



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT REVIEW REPORT OF**

**CLEVELAND COMMUNITY COLLEGE**

**SHELBY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT REVIEW REPORT OF**

**CLEVELAND COMMUNITY COLLEGE**

**SHELBY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**REVIEWER'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Cleveland Community College

This report presents the results of our financial statement review of Cleveland Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our review was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Cleveland Community College. The review procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Cleveland Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

**Results** - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

## REVIEWER'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

**Results** - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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Board of Trustees  
Cleveland Community College  
Shelby, North Carolina

We have reviewed the accompanying Statement of Net Assets of Cleveland Community College, a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

May 22, 2003

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Overview of Financial Statements and Financial Analysis**

Cleveland Community College would like to present financial statements for the year ended June 30, 2002. This analysis will be for the current year while in the future the Management's Discussion and Analysis (MD&A) will include a comparison between current year and the prior year's information.

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

### **Statement of Net Assets**

The Statement of Net Assets presents assets, liabilities, and net assets of the College at a point in time for the fiscal year ended June 30, 2002.

From data presented, readers of the Statement of Net Assets (SNA) are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately the SNA provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into nonexpendable and expendable. Nonexpendable restricted assets are only available for investment purposes. Expendable restricted net assets are available for expenditures by the College but must be spent for purposes specified by an external entity that have placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the institution.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### **Condensed Statement of Net Assets**

	<u>2002</u>
<b>Assets</b>	
Current Assets	\$ 3,277,620.52
Capital Assets, Net	11,196,641.28
Other Assets	<u>13,170.58</u>
Total Assets	<u>14,487,432.38</u>
<b>Liabilities</b>	
Current Liabilities	435,537.68
Noncurrent Long-Term Liabilities	<u>170,904.67</u>
Total Liabilities	<u>606,442.35</u>
<b>Net Assets</b>	
Invested in Capital	11,196,641.28
Capital Projects - Expendable	1,476,972.38
Other - Expendable	119,490.51
Unrestricted	<u>1,087,885.86</u>
Total Net Assets	<u>\$ 13,880,990.03</u>

The total assets of the institution increased by \$34,335.93 from last year's restated balances. This was due in large part due to construction-in-progress on the Fire Training Building. The effects of the building being largely complete at year-end were that Receivables decreased by \$1,104,644.35 and Capital Assets increased by \$1,034,732.86.

The total liabilities for the year decreased by \$41,842.08. The decrease was primarily in current liabilities, specifically accounts payable and accrued liabilities. Due to budget restraints and cash flow issues, outstanding payables at year-end were held to a minimum.

The increase in assets of \$34,335.93 and the decrease in liabilities of \$41,842.08 result in a net increase in total net assets of \$76,178.01.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

Changes in total net assets as presented on the SNA are based on the activity offered in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues received by the College, including operating and nonoperating, and expenses, both operating and nonoperating.

Generally, operating revenues are received for providing goods and services to various constituents of the College while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the college for which we receive operating revenue.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Nonoperating revenues are revenues for which goods and services are not provided. State appropriations are considered nonoperating because they are provided by the Legislature without the Legislature directly receiving goods and services for those revenues.

Following, you will find highlights of the SRECNA. Student tuition and fees decreased by \$1,061,803.32 mainly due to the recording of scholarship discounts during fiscal year ended June 30, 2002. There was an increase in federal grants totaling \$814,891.83, predominately Pell Grants. Nonoperating revenues showed a net decrease of \$808,426.86, which can primarily be contributed to a decrease in State aid of \$644,940.61 as a result of a slowing economy. Operating expenses showed a net decrease of \$626,675.77. This was due to a combination of factors. There was an increase of \$514,494.06 in personal service expenses due to increased course offerings due to increased enrollment. There was a decrease of \$1,475,705.50 in supplies and materials expense. There was an increase of \$484,868.46 due to GASB accounting changes for depreciation. The SRECNA shows a net increase of \$76,178.01 in net assets at the end of the year.

### **Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	2002
<b>Operating Revenues</b>	
Student Tuition and Fees, Net	\$ 611,147.74
Federal Grants and Contracts	2,304,997.88
Sales and Services	1,191,300.39
 Total Operating Revenues	 4,107,446.01
<b>Nonoperating Revenues</b>	
State Aid	7,066,366.33
County Appropriations	1,003,229.00
Noncapital Grants	500.00
Noncapital Gifts	73,977.14
Investment Income (Net)	28,019.68
Other Nonoperating Revenues	191,949.88
 Total Nonoperating Revenues	 8,364,042.03
 Total Revenue	 12,471,488.04
<b>Operating Expenses</b>	<b>(12,754,092.88)</b>
Capital Contribution	358,782.85
Increase in Net Assets	76,178.01
Net Assets - Beginning of Year	19,492,320.87
Restatements	(5,687,508.85)
Net Assets - End of Year	\$ 13,880,990.03

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into the following five parts. Operating cash flows shows the net cash used by the operating activities of the College. The second section reflects cash flows received and spent for nonoperating purposes. The next section, cash flow from capital activities, reflects cash flows used for the acquisition and construction of capital and related items. The fourth section reflects investing activities. The last section of the statement reconciles the net cash reflected on the SRECNA.

### **Condensed Statement of Cash Flows**

	<u>2002</u>
Cash Received/(Expended) by:	
Operating Activities	\$ (7,933,441.95)
Noncapital Financing Activities	8,128,306.77
Capital and Related Financing Activities	(99,378.28)
Investing Activities	<u>3,501.19</u>
Net Change in Cash	<u>98,987.73</u>
Cash, Beginning of Year	<u>654,624.29</u>
Cash - End of Year	<u><u>\$ 753,612.02</u></u>

### **Capital Assets**

The only significant change with regard to capital assets was construction-in-progress on the Fire Training Building. There was an increase of \$1,311,891.18 for fiscal year ended June 30, 2002.

### **Economic Outlook**

The College has experienced large enrollment growth due to unemployment in the area. The College also experienced problems due to a statewide cash shortage resulting in a large reduction in State aid for operations. The College expects continued unusually high enrollment throughout 2002-2003. However, the College is expected to meet its goals and objectives in the upcoming year.

**Cleveland Community College**  
**Statement of Net Assets**  
**June 30, 2002**

**Exhibit A**

<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	599,723.56
Restricted Cash and Cash Equivalents		140,717.88
Short-Term Investments		811,065.57
Receivables (Note 3)		1,354,462.85
Due from Primary Government		6,848.00
Due from State of North Carolina Component Units		8,445.06
Inventories		356,357.60
<b>Total Current Assets</b>		<b>3,277,620.52</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		13,170.58
Capital Assets, Net (Note 4)		11,196,641.28
<b>Total Noncurrent Assets</b>		<b>11,209,811.86</b>
<b>Total Assets</b>		<b>14,487,432.38</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		160,422.30
Due to State of North Carolina Component Units		1,941.79
Funds Held for Others		16,816.58
Long-Term Liabilities - Current Portion (Note 6)		256,357.01
<b>Total Current Liabilities</b>		<b>435,537.68</b>
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		170,904.67
<b>Total Noncurrent Liabilities</b>		<b>170,904.67</b>
<b>Total Liabilities</b>		<b>606,442.35</b>
<b>NET ASSETS</b>		
Invested in Capital Assets		11,196,641.28
Restricted For:		
Expendable:		
Capital Projects		1,476,972.38
Other		119,490.51
Unrestricted		1,087,885.86
<b>Total Net Assets</b>	<b>\$</b>	<b>13,880,990.03</b>
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

<b>Cleveland Community College</b>		
<b>Statement of Revenues, Expenses, and</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit B</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	\$	611,147.74
Federal Grants and Contracts		2,304,997.88
Sales and Services		1,191,300.39
Total Operating Revenues		<u>4,107,446.01</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		8,194,073.17
Supplies and Materials		1,425,187.89
Services		976,033.48
Scholarships and Fellowships		1,349,983.52
Utilities		323,946.36
Depreciation		484,868.46
Total Operating Expenses		<u>12,754,092.88</u>
Operating Loss		<u>(8,646,646.87)</u>
<b>NONOPERATING REVENUES</b>		
State Aid		7,066,366.33
County Appropriations		1,003,229.00
Noncapital Grants		500.00
Noncapital Gifts		73,977.14
Investment Income, Net		28,019.68
Other Nonoperating Revenues		191,949.88
Net Nonoperating Revenues		<u>8,364,042.03</u>
Loss Before Other Revenues, Expenses, Gains, and Losses		<u>(282,604.84)</u>
State Capital Aid		340,782.85
County Capital Appropriations		18,000.00
Increase in Net Assets		<u>76,178.01</u>
<b>NET ASSETS</b>		
Net Assets, July 1, 2001 as Restated (Note 15)		13,804,812.02
Net Assets, June 30, 2002	\$	<u>13,880,990.03</u>
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

<b>Cleveland Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit C</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers	\$	4,380,821.81
Payments to Employees and Fringe Benefits		(8,209,443.96)
Payments to Vendors and Suppliers		(2,721,399.22)
Payments for Scholarships and Fellowships		(1,576,515.09)
Other Receipts		193,094.51
Net Cash Used by Operating Activities		(7,933,441.95)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		7,066,366.33
County Appropriations		1,003,229.00
Noncapital Grants, Gifts and Endowments Received		58,711.44
Net Cash Provided by Noncapital Financing Activities		8,128,306.77
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		349,303.46
County Capital Appropriations		18,000.00
Capital Grants Received		1,052,919.58
Acquisition and Construction of Capital Assets		(1,519,601.32)
Net Cash Used by Capital and Related Financing Activities		(99,378.28)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments		32,900.22
Purchase of Investments and Related Fees		(29,399.03)
Net Cash Provided by Investing Activities		3,501.19
Net Increase in Cash and Cash Equivalents		98,987.73
Cash and Cash Equivalents, July 1, 2001		654,624.29
Cash and Cash Equivalents, June 30, 2002	\$	753,612.02
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$	(8,646,646.87)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		484,868.46
Miscellaneous Nonoperating Income		191,949.88
Changes in Assets and Liabilities:		
Receivables, Net		46,844.23
Inventories		24,063.79
Accounts Payable and Accrued Liabilities		(25,475.91)
Due to Primary Government		235.71
Funds Held for Others		1,144.63
Compensated Absences		(10,425.87)
Net Cash Used by Operating Activities	\$	(7,933,441.95)

<b><i>Cleveland Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit C</i></b>
<b><i>For the Fiscal Year Ended June 30, 2002</i></b>		<b><i>Page 2</i></b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
	Increase in Receivables Related to Nonoperating Income	\$ 8,445.06
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**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, 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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 Governmental Accounting Standards Board (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* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and undeposited receipts.
- E. Investments** - This classification includes certificates of deposit held by the College. Certificates of deposit are reported at cost, if purchased, or at fair market value at date of gift, if donated.
- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value with no provision for doubtful accounts.
- G. Inventories** – Inventories held by the College are priced at the lower of cost or market using the first-in, first-out method. The inventories consist of expendable supplies, postage, fuel oil held for consumption, and textbooks and other merchandise for resale.
- 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 College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of 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 January 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

**Invested in Capital Assets** – This represents the College's total investment in capital assets.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers and grants received for student financial assistance. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- 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 vehicles purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,162.50. The carrying amount of cash on deposit was \$1,563,515.09 and the bank balance was \$1,753,731.65. All of the cash was on deposit with private financial institutions.

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.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$200,000.00 of the bank balance was covered by federal depository insurance, and \$1,553,731.65 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2002, the College held certificates of deposit in the amount of \$811,065.57 which is not subject to categorization of custodial credit risk. The aforementioned certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Amount
<b>Current Receivables:</b>	
Students	\$ 212,871.96
Accounts	37,505.79
Intergovernmental	1,101,781.64
Investment Earnings	1,405.46
Other	898.00
<b>Total Current Receivables</b>	<b>\$ 1,354,462.85</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 458,400.00	\$ 0.00	\$ 0.00	\$ 458,400.00
Construction in Progress		1,311,891.18		1,311,891.18
Total Capital Assets, Non-Depreciable	458,400.00	1,311,891.18		1,770,291.18
Capital Assets, Depreciable:				
Buildings	13,026,831.17			13,026,831.17
Machinery and Equipment	1,561,871.03	207,710.14	69,020.91	1,700,560.26
General Infrastructure	59,109.16			59,109.16
Totals	14,647,811.36	207,710.14	69,020.91	14,786,500.59
Less Accumulated Depreciation:				
Buildings	4,208,337.17	336,626.04		4,544,963.21
Machinery and Equipment	689,092.16	142,491.42	69,020.91	762,562.67
General Infrastructure	46,873.61	5,751.00		52,624.61
Totals	4,944,302.94	484,868.46	69,020.91	5,360,150.49
Total Capital Assets, Depreciable, Net	9,703,508.42	(277,158.32)		9,426,350.10
<b>Capital Assets, Net</b>	<b>\$ 10,161,908.42</b>	<b>\$ 1,034,732.86</b>	<b>\$ 0.00</b>	<b>\$ 11,196,641.28</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 46,654.36
Accrued Payroll	107,547.94
Intergovernmental Payables	6,220.00
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 160,422.30</b>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	\$ 437,687.55	\$ 254,113.45	\$ 264,539.32	\$ 427,261.68	\$ 256,357.01

### NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
<b>Operating revenues:</b>			
Student tuition and fees	\$ 1,451,388.37	\$ 840,240.63	\$ 611,147.74

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,046,614.74	\$ 330,364.63	\$ 447,225.90	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,824,205.27
Academic Support	800,033.97	38,315.28	4,850.29				843,199.54
Student Services	398,567.72	26,142.08	35,662.50				460,372.30
Institutional Support	1,485,411.53	136,914.79	413,883.62				2,036,209.94
Operations and Maintenance of Plant	406,888.17	90,393.21	73,186.95		323,946.36		894,414.69
Student Financial Aid				1,349,983.52			1,349,983.52
Auxiliary Enterprises	56,557.04	803,057.90	1,224.22				860,839.16
Depreciation						484,868.46	484,868.46
Total Operating Expenses	<u>\$ 8,194,073.17</u>	<u>\$ 1,425,187.89</u>	<u>\$ 976,033.48</u>	<u>\$ 1,349,983.52</u>	<u>\$ 323,946.36</u>	<u>\$ 484,868.46</u>	<u>\$ 12,754,092.88</u>

### 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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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For the year ended June 30, 2002, the College had a total payroll of \$7,037,228.36, of which \$5,641,722.94 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$338,503.41 and \$111,141.94, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$111,141.94, \$271,891.68, and \$382,529.78, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC 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. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to \$56,745.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$22,910.00 for the year ended June 30, 2002.

### NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$132,580.49. 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*.

**B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$29,336.96. 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.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from employees are covered by a contract with a private insurance company with coverage of \$100,000 per occurrence and a \$1,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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 of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

### NOTE 12 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$952,373.00 and on other purchases were \$84,907.16 at June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$5,139,140.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

**NOTE 13 - CLEVELAND COMMUNITY COLLEGE FOUNDATION, INC.**

The Cleveland Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$60,977.14 for the year ended June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 14 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. New disclosures include the major components of receivable and payable balances.

### NOTE 15 - NET ASSET RESTATEMENT

As referred to in Note 14, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	\$	19,492,320.87
Implementation of GASB 34/35		<u>(5,687,508.85)</u>
July 1, 2001 Net Assets as Restated	\$	<u>13,804,812.02</u>

***Cleveland Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2002***

***Schedule 1***

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>
<b><i>Projects Pending Approval by the State Board</i></b>					
Classroom Building	Jan 2003	\$ 3,887,036.00	\$ 1,512,964.00	\$ 5,400,000.00	\$ 0.00
Reroofing of "B" Building	Jul 2003	80,000.00		80,000.00	
Faculty/Office Expansion/Remodeling	Jul 2003	150,000.00		150,000.00	
Replace/Modify Mechanical Systems	Jan 2005	225,000.00		225,000.00	
Reroofing Campus Center Building	Jul 2005	500,000.00		500,000.00	
Undetermined Repairs & Renovations Projects	Jan 2006	297,104.00		297,104.00	
<b>Total All Projects</b>		<b>\$ 5,139,140.00</b>	<b>\$ 1,512,964.00</b>	<b>\$ 6,652,104.00</b>	<b>\$ 0.00</b>

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

## DISTRIBUTION OF REVIEW REPORT

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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State Controller  
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President, Cleveland Community College  
Vice President for Finance and Administrative Services  
Cleveland Community College  
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Cleveland Community College

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N. C. House of Representatives  
Director, Fiscal Research Division

July 25, 2003

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