



STATE OF NORTH CAROLINA

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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.

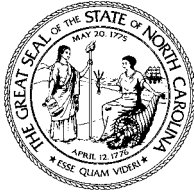
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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.

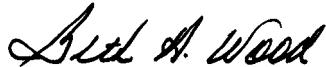
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland Community College and its discretely presented component unit as of June 30, 2010, and the respective 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 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

March 2, 2011

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, 2010.

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 that give rise to the change occur, regardless of cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets For Fiscal Years Ended June 30, 2010 and June 30, 2009

	6/30/2010	6/30/2009 (Restated)	Change
Assets			
Current Assets	\$ 4,710,276.23	\$ 4,389,849.54	\$ 320,426.69
Noncurrent Assets	824,293.77	1,293,862.40	(469,568.63)
Noncurrent Capital Assets, Net	<u>20,143,536.53</u>	<u>19,414,121.09</u>	<u>729,415.44</u>
Total Assets	<u>25,678,106.53</u>	<u>25,097,833.03</u>	<u>580,273.50</u>
Liabilities			
Current Liabilities	1,040,951.14	1,226,626.81	(185,675.67)
Noncurrent Long-Term Liabilities	<u>1,362,762.59</u>	<u>1,328,332.50</u>	<u>34,430.09</u>
Total Liabilities	<u>2,403,713.73</u>	<u>2,554,959.31</u>	<u>(151,245.58)</u>
Net Assets			
Invested in Capital Assets, Net	20,121,879.89	19,364,928.34	756,951.55
Restricted	2,407,500.33	1,561,632.91	845,867.42
Unrestricted	<u>745,012.58</u>	<u>1,616,312.47</u>	<u>(871,299.89)</u>
Total Net Assets	<u>\$ 23,274,392.80</u>	<u>\$ 22,542,873.72</u>	<u>\$ 731,519.08</u>

Total assets increased by \$580,273.50. An increase in capital assets, nondepreciable of \$226,567.77 is due to construction in progress for project #1659 for renovations of vocational buildings A and B. There was a \$502,847.67 increase in capital assets, depreciable due to additions to buildings and equipment. A Duke Power Grant of \$148,120.43 that was received to support the welding program advanced training also attributed to the increase. In addition, there was a decrease in restricted due from primary government of \$479,764.39 for construction funds receivable due to the completion of the Bailey Allied Health Center.

Total liabilities decreased by \$151,245.58. Accounts payable and accrued liabilities decreased \$337,932.88 due to the completion of the Bailey Allied Health Center.

Total net assets of the College increased by \$731,519.08. This increase is primarily due to the increase in capital assets of \$729,415.44 because of construction in progress and additions to buildings and equipment which increased the investment in capital assets. The increase in net assets is also due to increases in expendable scholarships and fellowships and capital projects. The \$359,050.38 increase in scholarships and fellowships is due to increases in federal and state student financial aid grants. Capital projects increased \$227,688.62 because several repair and renovation projects are in progress.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For Fiscal Years Ended June 30, 2010 and June 30, 2009

	6/30/2010	6/30/2009 (Restated)	Change
Operating Revenues:			
Student Tuition & Fees	\$ 1,756,326.49	\$ 1,553,521.41	\$ 202,805.08
Sales and Services, Net	965,838.58	886,913.99	78,924.59
Other Operating Revenue	25,934.68	16,030.65	9,904.03
Total Operating Revenue	2,748,099.75	2,456,466.05	291,633.70
Operating Expenses:			
Salaries and Benefits	15,239,921.00	14,815,798.58	424,122.42
Supplies and Materials	5,025,826.64	3,556,488.55	1,469,338.09
Services	2,043,310.67	1,715,640.17	327,670.50
Scholarships and Fellowships	6,065,415.03	3,430,075.13	2,635,339.90
Utilities	346,614.62	328,082.42	18,532.20
Depreciation/Amortization	960,768.59	798,782.52	161,986.07
Total Operating Expenses	29,681,856.55	24,644,867.37	5,036,989.18
Operating Loss	(26,933,756.80)	(22,188,401.32)	(4,745,355.48)
Nonoperating Revenues (Expenses):			
State Aid and County Appropriations	13,437,402.83	14,321,920.81	(884,517.98)
Noncapital Grants and Gifts	11,559,068.63	6,837,709.02	4,721,359.61
Investment Income	65,128.79	90,728.98	(25,600.19)
Other Nonoperating Expenses	(29,344.37)	(70,778.39)	41,434.02
Total Nonoperating Revenues	25,032,255.88	21,179,580.42	3,852,675.46
Loss Before Other Revenues	(1,901,500.92)	(1,008,820.90)	(892,680.02)
Capital Contributions	2,633,020.00	2,012,677.27	620,342.73
Increase in Net Assets	731,519.08	1,003,856.37	(272,337.29)
Net Assets at Beginning of Year, as Restated	22,542,873.72	21,539,017.35	1,003,856.37
Net Assets at End of Year	\$ 23,274,392.80	\$ 22,542,873.72	\$ 731,519.08

The College is in a better financial position as a result of this year's activities. There is an increase in net assets of \$731,519.08.

This increase is primarily due to an increase in noncapital grants and gifts of \$4,721,359.61, related to increases in Pell of \$4,227,601.17, the Title III grant of \$127,526.84, and the NC Lottery grant of \$89,247.72. In addition, the College received a Duke Power Grant for \$148,120.43. Student tuition and fees increased by \$202,805.08 due to increased enrollment and increased tuition rates at the College. Capital contributions increased \$620,342.73, which is the net of a \$578,543.69 decrease in county capital, capital grants, and capital gifts due to the completion of the Bailey Allied Health Center and an increase in state capital aid of \$1,198,886.42 to purchase equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating expenses increased by \$5,036,989.18 primarily due to increased enrollment. Supplies and materials increased by \$1,469,338.09 due to purchase of additional educational equipment and purchases for resale due to the increased number of students. Scholarships and fellowships increased by \$2,635,339.90 due to increase in the amount of Pell award and number of Pell recipients.

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, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 730,758.12
Restricted Cash and Cash Equivalents	911,300.81
Short-Term Investments	699,969.74
Restricted Short-Term Investments	216,410.59
Receivables, Net (Note 3)	1,118,177.17
Due from Community College Component Units	148,120.43
Inventories	885,539.37
	<hr/>
Total Current Assets	4,710,276.23

Noncurrent Assets:

Restricted Cash and Cash Equivalents	47,497.72
Restricted Due from Primary Government	776,796.05
Capital Assets - Nondepreciable (Note 4)	937,944.70
Capital Assets - Depreciable, Net (Note 4)	19,205,591.83
	<hr/>
Total Noncurrent Assets	20,967,830.30

Total Assets	<hr/> 25,678,106.53 <hr/>
--------------	---------------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	640,540.66
Unearned Revenue	270,352.05
Funds Held for Others	47,318.81
Long-Term Liabilities - Current Portion (Note 6)	82,739.62
	<hr/>
Total Current Liabilities	1,040,951.14

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,362,762.59
	<hr/>

Total Liabilities	<hr/> 2,403,713.73 <hr/>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	20,121,879.89
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Restricted for:

Expendable:

Scholarships and Fellowships	359,050.38
Capital Projects	956,199.43
Restricted for Specific Programs	1,092,250.52

Unrestricted	<hr/> 745,012.58 <hr/>
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Total Net Assets	<hr/> \$ 23,274,392.80 <hr/>
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The accompanying notes to the financial statements are an integral part of this statement.

***Cleveland Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,756,326.49
Sales and Services, Net (Note 8)	965,838.58
Other Operating Revenues	25,934.68

Total Operating Revenues	2,748,099.75
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EXPENSES

Operating Expenses:

Salaries and Benefits	15,239,921.00
Supplies and Materials	5,025,826.64
Services	2,043,310.67
Scholarships and Fellowships	6,065,415.03
Utilities	346,614.62
Depreciation/ Amortization	960,768.59

Total Operating Expenses	29,681,856.55
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Operating Loss	(26,933,756.80)
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NONOPERATING REVENUES (EXPENSES)

State Aid	12,097,273.87
County Appropriations	1,340,128.96
Noncapital Grants - Student Financial Aid	10,136,228.43
Noncapital Grants - Other	1,293,351.11
Noncapital Gifts	129,489.09
Investment Income, Net	65,128.79
Other Nonoperating Expenses	(29,344.37)

Net Nonoperating Revenues	25,032,255.88
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Loss Before Other Revenues, Expenses, Gains, and Losses	(1,901,500.92)
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State Capital Aid	1,820,001.77
County Capital Aid	60,000.04
Capital Grants	504,006.33
Capital Gifts	249,011.86

Increase in Net Assets	731,519.08
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NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 15)	22,542,873.72
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Net Assets, June 30, 2010	\$ 23,274,392.80
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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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,361,725.07
Payments to Employees and Fringe Benefits	(15,188,734.16)
Payments to Vendors and Suppliers	(7,392,855.66)
Payments for Scholarships and Fellowships	(6,269,291.54)
Other Receipts	15,213.62
	<hr/>
Net Cash Used by Operating Activities	(25,473,942.67)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,097,273.87
County Appropriations	1,340,128.96
Noncapital Grants - Student Financial Aid	10,136,228.43
Noncapital Grants Received	977,394.12
Noncapital Gifts Received	129,489.09
	<hr/>
Cash Provided by Noncapital Financing Activities	24,680,514.47

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,299,766.16
County Capital Aid	60,000.04
Capital Grants Received	504,006.33
Capital Gifts Received	100,891.43
Proceeds from Sale of Capital Assets	7,826.58
Acquisition and Construction of Capital Assets	(1,962,140.91)
Principal Paid on Capital Leases	(27,536.11)
Interest Paid on Capital Leases	(1,998.65)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	980,814.87

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	66,208.62
Purchase of Investments and Related Fees	(11,753.10)
	<hr/>
Net Cash Provided by Investing Activities	54,455.52

Net Increase in Cash and Cash Equivalents	241,842.19
Cash and Cash Equivalents, July 1, 2009	1,447,714.46
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 1,689,556.65

Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (26,933,756.80)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	960,768.59
Changes in Assets and Liabilities:	
Receivables, Net	244,854.82
Inventories	141,115.61
Accounts Payable and Accrued Liabilities	(89,166.14)
Unearned Revenue	164,893.99
Funds Held for Others	15,213.62
Compensated Absences	22,133.64
Net Cash Used by Operating Activities	<u><u>\$ (25,473,942.67)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 730,758.12
Restricted Cash and Cash Equivalents	911,300.81
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>47,497.72</u>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 1,689,556.65</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 18,191.00
Increase in Receivables Related to Nonoperating Income	315,956.99

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, 2010

Exhibit B-1

ASSETS

Current Assets

Cash and Cash Equivalents

Cash	\$ 673,945
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Cash Equivalents	1,298,831
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Total Cash and Cash Equivalents	1,972,776
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Receivables

Promises to Give, Net	365,926
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Total Receivables	365,926
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Investments

First National Bank Investment Account	530,816
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First National Bank Stock	26,260
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Total Investments	557,076
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Total Current Assets	2,895,778
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Noncurrent Assets

Assets Held for Sale	167,918
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Promises to Give, Net	1,336,218
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Cash Value of Insurance Policies	38,730
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Total Noncurrent Assets	1,542,866
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Total Assets	\$ 4,438,644
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NET ASSETS

Unrestricted	\$ 153,224
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Temporarily Restricted	4,285,420
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Total Liabilities and Net Assets	\$ 4,438,644
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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, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT AND GAINS			
Contributions	\$ 100	\$ 1,712,280	\$ 1,712,380
Investment Earnings	45,844		45,844
Total Revenue, Support and Gains	45,944	1,712,280	1,758,224
EXPENSES			
Programs			
Support for Students and Programs of Cleveland Community College			
Scholarships and Programs		40,694	40,694
Support			
Management and General	27,336		27,336
Fund Raising	11,588		11,588
Firefighter & Hazmat Program		218,089	218,089
Const-Bailey Allied Health		174,476	174,476
Total Expenses	38,924	433,259	472,183
OTHER GAINS AND LOSSES			
Gain (Loss) on Disposal of Assets		(501,423)	(501,423)
Unrealized Gain (Loss) on Assets	103,303		103,303
Total Other Gains and Losses	103,303	(501,423)	(398,120)
Change in Net Assets	110,323	777,598	887,921
Net Assets at Beginning of Year	42,901	3,507,822	3,550,723
Net Assets at End of Year	\$ 153,224	\$ 4,285,420	\$ 4,438,644

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

CLEVELAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cleveland Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - 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. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 voting 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)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed \$378,500.95 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Investments** - This classification includes certificates of deposit.

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using either first-in, first-out method. Merchandise for resale is valued at the lower of cost or market 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 15 to 60 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- L. Net 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2010 was \$2,700.00. The carrying amount of deposits in private financial institutions, including certificates of deposit, was \$2,603,236.98, and the bank balance was \$2,887,349.54.

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, 2010, 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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The College had \$916,380.33 in certificates of deposit reported as investments which are also a component of the deposit totals reported in the deposits section of this note.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$ 2,700.00
Carrying Amount of Deposits with Private Financial Institutions	<u>2,603,236.98</u>
Total Deposits and Investments	<u><u>\$ 2,605,936.98</u></u>
Current:	
Cash and Cash Equivalents	\$ 730,758.12
Restricted Cash and Cash Equivalents	911,300.81
Short-Term Investments	699,969.74
Restricted Short-Term Investments	216,410.59
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>47,497.72</u>
Total	<u><u>\$ 2,605,936.98</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 672,248.81	\$ 109,132.06	\$ 563,116.75
Accounts	33,992.15		33,992.15
Intergovernmental	497,940.96		497,940.96
Investment Earnings	1,234.77		1,234.77
Other	<u>21,892.54</u>		<u>21,892.54</u>
Total Current Receivables	<u><u>\$ 1,227,309.23</u></u>	<u><u>\$ 109,132.06</u></u>	<u><u>\$ 1,118,177.17</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 458,400.00	\$ 0.00	\$ 0.00	\$ 458,400.00
Construction in Progress	252,976.93	479,544.70	252,976.93	479,544.70
Total Capital Assets, Nondepreciable	711,376.93	479,544.70	252,976.93	937,944.70
Capital Assets, Depreciable:				
Buildings	23,274,218.38	309,047.27		23,583,265.65
Machinery and Equipment	4,103,708.88	1,191,739.94	152,811.59	5,142,637.23
General Infrastructure	329,789.16			329,789.16
Total Capital Assets, Depreciable	27,707,716.42	1,500,787.21	152,811.59	29,055,692.04
Less Accumulated Depreciation/Amortization for:				
Buildings	7,343,213.58	535,601.64		7,878,815.22
Machinery and Equipment	1,557,006.46	410,292.83	115,640.64	1,851,658.65
General Infrastructure	104,752.22	14,874.12		119,626.34
Total Accumulated Depreciation	9,004,972.26	960,768.59	115,640.64	9,850,100.21
Total Capital Assets, Depreciable, Net	18,702,744.16	540,018.62	37,170.95	19,205,591.83
Capital Assets, Net	\$ 19,414,121.09	\$ 1,019,563.32	\$ 290,147.88	\$ 20,143,536.53

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 417,475.16
Accrued Payroll	165,149.85
Contract Retainage	18,691.00
Intergovernmental Payable	11,982.16
Other	27,242.49
Total Accounts Payable and Accrued Liabilities	\$ 640,540.66

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Capital Leases Payable	\$ 49,192.75	\$ 0.00	\$ 27,536.11	\$ 21,656.64	\$ 21,656.64
Compensated Absences	1,401,711.93	750,067.02	727,933.38	1,423,845.57	61,082.98
Total Long-Term Liabilities	\$ 1,450,904.68	\$ 750,067.02	\$ 755,469.49	\$ 1,445,502.21	\$ 82,739.62

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, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 22,151.07
Total Minimum Lease Payments	22,151.07
Amount Representing Interest (5.44% Rate of Interest)	494.43
Present Value of Future Lease Payments	<u>\$ 21,656.64</u>

Machinery and equipment acquired under capital lease amounted to \$129,019.41 at June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 4,265,464.11	\$ 2,458,122.26	\$ 51,015.36	\$ 1,756,326.49
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 2,425,764.95	\$ 1,579,271.34	\$ (2,988.09)	\$ 849,481.70
Cosmetology Fees	42,708.99			42,708.99
Vending Operations	4,043.27			4,043.27
Snackbar	14,861.65			14,861.65
Other	54,742.97			54,742.97
Total Sales and Services	\$ 2,542,121.83	\$ 1,579,271.34	\$ (2,988.09)	\$ 966,838.58

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,794,353.99	\$ 1,765,136.21	\$ 810,915.22	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,370,405.42
Academic Support	1,412,141.69	320,232.66	163,173.63				1,895,547.98
Student Services	787,261.94	66,894.58	111,572.83				965,729.35
Institutional Support	2,198,257.04	126,211.83	678,783.30		4,696.40		3,007,948.57
Operations and Maintenance of Plant	545,512.22	171,807.68	120,809.92		341,918.22		1,180,048.04
Student Financial Aid	404,578.33	240,256.85	151,571.24	6,065,415.03			6,861,821.45
Auxiliary Enterprises	97,815.79	2,335,286.83	6,484.53				2,439,587.15
Depreciation						960,768.59	960,768.59
Total Operating Expenses	\$ 15,239,921.00	\$ 5,025,826.64	\$ 2,043,310.67	\$ 6,065,415.03	\$ 346,614.62	\$ 960,768.59	\$ 29,681,856.55

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,595,352.22, of which \$9,593,861.86 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$342,500.87 and \$575,631.71, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$342,500.87, \$322,298.63, and \$281,740.49, 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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the *North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$8,965.00 for the year ended June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$151,453.00 for the year ended June 30, 2010.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. The required contribution rate for the years ended June 30, 2009, and 2008, was 4.1% for both years. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$431,723.78, \$393,281.34,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and \$378,498.03, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2009, and 2008, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$49,888.08, \$49,879.59, and \$48,034.44, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss with a \$75,000 deductible. To protect itself from losses the College has purchased honesty bond insurance from a private insurance company covering employees whose salaries or wages are paid from county or institutional funds.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

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 \$1,152,529.05 at June 30, 2010.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported were restated as follows:

	Amount
July 1, 2009 Net Assets as Previously Reported	\$ 23,062,044.78
To Correct Prior Depreciation Errors	(519,171.06)
July 1, 2009 Net Assets as Restated	<u>\$ 22,542,873.72</u>

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Beth A. Wood, CPA
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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 2, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 opinions 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, 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, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in finding 2 in the Audit Findings and Responses section of this report to be a significant deficiency.

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 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

March 2, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control. The findings were also reported in the prior audit.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by the College contained significant misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without the corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included the following:

- a. The expendable net assets balance restricted for scholarships and fellowships was understated by \$359,050, restricted for capital projects was understated \$227,689, and restricted for specific programs was understated by \$221,263. The unrestricted balance was overstated by \$808,002 due to the classification errors.
- b. The College did not periodically reconcile the general ledger and capital asset subsidiary ledger. Various errors in depreciation were noted that extended back to 2008, resulting in overstated net depreciable capital assets of \$519,171 and a restatement of the same amount.
- c. Current restricted cash was understated by \$227,689 and noncurrent restricted cash was overstated by the same amount as a result of incorrectly reporting assets according to their availability for use.
- d. The College did not periodically reconcile the general ledger and subsidiary ledger. As a result, various errors were noted that included understatements of receivables by \$186,101, accounts payable by \$76,665, funds held for others by \$5,243, student tuition and fees by \$35,706, sales and services by \$65,093, and other operating revenues by \$3,390. Services expense was overstated by \$5.
- e. Unearned revenue was understated by \$183,182 and net student tuition and fees was overstated by the same amount.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy and completeness of the financial statements. Further, the College should consider whether its accounting staff could benefit from additional training on financial reporting matters.

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

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

2. INADEQUATE SEGREGATION OF DUTIES

We noted several areas where computer access rights and job duties were not properly segregated. As a result, errors or fraud could occur and not be detected in a timely manner.

Access rights were granted to five of 11 business office employees that were not needed for their jobs. In addition, an employee that supervises the accounts payable function had access to vendor records and the ability to process general expense checks.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. When employees have more access to system functions and information than is needed for their jobs, there is a greater risk of error or fraud.

Recommendation: Management should evaluate and reassign job duties and system access rights as necessary to better segregate duties and enhance internal control.

College Response: The College removed the access rights for this employee to process general expense checks. The College has reviewed and changed system access rights for business office employees to ensure proper segregation of duties.

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