shelby, North Carolina 28152.

- 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.

- 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

E. Investments - This classification includes certificates of deposit.

Certificates of deposit are reported at cost, if purchased, or at fair value at 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, 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.

Depreciation is computed using the straight-line 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 and 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 for which an employee can be paid upon

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 calendar 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 Position - The College's net position is classified as follows:

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

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

Unrestricted Net Position - Unrestricted net position includes 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 appropriations and county capital appropriations do not revert and are available for future use by the college.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

A. 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, 2013 was \$1,900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$4,481,369.67, and the bank balance was \$4,635,920.39.

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. 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, 2013, the College had \$930,452.16 held in certificates of deposit reported as investments and are also a component of the deposit totals reported in the deposits section of this note.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	\$ 1,900.00
Carrying Amount of Deposits with Private Financial Institutions	<u>4,481,369.67</u>
Total Deposits and Investments	<u>\$ 4,483,269.67</u>
Current:	
Cash and Cash Equivalents	\$ 2,281,584.88
Restricted Cash and Cash Equivalents	1,212,754.94
Short-Term Investments	709,755.72
Restricted Short-Term Investments	220,696.44
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>58,477.69</u>
Total Deposits and Investments	<u>\$ 4,483,269.67</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,094,606.68	\$ 683,506.00	\$ 411,100.68
Student Sponsors	13,183.97	-	13,183.97
Intergovernmental	148,741.04	-	148,741.04
Investment Earnings	<u>225.21</u>	<u>-</u>	<u>225.21</u>
Total Current Receivables	<u>\$ 1,256,756.90</u>	<u>\$ 683,506.00</u>	<u>\$ 573,250.90</u>

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 458,400.00	\$ 11,000.00	\$ -	\$ 469,400.00
Construction in Progress	143,595.80	-	143,595.80	-
Total Capital Assets, Nondepreciable	601,995.80	11,000.00	143,595.80	469,400.00
Capital Assets, Depreciable:				
Buildings	23,893,965.73	-	-	23,893,965.73
Machinery and Equipment	7,077,938.15	824,382.51	171,529.98	7,730,790.68
General Infrastructure	458,892.08	585,480.00	72,450.00	971,922.08
Total Capital Assets, Depreciable	31,430,795.96	1,409,862.51	243,979.98	32,596,678.49
Less Accumulated Depreciation/Amortization for:				
Buildings	8,824,288.61	534,385.92	-	9,358,674.53
Machinery and Equipment	2,350,706.02	469,169.05	164,893.64	2,654,981.43
General Infrastructure	152,763.83	37,288.30	23,425.50	166,626.63
Total Accumulated Depreciation/Amortization	11,327,758.46	1,040,843.27	188,319.14	12,180,282.59
Total Capital Assets, Depreciable, Net	20,103,037.50	369,019.24	55,660.84	20,416,395.90
Capital Assets, Net	\$ 20,705,033.30	\$ 380,019.24	\$ 199,256.64	\$ 20,885,795.90

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Accounts Payable	\$ 203,688.95
Accrued Payroll	145,214.39
Other	43,637.26
Total	\$ 392,540.60

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 1,369,759.34	\$ 805,480.76	\$ 773,425.34	\$ 1,401,814.76	\$ 122,098.06
Total Long-Term Liabilities	\$ 1,369,759.34	\$ 805,480.76	\$ 773,425.34	\$ 1,401,814.76	\$ 122,098.06

NOTE 7 - REVENUES

A summary of discounts and allowances by revenue classification for the year ended June 30, 2013, is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 5,255,680.40	\$ 3,124,187.93	\$ 683,506.00	\$ 1,447,986.47
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 239,720.66	\$ -	\$ -	\$ 239,720.66
Cosmetology	43,350.91	-	-	43,350.91
Vending Operations	647.36	-	-	647.36
Snackbar	2,714.29	-	-	2,714.29
Other	37,563.80	-	-	37,563.80
Total Sales and Services	\$ 323,997.02	\$ -	\$ -	\$ 323,997.02

NOTE 8 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification for the year ended June 30, 2013, are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 9,744,723.83	\$ 1,343,955.43	\$ 962,080.09	\$ -	\$ -	\$ -	\$ 12,050,759.35
Academic Support	1,929,369.48	878,129.35	581,756.19	-	-	-	3,389,255.02
Student Services	922,092.33	148,915.59	240,145.08	-	-	-	1,311,153.00
Institutional Support	2,630,502.07	190,567.61	774,856.23	-	-	-	3,595,925.91
Operations and Maintenance of Plant	332,611.63	249,818.37	453,304.97	-	416,939.98	-	1,452,674.95
Student Financial Aid	-	-	-	5,198,044.28	-	-	5,198,044.28
Auxiliary Enterprises	22,348.00	23,528.65	500.00	-	-	-	46,376.65
Depreciation/Amortization	-	-	-	-	-	1,040,843.27	1,040,843.27
Total Operating Expenses	\$ 15,581,647.34	\$ 2,834,915.00	\$ 3,012,642.56	\$ 5,198,044.28	\$ 416,939.98	\$ 1,040,843.27	\$ 28,085,032.43

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,389,678.00, of which \$9,201,007.08 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$(A)766,443.89 and \$(B)552,060.11, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$766,443.89, \$696,950.59, and \$473,516.38 respectively.

The TSERS 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 \$19,300.00 for the year ended June 30, 2013.

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 \$124,390.00 for the year ended June 30, 2013.

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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$487,653.38, \$468,380.77, and \$470,634.94, 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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$40,484.43, \$48,711.60, and \$49,944.93, 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system in the normal course of business.

The College may be involved in various legal proceedings and disputes regarding employment and other matters. In the opinion of the College, the ultimate resolution of these matters will not have a material impact on the financial position or operations of the College.

Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2013, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. Statement No. 61 also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Statement No. 61 also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. In the case of the College, the implementation did not affect the College's reporting of component units.

GASB Statement No. 62 does not propose any new guidance. The purpose of this statement is to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins from the AICPA Committee on Accounting Procedure.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. In the case of the College, the implementation of this standard was limited to presenting Net Position in place of Net Assets throughout the financial statements.

NOTE 14 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through December 19, 2013, which is the date the financial statements were available to be issued.

NOTE 15 - AUDIT HOURS AND COST

This audit required 250 audit hours at an approximate cost of \$30,950. The cost represents 0.11% of the College's total assets and 0.11% of total expenses subjected to audit.

Independent Auditor's 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, in accordance with the 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, the financial statements of Cleveland Community College (the "College") as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2014. Our report includes a reference to other auditors who audited the financial statements of Cleveland Community College Foundation, Inc. (the "Foundation"), as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "Cherry" and "Bekaert" written in a larger, more prominent style than the "LLP".

Charlotte, North Carolina
February 18, 2014