

CLEVELAND COMMUNITY COLLEGE
*(A Component Unit of the State of North
Carolina)*

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor

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Report of Independent Auditor

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, 2014 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, 2014, 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 January 11, 2015, 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.

Cherry Bekaert LLP

Charlotte, North Carolina
January 11, 2015

CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014.

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, 2014**

**Condensed Statement of Net Position
For Fiscal Years Ended June 30, 2014 and June 30, 2013**

	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>Change</u>
Current Assets	\$ 5,937,433.36	\$ 6,008,705.61	\$ (71,272.25)
Noncurrent Assets	272,914.47	404,797.50	(131,883.03)
Capital Assets, Net	<u>21,334,005.17</u>	<u>20,885,795.90</u>	<u>448,209.27</u>
Total Assets	<u>27,544,353.00</u>	<u>27,299,299.01</u>	<u>245,053.99</u>
Current Liabilities	1,261,181.44	638,025.57	623,155.87
Noncurrent Liabilities	<u>1,188,258.16</u>	<u>1,279,716.70</u>	<u>(91,458.54)</u>
Total Liabilities	<u>2,449,439.60</u>	<u>1,917,742.27</u>	<u>531,697.33</u>
Net Position:			
Investment in Capital Assets	21,334,005.17	20,885,795.90	448,209.27
Restricted	3,009,275.56	2,743,730.21	265,545.35
Unrestricted	<u>751,632.67</u>	<u>1,752,030.63</u>	<u>(1,000,397.96)</u>
Total Net Position	<u>\$ 25,094,913.40</u>	<u>\$ 25,381,556.74</u>	<u>\$ (286,643.34)</u>

Total assets increased by \$245,053.99. There was a \$461,027.81 increase in Department of Labor Grant received. Also, there was a decrease in restricted due from primary government of \$136,443.26 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 decreased by \$433,166.64. Capital Assets increased by \$448,209.27. This was due to additions for equipment. The increase in allowance for doubtful accounts entry caused a decrease of \$86,142.00 in receivables.

Total liabilities increased \$531,697.33. Accounts Payable increased by \$527,906.67 primarily due to accruing \$157,997.58 for the Department of Labor Grant and \$188,992.76 for the Golden Leaf Grant. Also, accounts payable increased due to the purchase of several servers at year end for \$166,188.48 that were not paid until July 2014.

The items described above resulted in a decrease in net position of \$286,643.34.

**CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Fiscal Years Ended June 30, 2014 and June 30, 2013**

	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>Change</u>
REVENUES			
Operating Revenues:			
Student Tuition & Fees	\$ 1,340,084.81	\$ 1,447,986.47	\$ (107,901.66)
Sales and Services, Net	255,090.94	323,997.02	(68,906.08)
Other Operating Revenue	<u>5,046.70</u>	<u>4,400.16</u>	<u>646.54</u>
Total Operating Revenue	<u>1,600,222.45</u>	<u>1,776,383.65</u>	<u>(176,161.20)</u>
EXPENSES			
Salaries and Benefits	15,763,508.63	15,581,647.34	181,861.29
Supplies and Materials	2,415,604.42	2,834,915.00	(419,310.58)
Services	4,335,047.82	3,013,017.56	1,322,030.26
Scholarships and Fellowships	4,694,045.12	5,197,669.28	(503,624.16)
Utilities	461,799.98	416,939.98	44,860.00
Depreciation/Amortization	<u>1,145,291.13</u>	<u>1,040,843.27</u>	<u>104,447.86</u>
Operating Expenses	<u>28,815,297.10</u>	<u>28,085,032.43</u>	<u>730,264.67</u>
Operating Loss	<u>(27,215,074.65)</u>	<u>(26,308,648.78)</u>	<u>(906,425.87)</u>
Nonoperating Revenues:			
State Aid and County Appropriations	15,182,262.08	15,072,543.05	109,719.03
Noncapital Grants and Gifts	10,114,800.99	10,546,385.07	(431,584.08)
Investment and Other Revenues	<u>110,426.43</u>	<u>(2,952.12)</u>	<u>113,378.55</u>
Total Nonoperating Revenues	<u>25,407,489.50</u>	<u>25,615,976.00</u>	<u>(208,486.50)</u>
Loss Before Other Revenues	(1,807,585.15)	(692,672.78)	(1,114,912.37)
Capital Contributions	<u>1,520,941.81</u>	<u>2,062,694.48</u>	<u>(541,752.67)</u>
Increase (Decrease) in Net Position	(286,643.34)	1,370,021.70	(1,656,665.04)
NET POSITION			
Net Position - Beginning of Year	<u>25,381,556.74</u>	<u>24,011,535.04</u>	<u>1,370,021.70</u>
Net Position - End of Year	<u>\$ 25,094,913.40</u>	<u>\$ 25,381,556.74</u>	<u>\$ (286,643.34)</u>

CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

State Aid and County Appropriations increased by \$109,719.03. This amount is due to an increase in current State Aid appropriations.

Noncapital Grants and Gifts decreased \$431,584.08 mainly due to fluctuations in grant revenues. During fiscal year 2014, PELL grants received decreased by \$814,213.58 primarily as a result of decreases in enrollment and federal government mandated maximums allowed per student. The College received a new Department of Labor Grant providing current revenue of \$1,472,776.49. In the prior year, the College received Golden Leaf grant funds of \$825,000.00 and Title III grant funds of \$396,874.57 that were not repeated in 2014. A Duke Power grant was received in 2014 for \$209,876.00. There were various other decreases totaling \$78,148.42 in noncapital grants.

Capital Contributions decreased \$541,752.67 primarily due to decreases in state capital aid.

Operating Expenses increased by \$730,264.67. Salaries and Benefits increased by \$181,861.29. Services increased by \$1,322,030.26 due mainly to the expenses related to the new Department of Labor Grant received this year. Supplies and Materials decreased by \$419,310.58 due to a decrease in enrollment. Scholarships and Fellowships decreased by \$503,624.16. This decrease is primarily due to a reduction in Pell Grant Funds of \$814,902.30 due to decreased Pell recipients. The 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.

Currently Known Facts – Cleveland Community College has experienced a decrease in enrollment. The College's overall funding is closely tied to an enrollment-based funding model used by the State of North Carolina. State funding for the 2014-15 fiscal year may decrease as a function of enrollment. However, effective July 1, 2014, the North Carolina General Assembly increased the in-state tuition rate for community college students to \$72.00 per credit hour from \$71.50 per credit hour and the out-of-state tuition rate to \$264.00 per credit hour from \$263.50 per credit hour. Management believes the College's state budget for the upcoming year is adequate to sustain College operations and growth.

Request for Information

This report is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should contact the Vice President, Finance/Administrative Services, Cleveland Community College, 137 South Post Road, Shelby, NC 28152.

Cleveland Community College
Statement of Net Position
June 30, 2014

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,506,424.59
Restricted Cash and Cash Equivalents	1,550,188.36
Short-Term Investments	710,602.35
Restricted Short-Term Investments	221,083.06
Receivables, Net (Note 3)	1,787,210.92
Inventories	161,924.08

Total Current Assets	5,937,433.36
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	63,037.92
Restricted Due from Primary Government	209,876.55
Capital Assets - Nondepreciable (Note 4)	469,400.00
Capital Assets - Depreciable, Net (Note 4)	20,864,605.17

Total Noncurrent Assets	21,606,919.64
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Total Assets	27,544,353.00
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources	-
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	920,447.27
Unearned Revenue	115,280.29
Funds Held for Others	53,214.94
Long-Term Liabilities - Current Portion (Note 6)	172,238.94

Total Current Liabilities	1,261,181.44
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,188,258.16
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Total Liabilities	2,449,439.60
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources	-
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NET POSITION

Investment in Capital Assets	21,334,005.17
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Restricted for:

Expendable:

Scholarships and Fellowships	597,779.56
Capital Projects	272,339.45
Other	2,139,156.55

Unrestricted	751,632.67
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Total Net Position	\$ 25,094,913.40
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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, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 1,340,084.81
Sales and Services, Net (Note 7)	255,090.94
Other Operating Revenues	5,046.70
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Total Operating Revenues	1,600,222.45

EXPENSES

Operating Expenses:	
Salaries and Benefits	15,763,508.63
Supplies and Materials	2,415,604.42
Services	4,335,047.82
Scholarships and Fellowships	4,694,045.12
Utilities	461,799.98
Depreciation/ Amortization	1,145,291.13
	<hr/>
Total Operating Expenses	28,815,297.10
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Operating Loss	(27,215,074.65)

NONOPERATING REVENUES (EXPENSES)

State Aid	13,672,289.08
County Appropriations	1,509,973.00
Noncapital Grants - Student Financial Aid	7,139,206.43
Noncapital Grants	2,975,594.56
Investment Income	34,443.16
Other Nonoperating Revenues (Expenses)	75,983.27
	<hr/>
Net Nonoperating Revenues	25,407,489.50
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Loss Before Other Revenues, Expenses, Gains, and Losses	(1,807,585.15)
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State Capital Aid	1,420,537.43
County Capital Aid	100,000.00
Capital Grants	404.38
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Decrease in Net Position	(286,643.34)

NET POSITION

Net Position, July 1, 2013	25,381,556.74
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Net Position, June 30, 2014	\$ 25,094,913.40

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, 2014***

***Exhibit A-3
Page 1 of 2***

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,834,149.53
Payments to Employees and Fringe Benefits	(15,804,734.91)
Payments to Vendors and Suppliers	(6,660,898.28)
Payments for Scholarships and Fellowships	(4,694,045.12)
Other Receipts	34,294.37
	<u>34,294.37</u>
Net Cash Used by Operating Activities	<u>(25,291,234.41)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,672,289.08
County Appropriations	1,509,973.00
Noncapital Grants	9,502,687.64
	<u>9,502,687.64</u>
Net Cash Provided by Noncapital Financing Activities	<u>24,684,949.72</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,556,980.69
County Capital Aid	100,000.00
Capital Grants	404.38
Proceeds from Sale of Capital Assets	136,769.72
Acquisition and Construction of Capital Assets	(1,654,286.85)
	<u>(1,654,286.85)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>139,867.94</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	34,483.36
Purchase of Investments and Related Fees	(1,233.25)
	<u>33,250.11</u>

Net Decrease in Cash and Cash Equivalents	(433,166.64)
Cash and Cash Equivalents, July 1, 2013	<u>3,552,817.51</u>
Cash and Cash Equivalents, June 30, 2014	<u><u>\$ 3,119,650.87</u></u>

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

***Cleveland Community College Foundation
Statement of Financial Position
June 30, 2014***

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 1,721,518.00
Investments	2,115,513.00
Property held for College	230,477.00
Promises to Give	<u>2,163,451.00</u>
Total Assets	<u>\$ 6,230,959.00</u>

LIABILITIES

Interest Payable	\$ 32,107.00
Funds Held for Others	528,996.00
Notes Payable	<u>4,370,000.00</u>
Total Liabilities	<u>4,931,103.00</u>

NET ASSETS

Unrestricted	603,443.00
Temporarily Restricted	<u>696,413.00</u>
Total Net Assets	<u>1,299,856.00</u>
Total Liabilities and Net Assets	<u>\$ 6,230,959.00</u>

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, 2014***

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 618,745.00
Fees	139,128.00
Other Investment Income	227,007.00
Other	<u>35,559.00</u>
Total Unrestricted Revenues and Gains	1,020,439.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	<u>12,902.00</u>
Total Unrestricted Revenues, Gains, and Other Support	<u>1,033,341.00</u>
Expenses and Losses:	
	12,902.00
LeGrand Center	320,865.00
Brown Center	36,860.00
Management & General	110,524.00
Grants	247,460.00
Fundraising	<u>71,707.00</u>
Total Expenses	<u>800,318.00</u>
Increase in Unrestricted Net Assets	<u>233,023.00</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	87,145.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	<u>(12,902.00)</u>
Increase in Temporarily Restricted Net Assets	<u>74,243.00</u>
Increase in Net Assets	307,266.00
Net Assets at Beginning of Year	<u>992,590.00</u>
Net Assets at End of Year	<u><u>\$ 1,299,856.00</u></u>

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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 (the “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. The discretely presented component unit’s financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Units – Cleveland Community College Foundation, Inc. (the “Foundation”) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The 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 Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (“FASB”) Codification. 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

During the year ended June 30, 2014, the Foundation distributed \$260,362.00 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.

- 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

- 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 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. Deferred Outflows and Inflows of Resources** - Deferred Outflows of Resources represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The College has no deferred outflows or inflows of resources at June 30, 2014.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- L. 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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.

M. Net Position - The College's net position is classified as follows:

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.

N. 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.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

- O. 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.

- P. 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.

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, 2014 was \$1,900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$4,049,436.28, and the bank balance was \$4,227,906.02.

The North Carolina Administrative Code ("20 NCAC 7") requires all depositories to collateralize public deposits in excess of federal depository insurance coverage

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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, 2014, 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, 2014, the College had \$931,685.41 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, 2014**

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	1,900.00
Carrying Amount of Deposits with Private Financial Institutions		<u>4,049,436.28</u>
Total Deposits and Investments	\$	<u><u>4,051,336.28</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	1,506,424.59
Restricted Cash and Cash Equivalents		1,550,188.36
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>63,037.92</u>
Total Deposits		<u>3,119,650.87</u>
Investments		
Current:		
Short-Term Investments		710,602.35
Restricted Short-Term Investments		<u>221,083.06</u>
Total Investments		<u>931,685.41</u>
Total Deposits and Investments	\$	<u><u>4,051,336.28</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 777,640.41	\$597,364.00	\$ 180,276.41
Student Sponsors	11,969.91	-	11,969.91
Intergovernmental	1,585,854.39	-	1,585,854.39
Investment Earnings	185.01	-	185.01
Other	<u>8,925.20</u>	<u>-</u>	<u>8,925.20</u>
Total Current Receivables	<u><u>\$2,384,574.92</u></u>	<u><u>\$597,364.00</u></u>	<u><u>\$1,787,210.92</u></u>

**CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 469,400.00	\$ -	\$ -	\$ 469,400.00
Total Capital Assets, Nondepreciable	<u>469,400.00</u>	<u>-</u>	<u>-</u>	<u>469,400.00</u>
Capital Assets, Depreciable:				
Buildings	23,893,965.73	-	-	23,893,965.73
Machinery and Equipment	7,730,790.68	1,566,456.85	215,029.53	9,082,218.00
General Infrastructure	971,922.08	87,830.00	-	1,059,752.08
Total Capital Assets, Depreciable	<u>32,596,678.49</u>	<u>1,654,286.85</u>	<u>215,029.53</u>	<u>34,035,935.81</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	9,358,674.53	534,385.92	-	9,893,060.45
Machinery and Equipment	2,654,981.43	579,100.74	154,243.08	3,079,839.09
General Infrastructure	166,626.63	31,804.47	-	198,431.10
Total Accumulated Depreciation/Amortization	<u>12,180,282.59</u>	<u>1,145,291.13</u>	<u>154,243.08</u>	<u>13,171,330.64</u>
Total Capital Assets, Depreciable, Net	<u>20,416,395.90</u>	<u>508,995.72</u>	<u>60,786.45</u>	<u>20,864,605.17</u>
Capital Assets, Net	<u>\$ 20,885,795.90</u>	<u>\$ 508,995.72</u>	<u>\$ 60,786.45</u>	<u>\$ 21,334,005.17</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

Accounts Payable	\$ <u>721,341.06</u>
Accrued Payroll	145,305.77
Other	53,800.44
Total	<u>\$ 920,447.27</u>

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 1,401,814.76	\$ 853,985.96	\$ 895,303.62	\$ 1,360,497.10	172,238.94
Total Long-Term Liabilities	\$ 1,401,814.76	\$ 853,985.96	\$ 895,303.62	\$ 1,360,497.10	\$ 172,238.94

NOTE 7 - REVENUES

A summary of eliminations and allowances by revenue classification for the year ended June 30, 2014 is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 4,265,757.79	\$ 2,839,530.98	\$ 86,142.00	\$ 1,340,084.81
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 168,784.02	\$ -	\$ -	\$ 168,784.02
Cosmetology	41,568.75	-	-	41,568.75
Vending	4,689.03	-	-	4,689.03
Snackbar	809.14	-	-	809.14
Other	39,240.00	-	-	39,240.00
Total Sales and Services	\$ 255,090.94	\$ -	\$ -	\$ 255,090.94

NOTE 8 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification for the year ended June 30, 2014 are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 9,972,729.79	\$ 1,063,656.96	\$ 2,219,904.08	\$ -	\$ -	\$ -	\$ 13,256,290.83
Academic Support	1,808,366.47	898,204.06	665,085.06	-	-	-	3,371,655.59
Student Services	889,962.06	99,450.84	138,689.22	-	-	-	1,128,102.12
Institutional Support	2,733,848.41	161,940.83	849,544.15	-	7,287.25	-	3,752,620.64
Operations and Maintenance of Plant	341,417.40	187,041.79	456,560.47	-	454,512.73	-	1,439,532.39
Student Financial Aid	-	-	4,625.41	4,694,045.12	-	-	4,698,670.53
Auxiliary Enterprises	17,184.50	5,309.94	639.43	-	-	-	23,133.87
Depreciation/ Amortization	-	-	-	-	-	1,145,291.13	1,145,291.13
Total Operating Expenses	\$ 15,763,508.63	\$ 2,415,604.42	\$ 4,335,047.82	\$ 4,694,045.12	\$ 461,799.98	\$ 1,145,291.13	\$ 28,815,297.10

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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, 2014, these rates were set at 8.68% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,393,973.06, of which \$9,547,626.45 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were **(A)**\$829,688.74 and **(B)**\$572,857.07, respectively.

Required employer contribution rates for the years ended June 30, 2014, and 2013, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$829,688.74, \$766,443.89, and \$696,950.59, respectively.

Effective January 1, 2014, the Qualified Excess Benefit Arrangement ("QEBA") was established and placed under the management of the Board of Trustees of the TSERS. Per North Carolina General Statute 135-151, the purpose of the QEBA is solely to provide the part of a retirement allowance or benefit that would otherwise have been payable by TSERS except for the limitations under section 415(b) of the Internal Revenue Code. For the year ended June 30, 2014, the employer contribution for the supplemental benefit payable to members of the TSERS was .01% of covered payroll, or **(C)** \$485.45.

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, 2014

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 \$20,325.00 for the year ended June 30, 2014.

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 \$195,294.29 for the year ended June 30, 2014.

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 Chapter 135, Article 3B, 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.

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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$515,571.83, \$487,653.38, and \$468,380.77, 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, 2014, 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, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$42,009.56, \$40,484.43, and \$48,711.60, 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*.

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 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. Losses from employee dishonesty for employees paid from County and Institutional funds are covered by a private insurance company policy with coverage of \$100,000 per occurrence and \$1,000 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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through January 11, 2015, which is the date the financial statements were available to be issued.

NOTE 14 - AUDIT HOURS AND COST

This audit required 220 audit hours at an approximate cost of \$32,000. The cost represents 0.12% of the College's total assets and 0.11% of total expenses subjected to audit.

Report of Independent Auditor 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2015. 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.

Cherry Bekaert LLP

Charlotte, North Carolina
January 11, 2015