



STATE OF NORTH CAROLINA

CENTRAL PIEDMONT COMMUNITY COLLEGE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

CENTRAL PIEDMONT COMMUNITY COLLEGE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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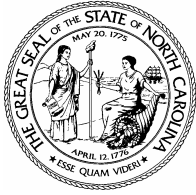
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STATE OF NORTH CAROLINA
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Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Central Piedmont Community College for the year ended June 30, 2006, 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 and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

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

Leslie W. Merritt, Jr.

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

June 28, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Central Piedmont Community College
Charlotte, North Carolina

We have audited the accompanying financial statements of Central Piedmont 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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Central Piedmont Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Central Piedmont Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, 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 Central Piedmont Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, 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 Central Piedmont Community College and its discretely presented component unit as of June 30, 2006, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

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

June 8, 2007

**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Central Piedmont Community College (the "College") for the year ended June 30, 2006, with selected comparative information for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the transmittal letter, financial statements and accompanying notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

The College is a comprehensive public two year college serving approximately 70,000 community residents annually and has approximately 2,150 full and part-time employees on 6 campuses in the Charlotte-Mecklenburg region of North Carolina. The College offers a broad range of college-transfer, associate and technical degree programs. The College is the largest community college in North Carolina, offering over 100 degree, diploma and certification programs, customized corporate training, market-focused continuing education, and special interest classes. The College consistently ranks among the leaders of community colleges nationally in terms of quality of academic offerings and workforce development.

Financial Highlights

The College's financial position remained strong at June 30, 2006, with assets of \$242,880,349.89 and liabilities of \$18,626,959.96. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, totaled \$224,253,389.93. The net assets of the College increased \$6,914,546.59. This is primarily attributable to increased building assets from construction occurring in the current year.

Changes in net assets represent the operating and nonoperating activity of the College, resulting from revenues, expenses, gains and losses and are summarized for the years ended June 30, 2006, and 2005 as follows:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>
Total Operating Revenues	\$ 31,617,568.94	\$ 27,654,516.57	\$ 3,963,052.37
Total Operating Expenses	105,781,577.01	97,487,066.36	8,294,510.65
Net Nonoperating Revenues	<u>81,078,554.66</u>	<u>95,769,200.45</u>	<u>(14,690,645.79)</u>
 Increase in Net Assets	 <u>\$ 6,914,546.59</u>	 <u>\$ 25,936,650.66</u>	 <u>\$ (19,022,104.07)</u>

The current year 14.3% increase in total operating revenues is due to the \$3,089,234.60 increase in tuition and fees revenues. The 8.5% increase in total operating expenses is due primarily to an increase in employment costs offset by expense reductions in supplies and materials. Net nonoperating revenues decreased 15.3% due primarily to reductions in State and county capital revenue for capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Using the Financial Statements

The College's financial report includes three financial statements:

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

These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) principles.

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. 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, 2006, and 2005 is presented below:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>
Assets			
Current Assets	\$ 10,704,505.00	\$ 17,179,032.41	\$ (6,474,527.41)
Noncurrent Assets:			
Capital Assets	223,876,886.71	195,001,537.69	28,875,349.02
Other	<u>5,590,175.18</u>	<u>22,717,407.80</u>	<u>(17,127,232.62)</u>
Total Assets	<u>240,171,566.89</u>	<u>234,897,977.90</u>	<u>5,273,588.99</u>
Liabilities			
Current Liabilities	6,156,907.62	8,248,691.55	(2,091,783.93)
Noncurrent Liabilities	<u>9,761,269.34</u>	<u>9,310,443.01</u>	<u>450,826.33</u>
Total Liabilities	<u>15,918,176.96</u>	<u>17,559,134.56</u>	<u>(1,640,957.60)</u>
Net Assets	<u>\$ 224,253,389.93</u>	<u>\$ 217,338,843.34</u>	<u>\$ 6,914,546.59</u>

Current assets decreased 37.7% in the current year due primarily to cash used to payoff a \$4,000,000 note payable from the prior year. Capital assets increased 14.8% representing the College's continued development and renewal of its capital assets in accordance with its Strategic Plan. Other noncurrent assets decreased 75.4% due primarily to a \$16,385,310.27 decrease in the amount of bond revenue receivable from the State for construction. Current liabilities decreased 25.4% due primarily to a \$2,263,785.93 decrease in unearned revenue as fall semester tuition was collected prior to June 30 in fiscal year 2005, but not in 2006. Noncurrent liabilities increased 4.8% in the current year due primarily to a new note payable arrangement with the county for the construction of a new parking deck with a

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30 balance of \$4,700,180.00 offset by the payoff of the before mentioned note payable of \$4,000,000 from the prior year.

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, 2006, and 2005 are summarized below:

	<u>2006</u>	<u>2005</u>	<u>Difference</u>
Invested in Capital Assets, Net of Related Debt	\$ 219,093,698.86	\$ 195,001,537.69	\$ 24,092,161.17
Restricted Expendable	5,560,993.40	22,288,528.88	(16,727,535.48)
Unrestricted	<u>(401,302.33)</u>	<u>48,776.77</u>	<u>(450,079.10)</u>
 Total Net Assets	 <u>\$ 224,253,389.93</u>	 <u>\$ 217,338,843.34</u>	 <u>\$ 6,914,546.59</u>

Invested in Capital Assets, Net of Related Debt, represents the College's capital assets of \$266,014,409.93, net of accumulated depreciation of \$42,137,523.22 and related debt of \$4,783,187.85. Restricted expendable net assets decreased 75.0% in the current year due primarily to the decrease in the amount of bond revenue receivable from the State for construction as mentioned above. Unrestricted net assets decreased 922.7% due primarily to a \$479,432.38 increase in long-term liabilities associated with the compensated absences liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present 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, 2006, and 2005:

	2006	2005	Difference
Operating Revenues:			
Student Tuition and Fees, Net	\$ 15,506,819.37	\$ 12,417,584.77	\$ 3,089,234.60
Federal Grants	11,134,141.04	11,088,613.51	45,527.53
Sales and Services, and Other	4,976,608.53	4,148,318.29	828,290.24
Total Operating Revenues	31,617,568.94	27,654,516.57	3,963,052.37
Operating Expenses	105,781,577.01	97,487,066.36	8,294,510.65
Operating Loss	(74,164,008.07)	(69,832,549.79)	(4,331,458.28)
Nonoperating and Other Revenues:			
State Aid	42,080,495.98	37,431,159.00	4,649,336.98
County Appropriations	20,385,963.00	17,765,853.00	2,620,110.00
Noncapital Grants and Gifts	7,399,513.28	5,315,698.39	
Capital Contributions	10,770,013.39	36,144,277.07	(25,374,263.68)
Net Investment Income	383,360.89	237,351.66	146,009.23
Other Nonoperating Revenue (Expense)	59,208.12	(1,125,138.67)	1,184,346.79
Net Nonoperating Revenues	81,078,554.66	95,769,200.45	(14,690,645.79)
Increase in Net Assets	6,914,546.59	25,936,650.66	(19,022,104.07)
Net Assets, Beginning of Year	217,338,843.34	191,402,192.68	25,936,650.66
Net Assets, End of Year	\$ 224,253,389.93	\$ 217,338,843.34	\$ 6,914,546.59

One of the College's strengths is its alternative sources of revenues. Gifts and appropriations from federal, county and State sources help support student tuition and fees. The College will continue to aggressively seek alternative funding from those sources. This is consistent with its mission to provide affordable student tuition and to prudently manage the financial resources for current and strategic operations.

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 \$69,823,858.18 of total operating expenses), 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) increased slightly from \$12,417,584.77

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

in 2005 to \$15,506,819.37 in 2006. General State appropriations increased 12.4% to \$42,080,495.98 in 2006 from \$37,431,159.00 in 2005.

A comparison of expenses by object classification is as follows:

	2006	2005	Difference
Operating Expenses:			
Salaries and Benefits	\$ 69,823,858.18	\$ 62,117,614.65	\$ 7,706,243.53
Supplies and Materials	5,751,733.58	8,284,309.36	(2,532,575.78)
Services	14,406,518.39	13,208,602.59	1,197,915.80
Scholarships and Fellowships	7,612,898.88	7,459,861.80	153,037.08
Utilities	3,072,894.11	2,469,948.85	602,945.26
Depreciation	5,113,673.87	3,946,729.11	1,166,944.76
	<u>\$ 105,781,577.01</u>	<u>\$ 97,487,066.36</u>	<u>\$ 8,294,510.65</u>

Supplies and Materials expense decreased 30.6% due primary to a current year increase in the amount of Plant Fund expenses that were capitalized.

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, 2006, and 2005 follows:

	2006	2005	Difference
Operating:			
Instruction	\$ 42,040,431.92	\$ 38,296,407.53	\$ 3,744,024.39
Academic Support	7,547,038.09	6,666,871.93	880,166.16
Student Services	8,719,743.97	7,811,276.82	908,467.15
Institutional Support	14,755,814.34	13,674,293.86	1,081,520.48
Plant Oper & Maint	13,673,723.35	13,864,480.49	(190,757.14)
Student Financial Aid	7,392,782.62	7,231,185.41	161,597.21
Auxiliary Services	6,538,368.85	5,995,821.21	542,547.64
Depreciation	5,113,673.87	3,946,729.11	1,166,944.76
Total Expenses	<u>\$ 105,781,577.01</u>	<u>\$ 97,487,066.36</u>	<u>\$ 8,294,510.65</u>

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 \$32,289,120.37 on capital asset projects in 2006 as compared to \$33,336,215.93 in 2005. Capital asset projects primarily are comprised of replacement and renovation of existing buildings 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 primarily with current year capital appropriations of \$10,304,998.89, cash flow from the reduction of State bond allocations receivable of \$16,385,310.27, and receipts from a notes payable of \$4,759,439.00. Current construction in progress totals \$17,553,595.51.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Below are 2006 *active or completed projects* with total cost and percent complete noted:

Overcash Academic & Performing Arts Center Cost: **\$31,161,079**, Percent Complete: **97%**

The Overcash Academic & Performing Arts Center (Academic Center) is a 120,000 sq. ft. building constructed at the southern side of Elizabeth Avenue at the former location of Pease Lane. The Academic Center houses the College's Visual and Performing Arts Programs, a 1,000 seat performance theatre, Student Life, and other programs. The facility contains conference rooms, and other instructional and support spaces. This building was sited in the area formerly occupied by these buildings: Bryant, Graphic Arts, Massey, Child Care, Mechanics, Sewing, Shipping and Receiving, and Trades. This facility was substantially completed in Fall of 2005. Funding for the facility comes from 1999 Mecklenburg County bonds.

Professional Development Building Cost: **\$7,223,630**, Percent Complete: **97%**

The Professional Development Building is a 45,000 sq. ft. building on Central Campus that houses the College's Majors Bookstore, a small business center, and classrooms and offices. Funding for the \$7.2 million dollar project comes from 1999 Mecklenburg County bonds and 2000 North Carolina general obligation bonds for universities and community colleges. This building was substantially completed in the Fall of 2005.

North Campus Phase III Cost: **\$18,231,551**, Percent Complete: **96%**

The North Campus Phase III project consists of a major renovation to the Claytor building providing administrative support space and general classroom space, and for the construction of a 97,000 sq. ft. building that houses the Transportation System Technology programs of Automotive Technology, Auto Body and Heavy Equipment and Transport systems; college transfer classrooms, and an open computer lab for students. Funding for this project is from 2000 North Carolina general obligation bonds for universities and community colleges. A 2,000 sq. ft. addition and renovation to the existing Center for Justice at the campus is planned as part of the American Academy of Applied Forensics. Funding for this project comes from HUD appropriations. This project was substantially completed in the Spring of 2006.

Cato Campus Cost: **\$9,770,000**, Percent Complete: **79%**

The Cato Campus project consists of providing administrative support space and general classroom space, through the construction of a 50,000 sq. ft. building and associated site work in support of the College transfer, Paralegal, Horticulture, Turf Management and Office Systems Technology programs. Funding for this project is from 2000 North Carolina general obligation bonds for universities and community colleges. Construction of this new building started in Spring of 2005 with occupancy planned for fall of 2006.

Independence Parking Deck Cost: **\$10,000,000**, Percent Complete: **49%**

The Independence Parking Deck project will provide additional parking to support the projected growth in student population on the Central Campus of CPCC and the loss of surface parking along Little Sugar Creek Greenway. Funding for this project is Mecklenburg County Certificates of Participation (COPS). The College has entered an agreement to repay

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the county for COPS funding received over a 20 year period. Construction of the new parking deck started in 2005.

Joe Hendrick Center for Automotive Technology Cost: **\$5,000,000**, Percent Complete: **47%**
The Joe Hendrick Center for Automotive Technology is approximately a 35,000 square feet building located on CPCC's Levine Campus in Matthews, North Carolina. It will house the College's training and retraining programs in the automotive field, including the College's partnerships with BMW, Daimler Chrysler, General Motors, and Toyota. RedLine Design serves as the project designer. Funding of the project comes from the 2005 Mecklenburg County general obligation bonds, a private gift in honor of Joe Hendrick, 1999 Mecklenburg County general obligation bonds and a special State appropriation.

Belk Renovation & Expansion Cost: **\$20,000,000**, Percent Complete: **2%**
The Belk Addition and Renovation Project on the Central Campus of Central Piedmont Community College involves an addition (new construction) of approximately 62,500 sq. ft. and interior and exterior renovations of the existing 60,000 square feet building. The facility will be used for medical and health sciences programs of the College. It will house general classrooms, specialized classrooms and labs, faculty offices, and other support space. The Project is located at the corner of Elizabeth Avenue and Independence Boulevard. Funding for the facility comes from 2000 North Carolina general obligation bonds for universities and community colleges and Mecklenburg County COPS. Construction of this new building is scheduled to start in 2006 with occupancy planned for 2007.

Central High Exterior Renovation Cost: **\$3,100,000**, Percent Complete: **2%**
The Central High Exterior Restoration Project will restore the front façade of this 1924-era building on Central Campus so it more closely resembles the original structure. Key components include restoring the main and east entrances, with some work scheduled for the sides of the building along Kings Drive and Pease Lane. The Central High Building serves as the College's main facility on Central Campus for the Student Success Center, registration, counseling, financial aid, career services, centralized testing, and other key student support functions. It also houses classrooms, offices, and other support space Little Diversified Architectural Consulting serves as the project designer. The project is funded by 2000 North Carolina general obligation bonds for universities and community colleges.

The College plans *additional building or improvements in 2007*. Budgeted projects totaling \$13,300,000 are expected to begin construction in fiscal 2007. The information below describes the building projects for 2007:

Culinary Arts Building Cost: **\$10,300,000**
The new Culinary Arts Building will be an approximately 30,000 square feet building located on CPCC's Central Campus. It will house the College's culinary arts and hotel and restaurant management training programs. LS3P Design serves as the project designer. Funding of the project comes from the 2005 Mecklenburg County general obligation bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Parking Deck Upgrade Cost: \$3,000,000

The CPCC Master Plan calls for the structural & exterior visual upgrade of existing parking decks. Funding of the total project comes from the 2005 Mecklenburg County general obligation 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. Because of the uncertainty surrounding the State's economy, the College has been advised by the State to withhold from its budget allocations a minimum of 1.0% for possible reversion in fiscal year 2007. The College has adjusted its budget accordingly. The State has elected to not increase tuition for the 2007 fiscal year.

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 \$46,138,665.00 at June 30, 2006. 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, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 7,380,862.85
Restricted Cash and Cash Equivalents	133,380.88
Receivables, Net (Note 3)	2,984,750.26
Due from Community College Component Units	57,781.00
Inventories	144,010.01
Prepaid Items	3,720.00
	<hr/>
Total Current Assets	10,704,505.00

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,934,259.71
Receivables	123,797.29
Restricted Due from Primary Government	3,486,441.07
Notes Receivable	45,677.11
Capital Assets - Nondepreciable (Note 4)	32,925,066.74
Capital Assets - Depreciable, Net (Note 4)	190,951,819.97
	<hr/>
Total Noncurrent Assets	229,467,061.89
	<hr/>
Total Assets	240,171,566.89

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	5,321,631.28
Unearned Revenue	1,674.53
Funds Held for Others	21,807.91
Long-Term Liabilities - Current Portion (Note 6)	811,793.90
	<hr/>
Total Current Liabilities	6,156,907.62

Noncurrent Liabilities:

U.S. Government Grants Refundable	5,515.41
Long-Term Liabilities (Note 6)	9,755,753.93
	<hr/>
Total Noncurrent Liabilities	9,761,269.34
	<hr/>
Total Liabilities	15,918,176.96

NET ASSETS

Invested in Capital Assets, Net of Related Debt	219,093,698.86
Restricted for:	
Expendable:	
Loans	33,130.56
Capital Projects	4,335,508.49
Other	1,192,354.35
Unrestricted	(401,302.33)
	<hr/>
Total Net Assets	\$ 224,253,389.93

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, 2006***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 15,506,819.37
Federal Grants and Contracts	11,134,141.04
Sales and Services, Net (Note 8)	4,554,964.03
Other Operating Revenues	<u>421,644.50</u>
Total Operating Revenues	<u>31,617,568.94</u>

EXPENSES

Operating Expenses:	
Personal Services	69,823,858.18
Supplies and Materials	5,751,733.58
Services	14,406,518.39
Scholarships and Fellowships	7,612,898.88
Utilities	3,072,894.11
Depreciation	<u>5,113,673.87</u>
Total Operating Expenses	<u>105,781,577.01</u>
Operating Loss	<u>(74,164,008.07)</u>

NONOPERATING REVENUES

State Aid	42,080,495.98
County Appropriations	20,385,963.00
Noncapital Grants	2,670,314.02
Noncapital Gifts	4,729,199.26
Investment Income, Net	383,360.89
Other Nonoperating Revenues	<u>59,208.12</u>
Nonoperating Revenues	<u>70,308,541.27</u>
Loss Before Other Revenues	(3,855,466.80)
State Capital Aid	5,181,531.53
County Capital Appropriations	5,123,467.36
Capital Grants	108,599.70
Capital Gifts	<u>356,414.80</u>
Increase in Net Assets	6,914,546.59

NET ASSETS

Net Assets, July 1, 2005	<u>217,338,843.34</u>
Net Assets, June 30, 2006	<u>\$ 224,253,389.93</u>

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, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 30,016,430.50
Payments to Employees and Fringe Benefits	(68,039,990.79)
Payments to Vendors and Suppliers	(24,131,570.54)
Payments for Scholarships and Fellowships	(7,612,898.88)
Loans Issued to Students	(1,288.13)
Other Receipts	11,177.66
	<hr/>
Net Cash Used by Operating Activities	(69,758,140.18)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	42,080,495.98
County Appropriations	20,385,963.00
Noncapital Grants Received	2,539,040.81
Noncapital Gifts and Endowments Received	4,708,931.25
	<hr/>
Cash Provided by Noncapital Financing Activities	69,714,431.04

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	21,566,841.80
County Capital Appropriations	4,999,670.07
Capital Grants Received	108,599.70
Capital Gifts Received	5,623.01
Proceeds from Capital Debt	5,196,069.00
Proceeds from Sale of Capital Assets	5,000.00
Proceeds from insurance on capital assets	72,261.63
Acquisition and Construction of Capital Assets	(34,411,895.85)
Principal Paid on Capital Debt and Leases	(4,412,881.15)
Interest Paid on Capital Debt and Leases	(342,294.10)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(7,213,005.89)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	383,360.89
	<hr/>

Net Decrease in Cash and Cash Equivalents	(6,873,354.14)
Cash and Cash Equivalents, July 1, 2005	16,321,857.58
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 9,448,503.44
	<hr/> <hr/>

Central Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3
Page 2

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

Operating Loss	\$ (74,164,008.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,113,673.87
Miscellaneous Nonoperating Income	(985.50)
Changes in Assets and Liabilities:	
Receivables, Net	662,647.49
Inventories	(21,072.89)
Prepaid Items	(3,720.00)
Notes Receivable, Net	(1,288.13)
Accounts Payable and Accrued Liabilities	428,803.44
Unearned Revenue	(2,263,785.93)
Funds Held for Others	12,163.16
Compensated Absences	479,432.38
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (69,758,140.18)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 7,380,862.85
Restricted Cash and Cash Equivalents	133,380.88
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/> 1,934,259.71
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 9,448,503.44</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 7,904,852.00
Assets Acquired through a Gift	350,791.79
Increase in Receivables Related to Nonoperating Income	273,202.84

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

Central Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2006

Exhibit B-1

CURRENT ASSETS	
Cash and Cash Equivalents	\$ 339,925
Pledges Receivable, Net	939,852
	<hr/>
Total Current Assets	1,279,777
	<hr/>
Investments	17,634,580
Pledges Receivable, Net	7,388,516
Amount Held for Deferred Compensation	290,949
PROPERTY AND EQUIPMENT	
Furniture and Fixtures	44,936
Automobiles	9,049
Computer Equipment	17,322
	<hr/>
Total Property and Equipment	71,307
Less: Accumulated Depreciation	(67,603)
	<hr/>
Total Property and Equipment	3,704
Total Assets	<u><u>\$ 26,597,526</u></u>
CURRENT LIABILITIES	
Accounts Payable	101,460
	<hr/>
Deferred Compensation	555,949
	<hr/>
Total Liabilities	657,409
NET ASSETS	
Unrestricted	841,013
Temporarily Restricted	11,997,751
Permanently Restricted	13,101,353
	<hr/>
Total Net Assets	25,940,117
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 26,597,526</u></u>

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

Central Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenue	
Contributions and Grants	\$ 142,819
Contributions Other than Cash	5,048
Investment Return	81,165
Other Income	71,640
	<hr/>
Total Support and Revenue	300,672
Net Assets Released from Restrictions:	1,841,775
	<hr/>
Total Unrestricted Support and Revenue	2,142,447
	<hr/>
Expenses	
Program Expenses:	
Winning Partnerships Campaign	27,000
Scholarships	576,539
Sponsored Programs	2,149,929
	<hr/>
Total Program Expenses	2,753,468
	<hr/>
Fundraising Expenses:	
Capital Campaign	419,090
Event Expenses	80,051
Other Fundraising Expenses	10,271
	<hr/>
Total Fundraising Expenses	509,412
	<hr/>
General and Administrative Expenses:	
Shared Services Agreement	280,000
Professional Fees and Other Expenses	110,867
Depreciation Expense	1,645
	<hr/>
Total General and Administrative Expenses	392,512
	<hr/>
Total Expenses	3,655,392
	<hr/>
Decrease in Unrestricted Net Assets	(1,512,945)
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	2,560,367
Contributions Other than Cash	451,011
Investment Return	1,356,813
	<hr/>
Total Support and Revenue	4,368,191
	<hr/>
Net Assets Released from Restrictions	(1,841,775)
	<hr/>
Increase in Restricted Net Assets	2,526,416
	<hr/>

Central Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2
Page 2

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	3,234,304
Increase in Permanently Restricted Net Assets	3,234,304
Increase in Net Assets	4,247,775
Net Assets at Beginning of Year	21,692,342
Net Assets, End of Year	<u>\$ 25,940,117</u>

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

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CENTRAL PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

Discretely Presented Component Unit – Central Piedmont Community College Foundation, Inc., (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 graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2006. During the year ended June 30, 2006, the Foundation distributed \$1,698,048.16 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Central Piedmont Community College Foundation, Inc., PO Box 35009, Charlotte, NC 28235-5009.

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

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

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using last invoice cost 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned between July 1 and June 30, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. 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.

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 classifies its revenues and expenses as operating or nonoperating in the accompanying

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- N. **Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as Campus Printing, the Harris Conference Center, and the Center for Applied Research. 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$17,575.00, and deposits in private financial institutions with a carrying value of \$4,525,109.71 and a bank balance of \$5,403,386.66.

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, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,905,818.73 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Component Unit - Investments of the College's component unit, the Foundation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type and carrying value at June 30, 2006, and 2005:

	2006		2005	
	Cost	Market	Cost	Market
Money Market Funds	\$ 1,598,440.00	\$ 1,598,440.00	\$ 779,277.00	\$ 779,277.00
Mutual Funds				
Equity	8,067,846.00	11,665,580.00	7,739,159.00	10,331,362.00
Fixed Income	4,613,902.00	4,370,560.00	5,027,752.00	4,989,719.00
	<u>\$ 14,280,188.00</u>	<u>\$ 17,634,580.00</u>	<u>\$ 13,546,188.00</u>	<u>\$ 16,100,358.00</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,278,892.88	\$ 334,825.88	\$ 944,067.00
Accounts	1,889,814.90		1,889,814.90
Intergovernmental	150,868.36		150,868.36
Total Current Receivables	<u>\$ 3,319,576.14</u>	<u>\$ 334,825.88</u>	<u>\$ 2,984,750.26</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, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 15,371,471.23	\$ 0.00	\$ 0.00	\$ 15,371,471.23
Construction in Progress	51,851,260.26	31,465,644.69	65,763,309.44	17,553,595.51
Total Capital Assets, Nondepreciable	67,222,731.49	31,465,644.69	65,763,309.44	32,925,066.74
Capital Assets, Depreciable:				
Buildings	147,609,854.80	66,009,100.63		213,618,955.43
Machinery and Equipment	13,387,940.69	2,204,655.02	193,589.45	15,399,006.26
General Infrastructure	3,981,381.50	90,000.00		4,071,381.50
Total Capital Assets, Depreciable	164,979,176.99	68,303,755.65	193,589.45	233,089,343.19
Less Accumulated Depreciation:				
Buildings	25,772,374.81	3,887,381.76		29,659,756.57
Machinery and Equipment	9,131,470.39	1,118,275.59	176,521.44	10,073,224.54
General Infrastructure	2,296,525.59	108,016.52		2,404,542.11
Total Accumulated Depreciation	37,200,370.79	5,113,673.87	176,521.44	42,137,523.22
Total Capital Assets, Depreciable, Net	127,778,806.20	63,190,081.78	17,068.01	190,951,819.97
Capital Assets, Net	\$ 195,001,537.69	\$ 94,655,726.47	\$ 65,780,377.45	\$ 223,876,886.71

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 2,104,147.26
Accrued Payroll	1,996,845.54
Contract Retainage	1,202,506.14
Intergovernmental Payables	18,132.34
Total Accounts Payable and Accrued Liabilities	\$ 5,321,631.28

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Less Funds Not Yet Received	Balance June 30, 2006	Current Portion
Notes Payable:						
Performing Arts Center	\$ 4,000,000.00	\$ 104,852.00	\$ 4,021,844.15	\$ 0.00	\$ 83,007.85	\$ 52,425.96
Parking Deck		7,800,000.00	391,037.00	2,708,783.00	4,700,180.00	391,034.48
Compensated Absences	5,304,927.60	3,397,356.22	2,917,923.84		5,784,359.98	368,333.46
Total Long-Term Liabilities	<u>\$ 9,304,927.60</u>	<u>\$ 11,302,208.22</u>	<u>\$ 7,330,804.99</u>	<u>\$ 2,708,783.00</u>	<u>\$ 10,567,547.83</u>	<u>\$ 811,793.90</u>

B. Notes Payable – The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2006	Principal Outstanding 06/30/2006
Overcash Performing Arts Center Orchestra Shell	Bank of America	Prime	01/27/2008	\$ 104,852.00	\$ 21,844.15	\$ 83,007.85
Independence Parking Deck	Mecklenburg County	Variable	03/01/2025	5,091,217.00	391,037.00	4,700,180.00
Total Notes Payable				<u>\$ 5,196,069.00</u>	<u>\$ 412,881.15</u>	<u>\$ 4,783,187.85</u>

The annual requirements to pay principal and interest on the Notes Payable – Performing Arts Center at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable - Performing Arts Center	
	Principal	Interest
2007	\$ 52,425.96	\$ 4,868.98
2008	30,581.89	841.00
Total Requirements	<u>\$ 83,007.85</u>	<u>\$ 5,709.98</u>

The Notes Payable – Parking Deck represent a financial arrangement with Mecklenburg County (the County) to finance the construction of a parking deck to be built at the corner of Independence Boulevard and Elizabeth Avenue. The County issued Variable Rate Certificates of Participation (2005 Mecklenburg County) of which a portion would fund the parking deck, approximately \$7,800,000.00. The College agreed to reimburse the County for its portion of the debt service payments for the certificates. As of June 30, 2006, the College had received \$5,091,217.00 from the County and reimbursed \$391,037.00. Therefore the balance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

outstanding on funds received was \$4,700,180.00. The College payments are due quarterly in arrears. As of June 30, 2006, capitalized construction cost was \$5,179,672.17 which included \$299,738.04 in capitalized interest. The principal and interest payments are paid from parking fees earned.

The annual requirements to pay principal and interest on the Notes Payable – Parking Deck at June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements per County COPS</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 391,034.48	\$ 435,858.62
2008	391,034.48	412,396.55
2009	391,034.48	388,934.48
2010	391,034.48	365,472.41
2011	391,034.48	342,010.34
2012-2016	1,955,172.40	1,358,120.00
2017-2021	1,953,793.12	771,727.57
2022-2026	1,544,825.08	195,420.70
Total Requirements	7,408,963.00	4,269,940.67
Less Funds Not Yet Received:	2,708,783.00	4,269,940.67
Total Notes Payable - Parking Deck	\$ 4,700,180.00	\$ 0.00

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 165,642.61
2008	62,587.13
2009	14,852.07
Total Minimum Lease Payments	\$ 243,081.81

Rental expense for all operating leases during the year was \$606,789.95.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 20,045,991.93	\$ 0.00	\$ 4,244,539.09	\$ 294,633.47	\$ 15,506,819.37
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 18,477.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ 18,477.97
Student Union Services	426,778.18			8,177.25	418,600.93
Bookstore	495,601.27				495,601.27
Parking	1,200,560.29			19,723.24	1,180,837.05
Other	3,022,268.20	568,529.47		12,291.92	2,441,446.81
Total Sales and Services	\$ 5,163,685.91	\$ 568,529.47	\$ 0.00	\$ 40,192.41	\$ 4,554,964.03

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 37,393,059.20	\$ 1,223,269.86	\$ 3,282,118.73	\$ 141,984.13	\$ 0.00	\$ 0.00	\$ 42,040,431.92
Academic Support	7,038,885.51	197,954.73	310,197.85				7,547,038.09
Student Services	7,958,650.41	323,993.52	334,781.09	102,318.95			8,719,743.97
Institutional Support	11,326,618.91	517,323.60	2,911,871.83				14,755,814.34
Operations and Maintenance of Plant	3,309,119.11	1,994,807.77	5,296,902.36		3,072,894.11		13,673,723.35
Student Financial Aid			24,186.82	7,368,595.80			7,392,782.62
Auxiliary Enterprises	2,797,525.04	1,494,384.10	2,246,459.71				6,538,368.85
Depreciation						5,113,673.87	5,113,673.87
Total Operating Expenses	\$ 69,823,858.18	\$ 5,751,733.58	\$ 14,406,518.39	\$ 7,612,898.88	\$ 3,072,894.11	\$ 5,113,673.87	\$ 105,781,577.01

NOTE 10 - PENSION PLANS

A. Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$57,621,859.86, of which \$47,021,910.67 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,821,322.46 and \$1,100,312.71, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$1,100,312.71, \$917,936.47, and \$84,339.32, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 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 \$669,687.91 for the year ended June 30, 2006.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$806,967.29 for the year ended June 30, 2006.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$259,801.59 for the year ended June 30, 2006.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$1,786,832.61. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$244,513.94. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

and a \$50,000 deductible. Losses from county and institutional fund paid employees are covered by private insurance.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Employee theft per loss carries a deductible of \$2,500 with a limit of \$100,000. Theft, disappearance and destruction (money, securities and other property) a deductible of \$1,000 and a limit of \$10,000, forgery or alteration of \$1,000 deductible with a \$100,000 limit. In addition, the College provides professional liability insurance for instructors, and students in Health Sciences programs with limits of liability of \$1,000,000 per claim with a \$1,000 deductible and a \$3,000,000 aggregate limit.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

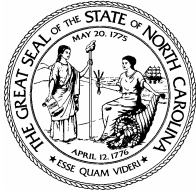
Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

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 \$8,171,750.67 at June 30, 2006.

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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
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, and its discretely presented component unit, as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 8, 2007. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

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

June 8, 2007

ORDERING INFORMATION

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

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