



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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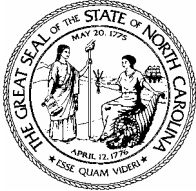
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Cleveland Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the finding.

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

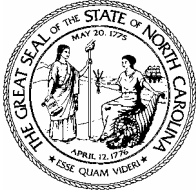
Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 16, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	6
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	7
A-3 Statement of Cash Flows	8
Component Unit Exhibits	
B-1 Statement of Financial Position	10
B-2 Statement of Activities	11
Notes to the Financial Statements	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	25
AUDIT FINDINGS AND RECOMMENDATIONS	27
ORDERING INFORMATION	29



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cleveland Community College
Shelby, North Carolina

We have audited the accompanying financial statements of Cleveland Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cleveland Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Cleveland Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based 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 of material misstatement. The financial statements of Cleveland Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 6, 2006

**CLEVELAND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of Financial Statements and Financial Analysis

Cleveland Community College would like to present management's discussion and analysis related to financial statements for the years end June 30, 2004 and 2005. This analysis will include a comparison between current year and prior year information.

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

The Statement of Net Assets presents the assets, liabilities and net assets of the College as a point in time for the fiscal years ended June 30, 2004, and 2005. 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 expenditure by the College.

Net Assets are divided into three major categories. Invested in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. Restricted net assets are expendable which means they are available for expenditures by the College, but must be spent for purposes specified by the external donor. Unrestricted net assets are available to the College for any lawful purpose of the institution.

Comparative Condensed Statement of Net Assets

	<u>FYE 06/30/2004</u>	<u>FYE 06/30/2005</u>
Assets		
Current Assets	\$ 2,792,218.99	\$ 3,031,637.51
Noncurrent Assets	325,224.05	814,258.70
Noncurrent Capital Assets, Net	<u>11,590,849.19</u>	<u>11,349,927.29</u>
Total Assets	<u>14,708,292.23</u>	<u>15,195,823.50</u>
Liabilities		
Current Liabilities	289,674.56	446,922.18
Noncurrent Long-Term Liabilities	<u>1,059,103.14</u>	<u>969,652.03</u>
Total Liabilities	<u>1,348,777.70</u>	<u>1,416,574.21</u>
Net Assets		
Invested in Capital Assets	11,590,849.19	11,349,927.29
Restricted	927,225.36	1,301,561.00
Unrestricted	<u>841,439.98</u>	<u>1,127,761.00</u>
Total Net Assets	<u>\$ 13,359,514.53</u>	<u>\$ 13,779,249.29</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total assets increased \$487,531.27 from last year. This is a combination of factors. Restricted Due from Primary Government increased \$465,805.44 in the current year due to an increase in construction bonds receivable for construction projects. Capital assets decreased \$240,921.90, which represent increases in construction in progress, buildings, and machinery and equipment less associated depreciation. Depreciation increased more than capital asset additions.

Total liabilities for the year increased \$67,796.51. Current liabilities increased as a result of Bookstore summer school billings that were not paid until after year end. Long-term liabilities decreased due to the drop in compensated absences balances.

The increase in assets of \$487,531.27 and the increase in liabilities of \$67,796.51 result in a net increase in total net assets of \$419,734.76.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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. Nonoperating revenues are revenues for which goods or services are not provided. These revenues are provided by the Legislature without the Legislature directly receiving goods and services for those revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE 6/30/2004</u>	<u>FYE 6/30/2005</u>
Operating Revenues		
Student Tuition and Fees, Net	\$ 1,307,477.21	\$ 1,516,106.15
Grants and Contracts	3,305,247.95	3,386,602.64
Sales and Services, Net	852,638.54	893,210.18
Other Operating Revenues	<u>(1,112.87)</u>	<u>10,824.08</u>
Total Operating Revenues	<u>5,464,250.83</u>	<u>5,806,743.05</u>
Operating Expenses	<u>16,178,729.55</u>	<u>17,762,057.11</u>
Operating Loss	<u>(10,714,478.72)</u>	<u>(11,955,314.06)</u>
Nonoperating Revenues		
State Aid	8,338,777.75	9,683,512.17
County Appropriations	981,273.00	1,027,696.25
Other Nonoperating Revenues	<u>681,611.44</u>	<u>310,764.89</u>
Total Nonoperating Revenues	<u>10,001,662.19</u>	<u>11,021,973.31</u>
Loss Before Other Revenues	(712,816.53)	(933,340.75)
Other Revenues		
Capital Contributions	458,425.74	1,344,325.51
Additions to Endowment		<u>8,750.00</u>
Increase/Decrease in Net Assets	<u>(254,390.79)</u>	<u>419,734.76</u>
Net Assets Beginning of Year	<u>13,613,905.32</u>	<u>13,359,514.53</u>
Net Assets End of Year	<u>\$ 13,359,514.53</u>	<u>\$ 13,779,249.29</u>

The following are highlights from the SRECNA. Capital Contributions increased by \$885,899.77 due to the receipt of bond project funds for buildings and repairs and renovations. Other Nonoperating Revenues decreased \$370,846.55. This is mostly attributed to misclassification of noncapital grants in the prior year to capital contributions. State aid increased \$1,344,734.42. This was due to an increase in the State formula for funding. Total Net Assets increased by \$419,734.76.

Capital Asset

There were no significant changes in with regard to capital assets for the fiscal year ended June 30, 2005. There is no long-term debt related to Capital Assets.

Economic Outlook

The College has continued high enrollment due to unemployment in the area. The College expects continued high enrollment throughout 2005-2006. However, the College is expected to meet its goals and objectives for the upcoming year.

Cleveland Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,043,286.80
Restricted Cash and Cash Equivalents	316,258.88
Short-Term Investments	592,570.89
Restricted Short-Term Investments	184,101.47
Receivables, Net (Note 3)	395,183.79
Due from State of North Carolina Component Units	5,167.00
Inventories	495,068.68
	<hr/>
Total Current Assets	3,031,637.51

Noncurrent Assets:

Restricted Cash and Cash Equivalents	23,229.21
Restricted Due from Primary Government	791,029.49
Capital Assets - Nondepreciable (Note 4)	513,202.20
Capital Assets - Depreciable, Net (Note 4)	10,836,725.09
	<hr/>
Total Noncurrent Assets	12,164,185.99
	<hr/>
Total Assets	15,195,823.50

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	352,166.10
Deferred Revenue	8,755.54
Funds Held for Others	23,229.21
Long-Term Liabilities - Current Portion (Note 6)	62,771.33
	<hr/>
Total Current Liabilities	446,922.18

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	969,652.03
	<hr/>
Total Liabilities	1,416,574.21

NET ASSETS

Invested in Capital Assets	11,349,927.29
Restricted for:	
Expendable:	
Scholarships and Fellowships	350.00
Capital Projects	935,671.28
Other	365,539.72
Unrestricted	1,127,761.00
	<hr/>
Total Net Assets	\$ 13,779,249.29

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

***Cleveland Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 1,516,106.15
Federal Grants and Contracts	3,082,234.89
State and Local Grants and Contracts	282,752.75
Nongovernmental Grants and Contracts	21,615.00
Sales and Services, Net (Note 7)	893,210.18
Other Operating Revenues	10,824.08
	<hr/>
Total Operating Revenues	5,806,743.05
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	10,544,536.93
Supplies and Materials	2,964,321.09
Services	1,376,206.79
Scholarships and Fellowships	1,964,463.61
Utilities	298,944.48
Depreciation	613,584.21
	<hr/>
Total Operating Expenses	17,762,057.11
	<hr/>
Operating Loss	(11,955,314.06)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	9,683,512.17
County Appropriations	1,027,696.25
Noncapital Grants	293,180.82
Investment Income, Net	26,380.07
Other Nonoperating Expenses	(8,796.00)
	<hr/>
Net Nonoperating Revenues	11,021,973.31
	<hr/>
Loss Before Other Revenues	(933,340.75)
	<hr/>
State Capital Aid	1,298,504.21
County Capital Appropriations	45,821.30
Capital Gifts	8,750.00
	<hr/>
Increase in Net Assets	419,734.76

NET ASSETS

Net Assets, July 1, 2004	<hr/> 13,359,514.53
Net Assets, June 30, 2005	<hr/> \$ 13,779,249.29
	<hr/>

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, 2005***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,821,500.02
Payments to Employees and Fringe Benefits	(10,645,781.62)
Payments to Vendors and Suppliers	(4,472,444.90)
Payments for Scholarships and Fellowships	(2,128,935.99)
Other Receipts	3,601.05
	<u>3,601.05</u>
Net Cash Used by Operating Activities	<u>(11,422,061.44)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,683,512.17
County Appropriations	1,027,696.25
Noncapital Grants Received	294,669.46
	<u>294,669.46</u>
Cash Provided by Noncapital Financing Activities	<u>11,005,877.88</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	832,698.77
County Capital Appropriations	45,821.30
Capital Gifts Received	8,750.00
Acquisition and Construction of Capital Assets	(381,458.31)
	<u>(381,458.31)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>505,811.76</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>13,113.26</u>
Net Increase in Cash and Cash Equivalents	102,741.46
Cash and Cash Equivalents, July 1, 2004	<u>1,280,033.43</u>
Cash and Cash Equivalents, June 30, 2005	<u>\$ 1,382,774.89</u>

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

Operating Loss	\$ (11,955,314.06)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	613,584.21
Changes in Assets and Liabilities:	
Receivables, Net	(158,470.95)
Inventories	16,998.49
Accounts Payable and Accrued Liabilities	138,988.49
Deferred Revenue	8,755.54
Funds Held for Others	3,601.05
Compensated Absences	(90,204.21)
	<u>(90,204.21)</u>
Net Cash Used by Operating Activities	<u>\$ (11,422,061.44)</u>

***Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	1,043,286.80
Restricted Cash and Cash Equivalents		316,258.88
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		23,229.21
		<hr/>
Total Cash and Cash Equivalents - June 30, 2005	\$	<u>1,382,774.89</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$	11,848.30
Increase in Receivables Related to Nonoperating Income		472,390.05
Capital Asset Write-Offs		43,347.07

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

Cleveland Community College Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

ASSETS

Cash	\$	80,333
Certificates of Deposit		1,341,913
Investments		438,701
Accrued Interest Receivable		3,022
Promises to give, net		1,465,162
Assets Held for sale		<u>2,206,737</u>
Total Assets		<u>5,535,868</u>

LIABILITIES

Liabilities		<u>1,507,500</u>
Total Liabilities		<u>1,507,500</u>

NET ASSETS

Unrestricted		195,113
Temporarily Restricted		<u>3,833,255</u>
Total Net Assets	\$	<u><u>4,028,368</u></u>

See Note 1 in the Notes to the Financial Statements

Cleveland Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005

Exhibit B-2

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT AND GAINS			
Contributions	\$ 14,700	\$ 922,278	\$ 936,978
Investment Earnings	28,489	7,770	36,259
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	19,380	(19,380)	
Total Unrestricted Revenues and Gains	<u>62,569</u>	<u>910,668</u>	<u>973,237</u>
EXPENSES			
Programs			
Support for Students and Programs of Cleveland Community College:			
Scholarships and Programs	19,380		19,380
Support			
Management and General	31,595		31,595
Fund Raising	2,166		2,166
Interest Expense	0	92,479	92,479
Total Expenses	<u>53,141</u>	<u>92,479</u>	<u>145,620</u>
OTHER GAINS AND LOSSES			
Gain on Disposal of Assets	1,255		1,255
Unrealized Gain on Assets	29,997		29,997
Total Other Gains and Losses	<u>31,252</u>		<u>31,252</u>
Increase in Net Assets	<u>40,680</u>	<u>818,189</u>	<u>858,869</u>
NET ASSETS			
Net Assets at Beginning of Year	217,952	2,951,547	3,169,499
Recharacterizations of Net Assets	(63,519)	63,519	
Net Assets at End of Year	<u>\$ 195,113</u>	<u>\$ 3,833,255</u>	<u>\$ 4,028,368</u>

See Note 1 in the Notes to the Financial Statements

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**CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005**

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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the 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 – The Cleveland Community College Foundation Inc., (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation is a, tax-exempt component unit of the College and 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 20 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 not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2005, the Foundation distributed \$19,380 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from U. L. Paterson, III, Executive Director of the Foundation.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply 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.

- 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.
- D. Cash and Cash Equivalents** – This classification includes petty cash and cash on deposit with private bank accounts.
- E. Investments** - This classification includes certificates of deposit.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants.

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the retail inventory 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 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 more than one year. Library books are expensed in the year of acquisition.

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** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

N. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College 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. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,835.00, and deposits in private financial institutions with a carrying value of \$1,380,939.89 and a bank balance of \$1,369,109.02. The amount shown on the Statement of Net Assets as Short-Term Investments of \$592,570.89 and Restricted Short-Term Investments of \$184,101.47 includes certificates of 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.

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, 2005, the College's bank

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Amount
Current Receivables:	
Students	\$ 340,215.52
Accounts	43,634.20
Investment Earnings	2,762.72
Intergovernmental	8,571.35
Total Current Receivables	\$ 395,183.79

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 458,400.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 458,400.00
Construction in Progress	67,498.00	(67,498.00)	54,802.20		54,802.20
Total Capital Assets, Nondepreciable	525,898.00	(67,498.00)	54,802.20		513,202.20
Capital Assets, Depreciable:					
Buildings	15,013,077.17		61,289.91		15,074,367.08
Machinery and Equipment	2,189,020.08		265,366.20	43,347.07	2,411,039.21
General Infrastructure	253,864.06	67,498.00	0.00		321,362.06
Total Capital Assets, Depreciable	17,455,961.31	67,498.00	326,656.11	43,347.07	17,806,768.35
Less Accumulated Depreciation:					
Buildings	5,309,019.05		422,353.82		5,731,372.87
Machinery and Equipment	1,021,396.24		185,127.78	34,551.07	1,171,972.95
General Infrastructure	60,594.83		6,102.61		66,697.44
Total Accumulated Depreciation	6,391,010.12		613,584.21	34,551.07	6,970,043.26
Total Capital Assets, Depreciable, Net	11,064,951.19	67,498.00	(286,928.10)	8,796.00	10,836,725.09
Capital Assets, Net	\$ 11,590,849.19	\$ 0.00	\$ (232,125.90)	\$ 8,796.00	\$ 11,349,927.29

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 198,946.49
Accrued Payroll	141,346.08
Intergovernmental Payables	6,655.64
Other	5,217.89
Total Accounts Payable and Accrued Liabilities	\$ 352,166.10

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 1,122,627.57	\$ 637,205.06	\$ 727,409.27	\$ 1,032,423.36	\$ 62,771.33

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,248,982.83	\$ 732,876.68	\$ 1,516,106.15
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Booksotre	\$ 1,327,391.39	\$ 530,704.02	\$ 796,687.37
Cosmotology Fees	45,535.30		45,535.30
Vending Operations	11,646.36		11,646.36
Snackbar	9,196.15		9,196.15
Other	30,145.00		30,145.00
Total Sales and Services	\$ 1,423,914.20	\$ 530,704.02	\$ 893,210.18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,708,547.30	\$ 1,036,485.84	\$ 577,955.79	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,322,988.93
Academic Support	1,079,334.66	206,141.60	67,433.25				1,352,909.51
Student Services	512,055.06	79,227.40	81,892.69	30,710.00			703,885.15
Institutional Support	1,598,784.55	139,316.61	527,414.87		9,750.69		2,275,266.72
Operations and Maintenance of Plant	417,735.56	210,649.15	56,930.12		289,193.79		974,508.62
Student Financial Aid	138,707.79	34,576.78	62,526.14	1,933,756.61			2,169,567.32
Auxiliary Enterprises	89,372.01	1,257,923.71	2,054.13				1,349,349.85
Depreciation						613,584.21	613,584.21
Total Operating Expenses	\$ 10,544,536.93	\$ 2,964,321.09	\$ 1,376,206.99	\$ 1,964,466.61	\$ 298,944.48	\$ 613,584.21	\$ 17,762,060.31

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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes*. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$9,055,446.73, of which \$6,933,691.92 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$416,021.48 and \$150,146.11, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$150,146.11, \$13,793.63, and \$0.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Deferred Compensation and 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. The voluntary contributions by employees amounted to \$79,659.00 for the year ended June 30, 2005.

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 nonprofit 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 \$41,261.00 for the year ended June 30, 2005.

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 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 3.2% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College’s total contribution to the Plan was \$221,878.27. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$30,854.93. 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, and can include 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 \$5,000,000 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. To protect itself from losses the College has purchased honesty bond insurance from a private insurance company covering County and Institutional funds paid employees.

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.

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. There were no employer contributions required for the current fiscal year.

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$395,198.00 at June 30, 2005.
- B. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 were authorized for issuance 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 of \$4,445,335.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Cleveland Community College
Shelby, North Carolina

We have audited the financial statements of Cleveland Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 6, 2006. We did not audit the financial statements of the financial statements of Cleveland Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cleveland Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of the discretely presented component unit was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

Information Systems findings from prior year that affect the financial statements are unresolved.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above to be a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 3, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters. This finding was also reported in the prior year Information System Audit.

INFORMATION SYSTEM FINDINGS FROM PRIOR YEAR ARE UNRESOLVED

We determined that several significant weaknesses in access controls remained unresolved. Due to the sensitive nature of the conditions found, we have conveyed these findings to management in a separate letter pursuant to the provision of *North Carolina General Statute 147-64.6 (c)(18)*.

College's Response: Cleveland Community College has resolved a number of the findings reported in the IS Audit. These corrections have been sent in a separate letter to the financial auditors. Cleveland Community College, with assistance from the North Carolina Community College System office, will continue to work on the remaining findings. Cleveland Community College will also be working with a consulting firm to resolve the remaining issues as quickly as possible.

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