STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

CENTRAL PIEDMONT COMMUNITY COLLEGE

CHARLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

Financial Statement Audit Report Of

Central Piedmont Community College

Charlotte, North Carolina

For the Year Ended June 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Central Piedmont Community College. A summary of our reporting objectives and audit results is:

1. **Objective** – To express an opinion on the accompanying financial statements that relate solely to Central Piedmont Community College.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR’S TRANSMITTAL (CONCLUDED)

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

   Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

   Finding

   1. Financial Statement Package Not Completed on Time

   2. Condition of the Financial Statements

   These matters are described in the Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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.

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Central Piedmont Community College
Charlotte, North Carolina

We have audited the accompanying basic financial statements of Central Piedmont Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Piedmont Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2002 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 15 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

November 12, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Central Piedmont Community College (the "College") for the year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion has been prepared by management and should be read in conjunction with the transmittal letter, financial statements, and accompanying footnotes which follow this section. Responsibility for the completeness and fairness of this information rests with the College.

Financial Highlights

The College's financial position remained strong at June 30, 2002 with assets of \$123.8 million and liabilities of \$5.9 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, decreased by \$4 million. The decrease in net assets is primarily attributable to accumulated depreciation calculated when implementing GASB Statement No. 35. Changes in net assets represent the operating activity of the College, which results from revenues, expenses, gains, and losses and are summarized for the years ended June 30, 2002 and 2001 as follows:

(Dollars in millions)

	2002	2001
Total Operating Revenues	$ 35.0	$ 46.8
Total Operating Expenses	76.6	63.0
Net Nonoperating Revenues	52.0	46.3
Increase in Net Assets	$ 10.4	$ 30.1

Fiscal 2002 revenues decreased 6.5%, while expenses increased 22%. This is due to State and local grants decreasing by \$7.0 million.

Fiscal 2002 nonoperating appropriations increased \$2.8 million. This is due to State increases of \$1.2 million and county increases of \$1.6 million.

Using the Financial Statements

The College's financial report includes three new financial statements:

- Statement of Net Assets,
- Statement of Revenues, Expenses, and Changes in Net Assets, and
- Statement of Cash Flows.

These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) principles. During 2002, the College adopted GASB Statement 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statements 37 and 38, and applied those standards on a retroactive basis. These statements establish standards for external financial reporting for public colleges and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into three net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole.

Other significant changes to the financial statements are as follows:

- Revenues and expenses are now categorized as either operating or nonoperating. Previously, a measure of operations was not presented. Significant annual portions of the College's revenues, including State and county appropriations and gifts are considered nonoperating as defined by GASB Statement 35. Nonoperating revenues totaled $52.0 and $46.3 million for the years ended June 30, 2002 and 2001, respectively.

- Tuition remission applied to student accounts is now shown as a reduction of student tuition, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. Previously all tuition remissions were presented as expenses. For the years ended June 30, 2002 and 2001, tuition remissions totaled $672 thousand and $398 thousand, respectively.

- Assets and liabilities are now classified as current and noncurrent. The difference between the two categories being expectation of converting to cash within a 1 year period.

- Under GASB Statement 35, the accounting measurement focus now includes all economic resources and requires all capital assets to be depreciated. The College has extensively identified all capital assets and retroactively calculated depreciation. Based on this change in accounting principle, the College will record a prior period adjustment of $23.6 million and has included depreciation of $3.3 million and $2.5 million in 2002 and 2001, respectively.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities of the College. The difference between total assets and total liabilities - net assets - is one indicator of the current financial position of the College. Additionally, the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's assets, liabilities, and net assets at June 30, 2002 and 2001 is presented below:

(Dollars in millions)

	2002	2001
Assets		
Current Assets	$ 9.2	$ 8.6
Noncurrent Assets:		
Capital Assets	115.1	139.8
Total Assets	124.3	148.4
Liabilities		
Current Liabilities	5.9	5.4
Total Liabilities	5.9	5.4
Net Assets	143.0	143.0
Prior period adjustment for Capital Assets	(24.6)	n.a.
Total Net Assets	$ 118.4	$ 143.0

Net Assets

Net assets represent the residual interest in the College's assets after liabilities are deducted. The College's net assets at June 30, 2002 and 2001 are summarized below:

(Dollars in millions)

	2002	2001
Invested in Capital Assets	$ 138.7	$ 139.7
Prior Period Adjustment for GASB No. 35	(23.6)	n.a.
Invested in Capital Assets	115.1	139.7
Restricted:		
Expendable	1.5	1.8
Unrestricted	1.8	1.5
Total Net Assets	$ 118.4	$ 143.0

Net assets invested in capital assets represent the College's capital assets net of accumulated depreciation.

Unrestricted net assets is the "residual" component of net assets. It consists of net assets that do not meet the definition of "restricted" or "invested in capital assets." The decrease in net assets is solely related to GASB Statement No. 35 related adjustments for accumulated depreciation.

Statement of Revenues, Expenses, and Changes in Net Assets

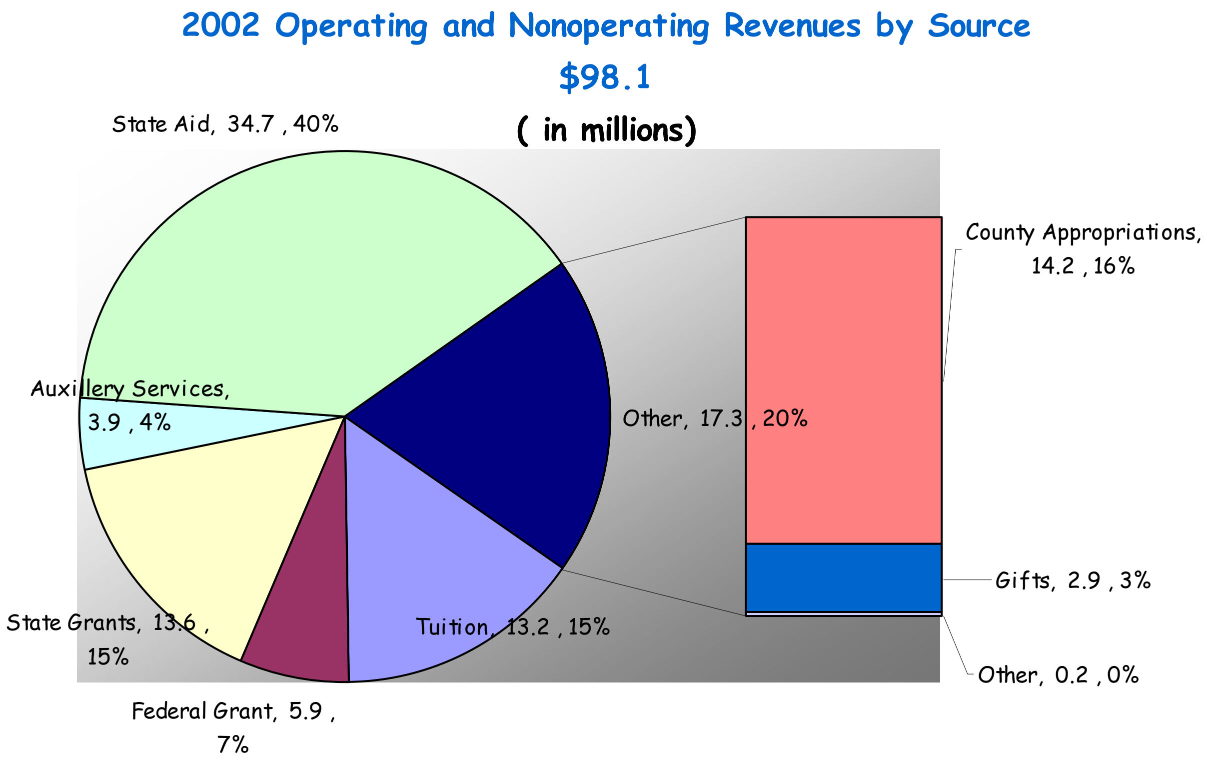
The Statement of Revenues, Expenses, and Changes in Net Assets presents the College's results of operations. Below is a summarized comparison of the College's revenues, expenses, and changes in net assets for the years ended June 30, 2002 and 2001.

(Dollars in millions)

	2002	2001
Operating Revenues:		
Student Tuition and Fees	$ 13.2	$ 13.6
Less: Scholarship Allowances		0.4
Net Student Tuition and Fees	13.2	13.2
Federal Grants	5.9	5.0
State and Local Grants	13.6	21.6
Other	2.3	7.0
Total Operating Revenues	35.0	46.8
Operating Expenses	76.6	63.0
Operating Loss	(41.6)	(16.2)
Nonoperating Revenues (Expenses):		
State Aid	34.9	33.7
County Appropriations	14.2	12.6
Private Gifts	2.8	0.7
Net Investment Income	0.2	0.3
Other		(1.0)
Net Nonoperating Revenues	52.1	46.3
Increase in Net Assets	10.5	30.1
Net Assets, Beginning of Year (Adjusted for Accounting Change)	107.9	112.9
Net Assets, End of Year	$ 118.4	$ 143.0

One of the College's strengths is its alternative sources of revenues to which it has access. Gifts, federal, county, and State appropriations all help in supplementing student tuition and fees. The College will continue to aggressively seek alternative funding from those sources consistent with its mission, to supplement student tuition, and to manage prudently the financial resources realized from these efforts to fund operating activities.

While tuition and State appropriation fund a large percentage of College costs, private support has been, and will continue to be, essential.



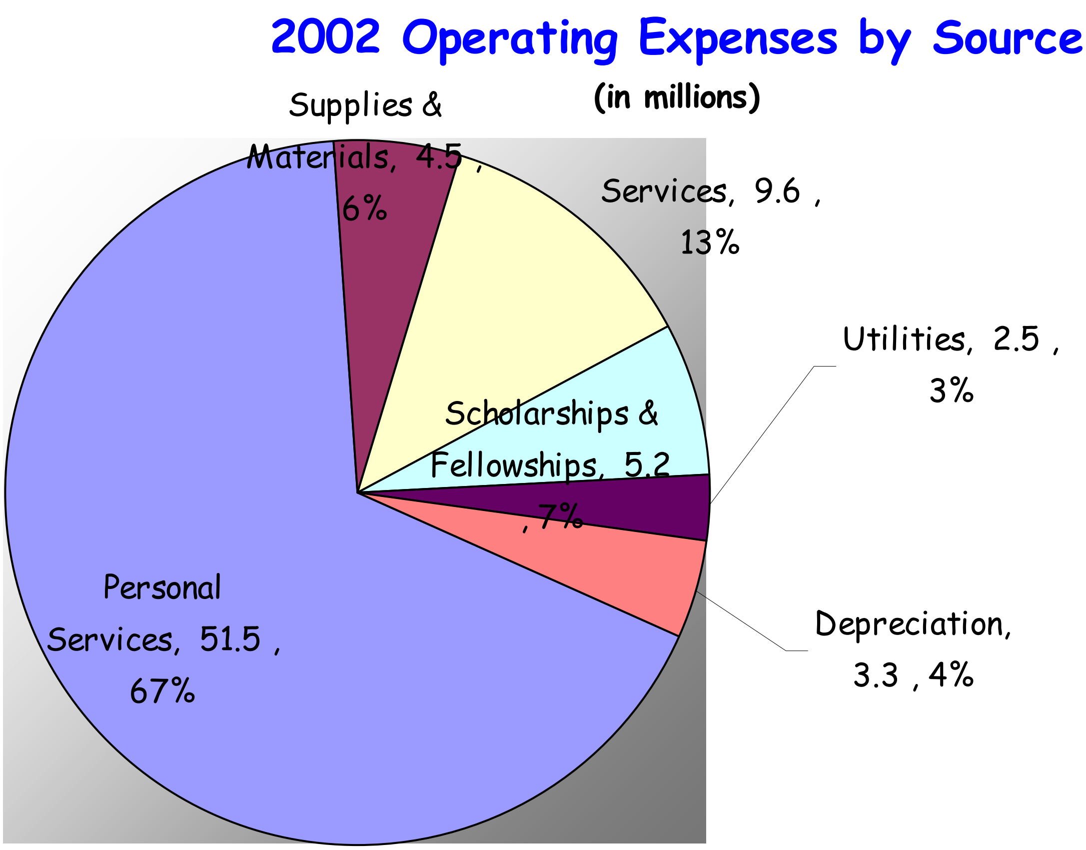
The College continues to make revenue diversification, along with cost containment, an ongoing effort. This is necessary as the College continues to face financial pressures, particularly in the areas of compensation and benefits, which represent 59.7% of total expenses, as well as in the areas of energy and technology costs.

Tuition and State appropriations are the primary sources of funding for the College's academic programs. Student tuition and fees net of allowances for tuition remission remained constant at $13.2 million for 2001 and 2002. General State appropriations increased by $1.0 million (3%) to $34.7 million in 2002.

A comparison of expenses by object classification is as follows:

(Dollars in millions)

	2002	2001
Operating:		
Personal Services	$ 51.5	$ 49.6
Supplies and Materials	4.5	(4.3)
Depreciation	3.3	0.0
Services	9.6	8.6
Scholarships and Fellowships	5.2	6.7
Utilities	2.5	2.3
Total Expenses	$ 76.6	$ 62.9



In addition to natural (object) classification, it is also informative to review operating expenses by function. A comparative summary of the College's expense of functional classification for the years ended June 30, 2002 and 2001 follows.

(Dollars in millions)

	2002	2001
Operating:		
Instruction	$ 33.2	$ 32.0
Research	0.0	0.2
Institutional and Academic Support	20.8	14.3
Auxiliary Enterprises	4.3	6.6
Operations and Maintenance of Plant	9.8	6.4
Depreciation	3.3	0.0
Scholarships and Fellowships	5.2	3.4
Total Expenses	$ 76.6	$ 62.9

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the College's financial results, by reporting the major sources and uses of cash. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2002 and 2001 follows:

(Dollars in millions)

	2002	2001
Cash Received from Operations	$ 34.6	$ 46.5
Cash Expended for Operations	(72.9)	(63.1)
Net Cash Used by Operating Activities	(38.3)	(16.6)
Net Cash Provided by Noncapital Financing Activities	49.9	46.9
Net Cash Used by Capital and Related Financing Activities	(11.1)	(30.3)
Net Cash Provided by Investing Activities	0.2	0.3
Net Increase in Cash and Cash Equivalents	0.7	0.3
Cash and Cash Equivalents, Beginning of Year	5.7	5.4
Cash and Cash Equivalents, End of Year	$ 6.4	$ 5.7

The College's cash and cash equivalents increased $0.7 million due to the positive flow of funds provided by State aid and county appropriations. The College's significant sources of cash provided by noncapital financing activity, as defined by GASB Statement 35, include State appropriations and private gifts used to fund operating activities, for which cash received totaled $32.9 million and $2.9 million, respectively in fiscal 2002, as compared to $33.7 million and $0.7 million in 2001.

Capital Activities

The College continues to complete extensive building and building improvements according to its master plan. Using proceeds from State and county sponsored bond issues, the College has expended $25.7 million on capital asset projects in 2002 as compared to $29.5 million in 2001. Capital additions primarily comprise replacement, renovation, and new construction of academic and administrative facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were funded with capital appropriations of $13.6 million. Current construction in progress totals $13.9 million.

The table below describes the building activities in 2002:

Project	Current Project Cost (millions) / % Complete	Description
Northeast Campus	$9.2 / 98%	The College plans to open its Northeast Campus in the fall of 2002. As the College's newest campus, the Northeast Campus sits on 33 acres located on the corner of W.T. Harris Boulevard and Grier Road. Its two classic-looking buildings house state-of-the-art classrooms and computer labs, and include a top-of-the-line horticulture center. The 40,000 square foot main building houses "smart" classrooms, high tech computer labs, administrative offices, and the full services of the College. The Horticulture program will have a separate 5,000 square foot building with classrooms and labs and attached 4,500 square foot greenhouse. Funding for the facility comes from 1997 Mecklenburg County bonds ($8.5 million) and 2000 State bonds ($752,000).

Project	Current Project Cost (millions) / % Complete	Description
Facilities Services Center	$4 / 22%	The Facilities Services Center is a building of approximately 33,500 gross square feet consisting of a main building and separate storage building. The facility will house Facilities Services, Facilities Management, Facilities Design and Construction, Distribution Services, Inventory Control, Campus Printing, and Housekeeping. This facility will be located on the northern side of East Seventh Street. Funding for the $4 million facility comes from 1999 Mecklenburg County bonds.

The College plans additional building or improvements in 2003. Budgeted projects totaling $83.4 million are expected to begin construction in fiscal 2003. The table below describes the building projects for 2003:

Project	Current Project Cost (millions)	Description
Sloan-Morgan	$4.76	Renovation and expansion of Sloan-Morgan began in Summer 2002. The interior will be demolished; an addition will be constructed at the front. The facility will be approximately 32,000 square feet and will house the music program and general classrooms. Plans call for 10 classrooms, 20 studios and practice rooms, a music library, 13 offices, and other instructional and support space. The facility is scheduled for occupancy in Spring 2003. Funding for the $4.76 million facility comes from 2000 State bonds.
Information Technology Building	$16.42	The Information Technology Building is a 5-story structure of approximately 94,000 square feet planned at the corner of Elizabeth Avenue and Independence Boulevard. It will house approximately 28 full-time and 24 part-time faculty offices and 46 classrooms, of which 33 are computer equipped. Corporate and Continuing Education classes will be housed on the first floor, in addition to approximately 6,000 square feet of retail space. Funding for the $16.42 million facility comes from 2000 State bonds.

<table>
<tr><td>Project</td><td>Current Project Cost (millions)</td><td>Description</td></tr>
<tr><td>Academic Center</td><td>$31.4</td><td>The Academic Center is a 130,000 square foot building planned for the southern side of Elizabeth Avenue at the current location of Pease Lane. The Academic Center will house the College's Visual and Performing Arts Programs, the Bookstore, a 1,000 seat performance theatre, Student Life, and other programs. The facility will contain conference rooms and other instructional and support spaces. This building will be sited in the area currently occupied by these buildings: Bryant, Majors Bookstore, Graphic Arts, Massey, Child Care, Mechanics, Sewing, Shipping and Receiving, and Trades. The front lawn of this building will be between Pease Lane and Kings Drive in the area currently housing the Pourlos Building, Jimmie's Restaurant, and the strip shopping center adjacent to Jimmie's. Construction and demolition will begin in Spring 2003 with facility completion in Summer 2005. Funding for the $31.4 million facility comes from 1999 Mecklenburg County bonds.</td></tr>
<tr><td>Central Energy Center</td><td>$1.55</td><td>The Central Energy Center is planned to meet several key objectives for CPCC:
1. Provide heating and cooling in an energy-efficient and cost-effective manner to the new Academic Center Building and renovated Sloan-Morgan Building on Central Campus.
2. Size the infrastructure so that additional buildings on Central Campus between Elizabeth Avenue and Fourth Street can be heated by this plant and so all of the main body of Central Campus can be cooled.
3. Provide back-up capability for all buildings served by this facility.
As part of the Central Campus Master Plan, the Central Energy Center will be designed and constructed to serve three buildings and to be capable of serving the rest of Central Campus as existing systems are scheduled for replacement. The facility will be completed in Spring 2003. Funding for the $1.55 million project comes from 1999 Mecklenburg County bonds.</td></tr>
</table>

Project	Current Project Cost (millions)	Description
West Campus Phase III	$7.67	A second building is being planned for the West Campus. This building, the James J. and Angelia M. Harris Conference Center, will open in Spring 2004. Planned as a 60,000 square foot facility, the first floor will house over 5,000 square feet of meeting space (to seat approximately 300 people banquet-style) that can also be subdivided into smaller areas. A boardroom, video-conferencing area, flexible break-out spaces, computer classroom, small business center, offices, and other support space round out the first floor. The second floor will house general and computer classrooms, offices, and other support space. Between the two buildings, a plaza is being planned with inviting areas for individuals or small groups to relax or use as break-out space. Funding for the $7.67 million facility comes from 1999 Mecklenburg County bonds.
South Campus Phase II	$21.6	South Campus Phase II will add the second building to the College campus located in southeast Mecklenburg County. This facility will double the size of this Campus with an additional approximate 130,000 square feet. The new facility will combine classroom, lab and office space to facilitate general and specific educational programs. Construction will begin during 2003. Funding for the $21.6 million facility comes from 1999 Mecklenburg County bonds.

Economic Factors That Will Affect the Future

Looking into the future, management believes the College is well positioned to continue its strong financial condition and level of excellence to the community. A critical element to the College's future will continue to be our relationship with the State of North Carolina, as we work to manage tuition to make it competitive while providing a quality college education. There is a direct relationship between the growth of State/county support and the College's ability to expand and meet the needs of Mecklenburg County's citizens as declines in State and county appropriations generally result in tuition increases. While the State of North Carolina continues to enthusiastically support the Community College System, economic pressures affecting the State may also affect the State's future support of the College. The

State has elected to increase tuition by an average of 10% for the 2003 fiscal period. This has been approved by the North Carolina State Board of Community Colleges in advance of final passage by the North Carolina General Assembly.

The College will continue to execute its long-range plan to modernize and expand its campus infrastructure and facilities. Authorized cost to complete construction and other projects totaled $136.7 million at June 30, 2002. Funding for these projects has already been approved.

While it is not possible to predict the ultimate results, management believes that the College's financial position is strong enough to withstand economic uncertainties as it moves into the future.

Central Piedmont Community College
Statement of Net Assets
June 30, 2002 — ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	6,052,322.69
Restricted Cash and Cash Equivalents		393,761.00
Receivables, Net (Note 3)		1,740,393.92
Due from Primary Government		838,089.00
Inventories		117,957.76
Total Current Assets		9,142,524.37
Noncurrent Assets:		
Notes Receivable, Net (Note 3)		15,371.93
Capital Assets, Net (Note 4)		115,146,230.19
Total Noncurrent Assets		115,161,602.12
Total Assets		124,304,126.49
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		3,300,598.00
Funds Held for Others		7,193.00
Long-Term Liabilities - Current Portion (Note 6)		2,580,559.20
Total Current Liabilities		5,888,350.20
Noncurrent Liabilities:		
U.S. Government Grants Refundable		17,064.00
Total Noncurrent Liabilities		17,064.00
Total Liabilities		5,905,414.20
NET ASSETS		
Invested in Capital Assets		115,146,230.19
Restricted For:		
Expendable:		
Loans		35,912.00
Capital Projects		631,972.00
Other		785,778.00
Unrestricted		1,798,820.10
Total Net Assets	$	118,398,712.29

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

Central Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Exhibit B

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	13,175,830.96
Federal Grants and Contracts		5,938,665.00
State and Local Grants and Contracts		13,645,165.00
Sales and Services, Net (Note 8)		3,973,600.08
Other Operating Revenues		(1,677,583.38)
Total Operating Revenues		35,055,677.66
EXPENSES		
Operating Expenses:		
Personal Services		51,493,068.20
Supplies and Materials		4,465,538.93
Services		9,557,864.75
Scholarships and Fellowships		5,215,663.78
Utilities		2,556,964.74
Depreciation		3,312,016.00
Total Operating Expenses		76,601,116.40
Operating Loss		(41,545,438.74)
NONOPERATING REVENUES (EXPENSES)		
State Aid		32,904,126.20
County Appropriations		14,240,054.00
Noncapital Gifts, Net (Note 8)		2,852,264.98
Investment Income, Net		216,678.20
Interest and Fees on Capital Asset-Related Debt		(2,542.20)
Net Nonoperating Revenues		50,210,581.18
Income Before Other Revenues, Expenses, Gains, and Losses		8,665,142.44
State Capital Aid		1,990,310.27
Special Items		(184,747.00)
Increase in Net Assets		10,470,705.71
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		107,928,006.58
Net Assets, June 30, 2002	$	118,398,712.29

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

Central Piedmont Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2002		***Exhibit C***
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	34,584,205.74
Payments to Employees and Fringe Benefits		(51,260,408.00)
Payments to Vendors and Suppliers		(16,449,138.11)
Payments for Scholarships and Fellowships		(5,215,663.78)
Other Receipts (Payments)		(8,312.00)
Net Cash Used by Operating Activities		(38,349,316.15)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		32,904,126.20
County Appropriations		14,240,054.00
Noncapital Gifts and Endowments Received		2,852,264.98
Net Cash Provided by Noncapital Financing Activities		49,996,445.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		2,220,949.27
Acquisition and Construction of Capital Assets		(13,379,080.61)
Interest Paid on Capital Debt and Leases		(2,542.20)
Net Cash Used by Capital and Related Financing Activities		(11,160,673.54)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		216,678.20
Net Cash Provided by Investing Activities		216,678.20
Net Increase in Cash and Cash Equivalents		703,133.69
Cash and Cash Equivalents, July 1, 2001		5,742,950.00
Cash and Cash Equivalents, June 30, 2002	$	6,446,083.69
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(41,545,438.74)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		3,312,016.00
Provision for Uncollectible Loans and Writeoffs		(147.93)
Special Items		(184,747.00)
Changes in Assets and Liabilities:		
Receivables, Net		(471,471.92)
Inventories		461,941.24
Accounts Payable and Accrued Liabilities		(2,493,715.00)
Funds Held for Others		(8,312.00)
Compensated Absences		2,580,559.20
Net Cash Used by Operating Activities	$	(38,349,316.15)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	425,628.00

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

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. Central Piedmont Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

C. Basis of Accounting - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

D. **Cash and Cash Equivalents –** This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

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

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

I. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

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

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

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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.

L. **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.

M. **Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

N. **Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. Central Piedmont Community College has Campus Printing as its single internal service. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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 by the College. Unexpended unencumbered county current funds do not revert to the county.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $19,575.00. The carrying amount of cash on deposit was $6,426,507.69 and the bank balance was $7,427,376.37.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 3,571,996.08	$ 3,573,118.00
Cash on Deposit with Private Financial Institutions	2,854,511.61	3,854,258.37
	$ 6,426,507.69	$ 7,427,376.37

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, $200,000.00 of the bank balance was covered by federal depository insurance, $3,654,258.42 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 303,928.54	$ 81,980.74	$ 221,947.80
Accounts	1,518,446.12		1,518,446.12
Total Current Receivables	$ 1,822,374.66	$ 81,980.74	$ 1,740,393.92
Notes Receivable - Current:			
Federal Loan Programs	$ 15,371.93	$ 0.00	$ 15,371.93

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	$ 10,698,780.22	$ 0.00	$ 0.00	$ 0.00	$ 10,698,780.22
Construction in Progress	29,366,740.93	(17,402,931.91)	9,262,051.13	7,361,431.15	13,864,429.00
Total Capital Assets, Non-Depreciable	40,065,521.15	(17,402,931.91)	9,262,051.13	7,361,431.15	24,563,209.22
Capital Assets, Depreciable:					
Buildings	83,603,584.14	17,402,931.91	4,691,371.64		105,697,887.69
Machinery and Equipment	10,733,740.55		1,313,088.61	369,684.20	11,677,144.96
Art, Literature, and Artifacts	3,959,185.02	(3,959,185.02)			0.00
General Infrastructure	1,396,625.14	(1,396,625.14)			0.00
Total Capital Assets, Depreciable	99,693,134.85	12,047,121.75	6,004,460.25	369,684.20	117,375,032.65
Less Accumulated Depreciation:					
Buildings	17,556,806.40		2,333,119.32		19,889,925.72
Machinery and Equipment	5,999,564.39		978,896.64	76,375.07	6,902,085.96
Total Accumulated Depreciation	23,556,370.79		3,312,015.96	76,375.07	26,792,011.68
Total Capital Assets, Depreciable, Net	76,136,764.06	12,047,121.75	2,692,444.29	293,309.13	90,583,020.97
Capital Assets, Net	$ 116,202,285.21	$ (5,355,810.16)	$ 11,954,495.42	$ 7,654,740.28	$ 115,146,230.19

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 2,874,970.00
Contract Retainage	425,628.00
Total Accounts Payable and Accrued Liabilities	$ 3,300,598.00

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	$ 3,042,886.53	$ 1,059,115.94	$ 1,521,443.27	$ 2,580,559.20	$ 2,580,559.20

NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	$ 1,084,167.00
2004	1,022,130.00
2005	775,054.00
2006	90,865.00
Total Minimum Lease Payments	$ 2,972,216.00

Rental expense for all operating leases during the year was $1,313,541.34.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 13,210,123.32	$ 0.00	$ 34,292.36	$ 13,175,830.96
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 292,887.68	$ 0.00	$ 0.00	$ 292,887.68
Student Union Services	451,103.63		1,653.00	449,450.63
Bookstore	341,394.13			341,394.13
Parking	931,279.80		116.00	931,163.80
Other	1,960,073.09		1,369.25	1,958,703.84
Sales and Services of Educational and Related Activities	556,783.13	556,783.13		0.00
Total Sales and Services	$ 4,533,521.46	$ 556,783.13	$ 3,138.25	$ 3,973,600.08
Nonoperating - Noncapital Gifts	$ 2,852,264.98	$ 0.00	$ 0.00	$ 2,852,264.98

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	$ 30,860,276.25	$ 1,190,617.46	$ 1,123,375.60	$ 31,624.69	$ 4,346.14	$ 0.00	$ 33,210,240.14
Academic Support	5,118,278.80	199,605.88	359,169.20	819.44			5,677,873.32
Student Services	4,019,623.72	286,462.01	235,399.25	40,361.31	200.00		4,582,046.29
Institutional Support	7,379,613.39	256,864.10	2,862,372.64		2,213.62		10,501,063.75
Operations and Maintenance of Plant	2,225,014.27	1,827,423.54	3,232,615.41		2,532,360.44		9,817,413.66
Student Financial Aid			23,184.05	5,047,974.71			5,071,158.76
Auxiliary Enterprises	1,890,261.77	688,152.74	1,668,643.64	94,883.63	17,844.54		4,359,786.32
Other		16,413.20	53,104.96				69,518.16
Depreciation						3,312,016.00	3,312,016.00
Total Operating Expenses	$ 51,493,068.20	$ 4,465,538.93	$ 9,557,864.75	$ 5,215,663.78	$ 2,556,964.74	$ 3,312,016.00	$ 76,601,116.40

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

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

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

1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of $45,456,343.78, of which $35,342,342.09 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $2,120,540.53 and $696,244.14, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $696,244.14, $1,777,202.55, and $2,530,180.91, 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. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $586,445.47 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $681,524.53 for the year ended June 30, 2002.

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 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was $830,545.04. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was $183,780.18. 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.

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

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

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. Losses from the County and Institutional fund paid employees are covered by private insurance with a deductible of $10,000 and limits of $100,000 for employee dishonesty coverage, $12,000 for forgery or alteration coverage, and $5,000 for theft, disappearance and destruction outside or inside coverage.

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

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

In addition, the College provides medical malpractice insurance for instructors and doctors in the Health Sciences program with coverage of $1,000,000 per person with a total aggregate of $3,000,000 and no deductible.

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $6,140,423.52.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization $61,867,564.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

C. **CPCC County Construction Bonds –** In 1995, 1997 and 1999, the voters of Mecklenburg County approved the sale of bonds for capital improvements of various entities supported by the county. Central Piedmont was a recipient of a portion of these bond sales. The funds authorized for Central Piedmont are to be used to construct new building, to remove and modernize existing buildings at any of its six campuses, and related administrative costs. Based on an official request of cash needs from CPCC, Mecklenburg County authorizes allotments. The College records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The College's remaining authorization of $74,853,773.00 is contingent on future bond sales and Mecklenburg County allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - CENTRAL PIEDMONT COMMUNITY COLLEGE FOUNDATION

The Central Piedmont Community College Foundation is a separately incorporated non-profit Foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $751,923.70 for the year ended June 30, 2002.

NOTE 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	$ 143,033,127.00
Implementation of GASB 34/35	(35,105,120.42)
July 1, 2001 Net Assets as Restated	$ 107,928,006.58

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
IT Building	Oct 2000	$ 16,427,960.00	$ 0.00	$ 16,427,960.00	$ 915,058.00	5.57%	Fall 2003
Sloan/Morgan Building	Sep 2000	4,766,142.00		4,766,142.00	319,170.00	6.70%	Apr 2003
West Campus Phase 3	Feb 2001	3,500,000.00	7,881,900.00	11,381,900.00	79,866.00	0.70%	Fall 2004
North II Campus	Sep 2001	17,200,000.00		17,200,000.00	69,618.00	0.40%	Fall 2005
Northeast Campus 1	Nov 2000	752,000.00	8,500,000.00	9,252,000.00	610,378.00	6.60%	Fall 2002
Projects Approved by the State Board							
Van Avery Replacement	Dec 2003	5,161,435.00	5,117,142.00	10,278,577.00			
Garinger Exterior Renovation	Sep 2004	3,000,000.00		3,000,000.00			
Belk Renovation & Expansion	Mar 2004	2,430,117.00	10,500,000.00	12,930,117.00			
Central Energy Facility	Nov 2000	1,054,000.00	2,465,000.00	3,519,000.00			
Northeast Campus 2	Mar 2003	9,570,000.00		9,570,000.00			
Total All Projects		$ 63,861,654.00	$ 34,464,042.00	$ 98,325,696.00	$ 1,994,090.00		

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

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Central Piedmont Community College
Charlotte, North Carolina

We have audited the financial statements of Central Piedmont Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 12, 2002.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards.*

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Findings

1. Financial Statement Package Not Completed on Time
2. Condition of the Financial Statements

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

November 12, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations – The following findings and recommendations were identified during the current year and represent significant deficiencies in internal control.

1. FINANCIAL STATEMENT PACKAGE NOT COMPLETED ON TIME

   Central Piedmont Community College submitted its financial statements to the Office of the State Controller after the mandatory date established by General Statute 143-20.1. The year-end reports due August 31, 2002 were not finalized until seven business days after the deadline. The conversion to the new accounting software had some effect on this condition.

   Recommendation: We recommend that the College allocate sufficient resources to the financial reporting function and that management communicate to employees the importance of timely and accurate financial reporting.

   College's Response: The College's Finance Department did establish correspondence with both the North Carolina Community College System offices and the Office of the State Controller to relay concerns about delays caused by the State's new accounting software. During the final weeks and days before the reporting deadline, new methods for certain information were requested of the College that added to the time requirements in order to comply with the August 31, 2002 deadline. Although every effort was made to remit the statements as required, we regret that the statements were finalized seven days beyond the deadline. Plans have been made to add additional staffing to the Finance Department to help compensate for the complications experienced with the new State accounting software and other complications experienced with the new State accounting software and other reporting requirement changes. The College will also continue to work with the State on the new accounting software to enhance the software's performance.

2. CONDITION OF THE FINANCIAL STATEMENTS

   The College's June 30, 2002 financial statements and related notes were out of balance and contained presentation errors that were not detected by the College prior to completing its year-end financial package and submitting it to the Office of the State Controller. In addition, some amounts included in the notes to the financial statements did not agree with corresponding amounts on the financial statements. The conversion to the new accounting software created some of the problems noted.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors in a timely manner by employees performing the normal assigned duties.

Recommendation: We recommend that the College implement controls to ensure that the year-end financial statements are reviewed and out-of-balance conditions and presentation errors are detected and corrected prior to submission of the financial statements and related notes to the Office of the State Controller.

College's Response: Financial reporting pro forma packages for 2002 were more numerous and cumbersome than in prior years. CPCC received reporting requirements from the following resources:

- Office of the State Controller
- Governmental Accounting Standards Board
- New State software system (Datatel/ Colleague)

The Finance Department was given the expectation that the new State software system would be capable of producing the financial statements. That did not materialize creating complications and delays in the process. The Governmental Accounting Standards Board adopted major changes in reporting requirements that caused many adjustments based on changing accounting methods. The College's Finance Department experienced a significant learning curve based on all these circumstances.

Plans have been made to add additional staffing to the Finance Department to help compensate for the complications experienced with the new State accounting software and other reporting requirement changes. The College will also continue to work with the State on the new accounting software to enhance the software's performance.

DISTRIBUTION OF AUDIT REPORT

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

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. P. Anthony Zeiss	President, Central Piedmont Community College
Dr. Kathy H. Drumm	Executive Vice President Central Piedmont Community College
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Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

February 12, 2003

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