



STATE OF NORTH CAROLINA

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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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, 2007, 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 Responses section of this report. The College's response is included following each 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

May 27, 2008

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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, 2007, 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., 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 opinions, insofar as they relate to the amounts included for that entity, are 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland Community College and its discretely presented component unit as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008 on our consideration of the College's internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

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

May 16, 2008

CLEVELAND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Cleveland Community College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2007.

Overview of the Financial Statements

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets For Fiscal Years Ended June 30, 2007 and June 30, 2006

| | <u>6/30/2007</u> | <u>6/30/2006</u> | <u>Change</u> |
|----------------------------------|-----------------------------|-----------------------------|----------------------------|
| Assets | | | |
| Current Assets | \$ 3,916,303.30 | \$ 3,469,922.08 | \$ 446,381.22 |
| Noncurrent Assets | 5,400,870.23 | 1,017,645.07 | 4,383,225.16 |
| Noncurrent Capital Assets, Net | <u>12,692,695.96</u> | <u>11,983,990.61</u> | <u>708,705.35</u> |
| Total Assets | <u>22,009,869.49</u> | <u>16,471,557.76</u> | <u>5,538,311.73</u> |
| Liabilities | | | |
| Current Liabilities | 637,672.87 | 565,325.98 | 72,346.89 |
| Noncurrent Long-Term Liabilities | <u>1,318,180.53</u> | <u>1,492,932.60</u> | <u>(174,752.07)</u> |
| Total Liabilities | <u>1,955,853.40</u> | <u>2,058,258.58</u> | <u>(102,405.18)</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net | 12,592,723.08 | 11,860,623.75 | 732,099.33 |
| Restricted | 4,875,938.55 | 1,589,397.55 | 3,286,541.00 |
| Unrestricted | <u>2,585,354.46</u> | <u>963,277.88</u> | <u>1,622,076.58</u> |
| Total Net Assets | <u>\$ 20,054,016.09</u> | <u>\$ 14,413,299.18</u> | <u>\$ 5,640,716.91</u> |

The total net assets of the College increased by \$5,640,716.91. This increase is mainly due to the increase in Restricted Due from Primary Government of \$4,437,780.34 for construction funds receivable from the North Carolina Community College System's Office. This receivable greatly increased assets, capital contributions revenue, and the related net assets restricted for capital projects.

Total Assets increased by \$5,538,311.73. This increase was in large part due to the increase in Restricted Due from Primary Government. Capital Assets increased by \$708,705.35 due to a restatement of net assets that increased the Capital Assets balance.

Total liabilities decreased \$102,405.18. Long-term liabilities decreased by \$174,752.07. This amount consists of decreases in accrued compensated absences due to retirements and payment to employees of remaining leave balances.

The \$1,622,076.66 increase in unrestricted net assets is due to a rise in unrestricted State Aid and an \$848,559.83 decrease in State Aid funds transferred to State Capital Aid to fund capital equipment purchases. In addition, there was an overall increase of unrestricted revenues over expenditures of approximately \$1,000,000.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For Fiscal Years Ended June 30, 2007 and June 30, 2006

| | <u>6/30/2007</u> | <u>6/30/2006</u> | <u>Change</u> |
|-------------------------------------|-------------------------|-------------------------|------------------------|
| Operating Revenues | | | |
| Student Tuition & Fees | \$ 1,523,674.07 | \$ 1,350,822.20 | \$ 172,851.87 |
| Grants & Contracts | 3,862,105.49 | 3,885,465.30 | (23,359.81) |
| Sales and Services, Net | 887,674.12 | 840,273.35 | 47,400.77 |
| Other Operating Revenue | <u>225,190.74</u> | <u>195,111.78</u> | <u>30,078.96</u> |
| Total Operating Revenues | <u>6,498,644.42</u> | <u>6,271,672.63</u> | <u>226,971.79</u> |
| Operating Expenses | <u>20,656,794.72</u> | <u>18,887,214.29</u> | <u>1,769,580.43</u> |
| Operating Loss | <u>(14,158,150.30)</u> | <u>(12,615,541.66)</u> | <u>(1,542,608.64)</u> |
| Nonoperating Revenues | | | |
| State Aid | 12,952,203.56 | 10,336,595.19 | 2,615,608.37 |
| County Appropriations | 971,784.92 | 1,060,043.92 | (88,259.00) |
| Other Nonoperating Revenues | <u>498,855.60</u> | <u>261,434.67</u> | <u>237,420.93</u> |
| Total Nonoperating Revenues | <u>14,422,844.08</u> | <u>11,658,073.78</u> | <u>2,764,770.30</u> |
| Income (Loss) Before Other Revenues | 264,693.78 | (957,467.88) | 1,222,161.66 |
| Capital Contributions | <u>4,668,297.35</u> | <u>1,591,517.77</u> | <u>3,076,779.58</u> |
| Increase in Net Assets | 4,932,991.13 | 634,049.89 | 4,298,941.24 |
| Net Assets, Beginning of Year | 14,413,299.18 | 13,779,249.29 | 634,049.89 |
| Restatement | <u>707,725.74</u> | | |
| Net Assets, End of Year | <u>\$ 20,054,016.05</u> | <u>\$ 14,413,299.18</u> | <u>\$ 5,640,716.87</u> |

The College is better off as a result of this year's activities. There is an increase in net assets of \$5,640,716.61.

This increase is primarily due to the \$3,076,779.58 increase in capital contributions for bond funds received through the North Carolina Community College System's Office. The College also experienced a substantial increase in State aid of \$2,615,608.37.

The State capital aid increased due to the restricted due from primary government previously discussed. Several projects will be funded with this money including the Allied Health Building which began in September 2007 and various repair and renovation projects.

Operating expenses increased \$1,769,580.43 primarily as a result of legislative salary increases.

Currently Known Facts - Cleveland Community College continues to experience high sustained enrollment. Cleveland Community College's State budget for the upcoming year is adequate to sustain College operations and growth.

Cleveland Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

| | |
|--|-----------------|
| Cash and Cash Equivalents | \$ 1,211,090.36 |
| Restricted Cash and Cash Equivalents | 470,347.10 |
| Short-Term Investments | 639,990.29 |
| Restricted Short-Term Investments | 197,574.21 |
| Receivables, Net (Note 3) | 610,414.49 |
| Due from State of North Carolina Component Units | 59,300.53 |
| Inventories | 727,586.32 |
| | <hr/> |
| Total Current Assets | 3,916,303.30 |

Noncurrent Assets:

| | |
|--|---------------|
| Restricted Cash and Cash Equivalents | 41,645.71 |
| Restricted Due from Primary Government | 5,359,224.52 |
| Capital Assets - Nondepreciable (Note 4) | 750,900.21 |
| Capital Assets - Depreciable, Net (Note 4) | 11,941,795.75 |
| | <hr/> |
| Total Noncurrent Assets | 18,093,566.19 |
| | <hr/> |
| Total Assets | 22,009,869.49 |

LIABILITIES

Current Liabilities:

| | |
|---|------------|
| Accounts Payable and Accrued Liabilities (Note 5) | 393,121.16 |
| Unearned Revenue | 66,740.74 |
| Funds Held for Others | 41,645.71 |
| Long-Term Liabilities - Current Portion (Note 6) | 136,165.26 |
| | <hr/> |
| Total Current Liabilities | 637,672.87 |

Noncurrent Liabilities:

| | |
|--------------------------------|--------------|
| Long-Term Liabilities (Note 6) | 1,318,180.53 |
| | <hr/> |
| Total Liabilities | 1,955,853.40 |

NET ASSETS

| | |
|---|------------------|
| Invested in Capital Assets, Net of Related Debt | 12,592,723.08 |
| Restricted for: | |
| Expendable: | |
| Capital Projects | 4,277,577.94 |
| Other | 598,360.61 |
| Unrestricted | 2,585,354.46 |
| | <hr/> |
| Total Net Assets | \$ 20,054,016.09 |

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|-----------------|
| Student Tuition and Fees, Net (Note 8) | \$ 1,523,674.07 |
| Federal Grants and Contracts | 3,411,201.88 |
| State and Local Grants and Contracts | 363,532.88 |
| Nongovernmental Grants and Contracts | 87,370.73 |
| Sales and Services, Net (Note 8) | 887,674.12 |
| Other Operating Revenues | 225,190.74 |

| | |
|--------------------------|--------------|
| Total Operating Revenues | 6,498,644.42 |
|--------------------------|--------------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|---------------|
| Personal Services | 12,962,527.01 |
| Supplies and Materials | 2,890,432.44 |
| Services | 1,854,982.76 |
| Scholarships and Fellowships | 1,929,446.64 |
| Utilities | 302,855.43 |
| Depreciation | 716,550.44 |

| | |
|--------------------------|---------------|
| Total Operating Expenses | 20,656,794.72 |
|--------------------------|---------------|

| | |
|----------------|-----------------|
| Operating Loss | (14,158,150.30) |
|----------------|-----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|---------------|
| State Aid | 12,952,203.56 |
| County Appropriations | 971,784.92 |
| Noncapital Grants | 345,538.46 |
| Investment Income, Net | 164,882.04 |
| Interest and Fees on Debt | (6,140.78) |
| Other Nonoperating Expenses | (5,424.08) |

| | |
|---------------------------|---------------|
| Net Nonoperating Revenues | 14,422,844.12 |
|---------------------------|---------------|

| | |
|------------------------------|------------|
| Income Before Other Revenues | 264,693.82 |
|------------------------------|------------|

| | |
|-------------------------------|--------------|
| State Capital Aid | 4,598,435.35 |
| County Capital Appropriations | 50,000.00 |
| Capital Grants | 16,862.00 |
| Capital Gifts | 3,000.00 |

| | |
|------------------------|--------------|
| Increase in Net Assets | 4,932,991.17 |
|------------------------|--------------|

NET ASSETS

| | |
|--|---------------|
| Net Assets, July 1, 2006 as Restated (Note 14) | 15,121,024.92 |
|--|---------------|

| | |
|---------------------------|------------------|
| Net Assets, June 30, 2007 | \$ 20,054,016.09 |
|---------------------------|------------------|

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, 2007***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-----------------|
| Received from Customers | \$ 6,347,147.57 |
| Payments to Employees and Fringe Benefits | (13,160,397.36) |
| Payments to Vendors and Suppliers | (5,041,399.32) |
| Payments for Scholarships and Fellowships | (1,929,446.64) |
| Other Payments | (54,555.18) |

Net Cash Used by Operating Activities (13,838,650.93)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|----------------------------|---------------|
| State Aid Received | 12,952,203.56 |
| County Appropriations | 971,784.92 |
| Noncapital Grants Received | 456,148.33 |

Cash Provided by Noncapital Financing Activities 14,380,136.81

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|--------------|
| State Capital Aid Received | 160,655.01 |
| County Capital Aid | 50,000.00 |
| Capital Grants Received | 16,862.00 |
| Capital Gifts Received | 3,000.00 |
| Acquisition and Construction of Capital Assets | (722,954.13) |
| Principal Paid on Capital Debt and Leases | (23,393.98) |
| Interest Paid on Capital Debt and Leases | (557.33) |

Net Cash Used by Capital and Related Financing Activities (516,388.43)

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|-------------|
| Investment Income | 163,699.34 |
| Purchase of Investments and Related Fees | (38,542.03) |

Net Cash Provided by Investing Activities 125,157.31

Net Increase in Cash and Cash Equivalents 150,254.76
Cash and Cash Equivalents, July 1, 2006 1,572,828.41

Cash and Cash Equivalents, June 30, 2007 \$ 1,723,083.17

***Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3
Page 2***

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

| | |
|---|---------------------------|
| Operating Loss | \$ (14,158,150.30) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 716,550.44 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (189,245.05) |
| Inventories | (126,134.97) |
| Accounts Payable and Accrued Liabilities | 5,056.87 |
| Unearned Revenue | 37,748.20 |
| Funds Held for Others | (54,555.18) |
| Compensated Absences | (69,920.94) |
| Net Cash Used by Operating Activities | <u>\$ (13,838,650.93)</u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 1,211,090.36 |
| Restricted Cash and Cash Equivalents | 470,347.10 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | <u>41,645.71</u> |
| Total Cash and Cash Equivalents - June 30, 2007 | <u>\$ 1,723,083.17</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--|-----------------|
| Increase in Receivables Related to Nonoperating Income | \$ 4,438,963.04 |
|--|-----------------|

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, 2007

Exhibit B-1

ASSETS

| | | |
|----------------------------------|----|------------------|
| Cash and Cash Equivalents | \$ | 2,351,556 |
| Investments | | 498,122 |
| Cash Value of Insurance Policies | | 38,730 |
| Assets Held for Sale | | 9,500 |
| Accrued Interest Receivable | | 8,299 |
| Promises to Give, Net | | <u>1,248,639</u> |
| Total Assets | | <u>4,154,846</u> |

NET ASSETS

| | | |
|------------------------|----|-------------------------|
| Unrestricted | | 176,187 |
| Temporarily Restricted | | <u>3,978,659</u> |
| Total Net Assets | \$ | <u><u>4,154,846</u></u> |

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

Cleveland Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|-----------------------------------|---------------------|
| Revenues and Gains: | | | |
| Contributions | \$ 0 | \$ 115,344 | \$ 115,344 |
| Investment Earnings | 166,784 | | 166,784 |
| Net Assets Released from Restrictions: | | | |
| Satisfaction of Program Restrictions | 88,600 | (88,600) | |
| Total Revenues, Support and Gains | 255,384 | 26,744 | 282,128 |
| Expenses: | | | |
| Programs | | | |
| Support for Students and Programs of Cleveland Community College: Scholarships and Programs | 175,958 | | 175,958 |
| Support | | | |
| Management and General | 22,792 | | 22,792 |
| Fund Raising | 72,423 | | 72,423 |
| Interest Expense | 21,045 | | 21,045 |
| Total Expenses | 292,218 | | 292,218 |
| Other Gains & Losses: | | | |
| Gain (Loss) on Disposal of Assets | | (231,522) | (231,522) |
| Unrealized Gain (Loss) on Assets | | 50,283 | 50,283 |
| Total Other Gains & Losses | | (181,239) | (181,239) |
| Changes in Net Assets | (36,834) | (154,495) | (191,329) |
| Net Assets at Beginning of Year | 213,021 | 4,133,154 | 4,346,175 |
| Net Assets at End of Year | <u>\$ 176,187</u> | <u>\$ 3,978,659</u> | <u>\$ 4,154,846</u> |

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

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CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 its component unit 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 are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The Foundation is a tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 13 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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed \$175,958.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from U. L. Patterson, III, Executive Director of the Foundation.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using 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 generally not considered to have a useful life of more than one year unless part of a collection and 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 2 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 capital lease obligations and 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use 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 *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 and investments (certificates of deposit) includes cash on hand totaling \$2,135.00, and deposits in private financial institutions with a carrying value of \$2,558,512.67 and a bank balance of \$2,520,462.75.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

The College had \$837,564.50 in certificates of deposit reported as investments which are also a component of the deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

| | | |
|---|----|----------------------------|
| Cash on Hand | \$ | 2,135.00 |
| Carrying Amount of Deposits with Private Financial Institutions | | <u>2,558,512.67</u> |
| Total Deposits and Investments | \$ | <u><u>2,560,647.67</u></u> |
| Current: | | |
| Cash and Cash Equivalents | \$ | 1,211,090.36 |
| Restricted Cash and Cash Equivalents | | 470,347.10 |
| Short-Term Investments | | 639,990.29 |
| Restricted Short-Term Investments | | 197,574.21 |
| Noncurrent: | | |
| Restricted Cash and Cash Equivalents | | <u>41,645.71</u> |
| Total | \$ | <u><u>2,560,647.67</u></u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|----------------------------------|----------------------|---|----------------------|
| Current Receivables: | | | |
| Students | \$ 612,994.22 | \$ 148,076.33 | \$ 464,917.89 |
| Accounts | 99,526.20 | | 99,526.20 |
| Intergovernmental | 40,157.36 | | 40,157.36 |
| Investment Earnings | 5,813.04 | | 5,813.04 |
| Total Current Receivables | \$ 758,490.82 | \$ 148,076.33 | \$ 610,414.49 |

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

| | Balance July 1, 2006 (as restated) | Increases | Decreases | Balance June 30, 2007 |
|---|--|--------------------|--------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 458,400.00 | \$ 0.00 | \$ 0.00 | \$ 458,400.00 |
| Construction in Progress | 292,500.21 | | | 292,500.21 |
| Total Capital Assets, Nondepreciable | 750,900.21 | | | 750,900.21 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 15,286,367.08 | | | 15,286,367.08 |
| Machinery and Equipment | 3,053,630.89 | 722,954.13 | 76,810.02 | 3,699,775.00 |
| General Infrastructure | 386,389.06 | | | 386,389.06 |
| Total Capital Assets, Depreciable | 18,726,387.03 | 722,954.13 | 76,810.02 | 19,372,531.14 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 5,729,239.05 | 405,351.03 | | 6,134,590.08 |
| Machinery and Equipment | 981,165.28 | 294,333.89 | 71,385.94 | 1,204,113.23 |
| General Infrastructure | 75,166.56 | 16,865.52 | | 92,032.08 |
| Total Accumulated Depreciation | 6,785,570.89 | 716,550.44 | 71,385.94 | 7,430,735.39 |
| Total Capital Assets, Depreciable, Net | 11,940,816.14 | 6,403.69 | 5,424.08 | 11,941,795.75 |
| Capital Assets, Net | \$ 12,691,716.35 | \$ 6,403.69 | \$ 5,424.08 | \$ 12,692,695.96 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 245,200.44 |
| Accrued Payroll | 141,869.56 |
| Intergovernmental Payables | 467.71 |
| Other | 5,583.45 |
| Total Accounts Payable and Accrued Liabilities | \$ 393,121.16 |

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

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

| | Balance July 1, 2006 | Additions | Reductions | Balance June 30, 2007 | Current Portion |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| Capital Leases Payable | \$ 123,366.86 | \$ 0.00 | \$ 23,393.98 | \$ 99,972.88 | \$ 24,700.38 |
| Compensated Absences | 1,424,293.85 | 654,083.93 | 724,004.87 | 1,354,372.91 | 111,464.88 |
| Total Long-Term Liabilities | \$ 1,547,660.71 | \$ 654,083.93 | \$ 747,398.85 | \$ 1,454,345.79 | \$ 136,165.26 |

Additional information regarding capital lease obligations is included in Note 7.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to phone system equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2007:

| | Fiscal Year | Amount |
|--|-------------|---------------------|
| | 2008 | \$ 29,534.76 |
| | 2009 | 29,534.76 |
| | 2010 | 29,534.76 |
| | 2011 | 22,151.07 |
| Total Minimum Lease Payments | | 110,755.35 |
| Amount Representing Interest (5.444632% Rate of Interest) | | 10,782.47 |
| Present Value of Future Lease Payments | | \$ 99,972.88 |

Machinery and equipment acquired under capital lease amounted to \$129,019.41 at June 30, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NOTE 8 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|--|-------------------|----------------------------------|---|-----------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | \$ 2,548,150.35 | \$ 986,700.23 | \$ 37,776.05 | \$ 1,523,674.07 |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Bookstore | \$ 1,467,417.00 | \$ 666,822.66 | \$ 6,592.13 | \$ 794,002.21 |
| Cosmetology | 37,427.00 | | | 37,427.00 |
| Vending Operations | 9,545.91 | | | 9,545.91 |
| Snackbar | 9,706.00 | | | 9,706.00 |
| Other | 36,993.00 | | | 36,993.00 |
| Total Sales and Services | \$ 1,561,088.91 | \$ 666,822.66 | \$ 6,592.13 | \$ 887,674.12 |

NOTE 9 - 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 | \$ 8,214,113.32 | \$ 972,848.42 | \$ 724,142.62 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 9,911,104.36 |
| Academic Support | 1,299,043.65 | 290,199.36 | 203,313.19 | | | | 1,792,556.20 |
| Student Services | 643,327.50 | 53,211.87 | 92,105.70 | | | | 788,645.07 |
| Institutional Support | 1,796,789.40 | 71,390.30 | 700,434.27 | | | | 2,568,613.97 |
| Operations and Maintenance of Plant | 500,847.98 | 58,382.77 | 47,409.47 | | 302,855.43 | | 909,495.65 |
| Student Financial Aid | 414,447.01 | 110,771.66 | 78,500.69 | 1,929,446.64 | | | 2,533,166.00 |
| Auxiliary Enterprises | 93,958.15 | 1,333,628.06 | 9,076.82 | | | | 1,436,663.03 |
| Depreciation | | | | | | 716,550.44 | 716,550.44 |
| Total Operating Expenses | \$ 12,962,527.01 | \$ 2,890,432.44 | \$ 1,854,982.76 | \$ 1,929,446.64 | \$ 302,855.43 | \$ 716,550.44 | \$ 20,656,794.72 |

NOTE 10 - 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$11,079,767.23, of which \$8,641,438.98 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$518,486.45 and \$229,862.28, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$229,862.28, \$178,153.65, and \$150,146.11, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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. The voluntary contributions by employees amounted to \$131,468.28 for the year ended June 30, 2007.

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 \$21,960.00 for the year ended June 30, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NOTE 11 - 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2007, the College's total contribution to the Plan was \$328,374.68. 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. Disability Income - 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 to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$44,935.48. 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 12 - 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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 \$75,000 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

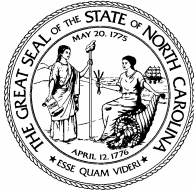
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$26,917.96 at June 30, 2007.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

| | <u>Amount</u> |
|--|--------------------------------|
| July 1, 2006 Net Assets as Previously Reported | \$ 14,413,299.18 |
| Error in Establishing Useful Lives of Capital Assets | <u>707,725.74</u> |
| July 1, 2006 Net Assets as Restated | <u><u>\$ 15,121,024.92</u></u> |

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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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 16, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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)**

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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

May 16, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Cleveland Community College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

- a. Capital assets and depreciation expense were misstated by \$485,496.17. The capital assets were understated by \$485,496.17 due to errors in determining the restatement related to useful lives of capital assets. In addition, the capital assets reported in the financial statements and the general ledger were \$326,376.90 less than the amount recorded in the capital assets subsidiary ledger. The College did not reconcile the general ledger and subsidiary ledger periodically.
- b. State aid and capital grants revenues were overstated by \$328,676.46 and State capital aid and noncapital grants were understated by the same amount. The College did not record the federal pass-through funds received from the North Carolina Community College System's Office correctly.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the completeness and accuracy of the financial statements. Management should implement policies and procedures to reconcile the financial records to the underlying subsidiary ledgers periodically.

College's Response: The College is in the process of reviewing internal controls and adding staff in order to ensure the completeness and accuracy of the financial statements.

2. LACK OF SEGREGATION OF DUTIES

The College assigned two business office employees access rights to the accounting system that did not support appropriate segregation of duties. These employees had the ability to initiate transactions and process them to completion. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect misstatements on a timely basis.

Recommendation: The College should review access rights and ensure that they are assigned to support a proper segregation of duties.

College's Response: The College is in the process of reviewing access rights and adding staff to ensure proper segregation of duties.

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ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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