



STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF
WESTERN PIEDMONT COMMUNITY COLLEGE
MORGANTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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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, Western Piedmont Community College

This report presents the results of our financial statement audit of Western 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 Western 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 Western 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 Western 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 - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Western Piedmont Community College
Morganton, North Carolina

We have audited the accompanying basic financial statements of Western 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 Western 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 16 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2003 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 13 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.
State Auditor

January 9, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Western Piedmont Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. Since this is a transition year for this format, only one year of financial data is presented. In future years, a comparative analysis will be presented. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. These financial statements differ significantly, in both form and the accounting principles used, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked is whether the College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These Statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are one indicator of the College's financial health. Over time, increases or decreases in net assets are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State appropriations and gifts as nonoperating revenues. The College's dependency on State aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Condensed Statement of Net Assets

June 30, 2002

	<u>Amount</u>	<u>Percent</u>
Assets		
Current Assets	\$ 1,911,740.97	14.70
Noncurrent Assets:		
Capital, Net	9,937,682.02	76.30
Other	<u>1,177,288.62</u>	<u>9.00</u>
 Total Assets	 <u>13,026,711.61</u>	 <u>100.00</u>
 Liabilities		
Current Liabilities	298,533.09	45.00
Noncurrent Liabilities	<u>365,220.97</u>	<u>55.00</u>
 Total Liabilities	 <u>663,754.06</u>	 <u>100.00</u>
 Net Assets		
Invested in Capital Assets, Net	9,937,682.02	80.40
Restricted:		
Nonexpendable	59,339.00	0.50
Expendable	1,189,577.87	9.60
Unrestricted	<u>1,176,358.66</u>	<u>9.50</u>
 Total Net Assets	 <u>\$ 12,362,957.55</u>	 <u>100.00</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and within the State Treasurer's Short-Term Investment Pool (STIF). The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$1,198,443.17 at June 30, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$460,026.24 at June 30, 2002.

Inventories

The College maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include postage, fuel, and office supplies which make up the balance of the recorded inventory. Inventories totaled \$250,189.56 at June 30, 2002.

Notes Receivable

The College provides short-term loans to students based on need. The revenue for the loans is provided by the North Carolina Community College System. Students are required to repay the loans within a 60-day period and are required to sign a promissory note. The notes receivable are shown net of allowance for doubtful accounts as a balance of \$3,082.00 at June 30, 2002.

Noncurrent Assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and in the State Treasurer's Short-Term Investment Pool (STIF). The cash and cash equivalents that are considered noncurrent are cash in endowment funds and those funds held for student organizations' agency scholarships. The amount of cash and cash equivalents considered noncurrent at June 30, 2002 totaled \$77,810.67.

Restricted Due from Primary Government

This is a receivable due from the North Carolina Community College System for construction projects. The balance of the receivable at June 30, 2002 totaled \$161,954.57.

Other Investments

Other long-term investments include marketable securities held and managed by investment managers. These investments are recorded at fair market value. The fair market value at June 30, 2002 was \$937,523.38.

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2002. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$9,937,682.02 at June 30, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at June 30, 2002 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$255,356.23 at June 30, 2002.

Due to Primary Government

Due to primary government consists of accounts payable due to the North Carolina Information Technology Services for telephone service provided at June 30, 2002. The liability totaled \$5,320.13.

Deferred Revenue

Deferred revenue represents revenue that was received by the College during the fiscal year, but the College did not expend the funds by the end of the June 30, 2002 fiscal year. The deferred revenue totaled \$20,904.00 at June 30, 2002.

Long-Term Liabilities – Current Portion

Long-term liabilities – current portion represents the portion of accrued compensated balances that would be payable by the end of the June 30, 2002 fiscal year. The amount of the current portion of compensated absences at June 30, 2002 was \$16,952.73.

Noncurrent Liabilities

Funds Held for Others

Funds held for others represents assets belonging to an individual or organization for which the College acts as custodian. Examples include various student clubs and organizations and agency scholarships. The total amount held for others at June 30, 2002 was \$18,471.67.

Long-Term Liabilities

This liability consists of accrued compensated balances that represent the amount payable to employees for earned but unpaid absences, such as vacation. The total amount of the noncurrent portion of accrued compensated balances was \$346,749.30 at June 30, 2002.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2002 were \$12,362,957.55.

Analysis of Net Assets

Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted expendable net assets consist of income from endowment gifts, gifts with specific restrictions, grants from third party agencies with expenditure restrictions, and loan funds.

The following is a breakdown of the restricted net assets:

	<u>Amount</u>
Nonexpendable Endowment Funds	\$ 59,339.00
Loan Funds	9,378.00
Capital Projects	121,610.63
Other	<u>1,058,589.24</u>
 Total Restricted Net Assets	 <u><u>\$ 1,248,916.87</u></u>

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the College such as donors or grant agencies. This includes funds that are normal working capital balances maintained for departmental and auxiliary enterprise activities.

The following is a breakdown of the unrestricted net assets:

	<u>Amount</u>
Unrestricted General Fund	\$ 694,423.03
Unrestricted Proprietary Fund	<u>481,935.63</u>
 Total Unrestricted Net Assets	 <u><u>\$ 1,176,358.66</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

For the year ended June 30, 2002

	<u>Amount</u>
Operating Revenues:	
Tuition and Fees	\$ 1,481,173.53
Grants and Contracts	2,516,996.12
Auxiliary Enterprises	899,118.82
Other Operating Revenues	<u>2,964.13</u>
Total Operating Revenues	<u>4,900,252.60</u>
Operating Expenses	<u>16,211,613.77</u>
Operating Loss	<u>(11,311,361.17)</u>
Nonoperating Revenues:	
State Appropriations	8,537,730.75
County Appropriations	1,396,500.00
Noncapital Grants	421,224.79
Noncapital Gifts	51,071.55
Investment Income, Net	(270,534.99)
Other Nonoperating Expenses	<u>(14,473.96)</u>
Net Nonoperating Revenues	<u>10,121,518.14</u>
Loss Before Other Revenues	(1,189,843.03)
Capital Appropriations	850,958.63
Capital Grants	<u>39,320.72</u>
Total Other Revenues	<u>890,279.35</u>
Total Decrease in Net Assets	(299,563.68)
Net Assets	
Net Assets at Beginning of Year, as Restated	<u>12,662,521.23</u>
Net Assets at End of Year	<u><u>\$ 12,362,957.55</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating loss for the fiscal year 2002 was \$11,311,361.17. Since the State of North Carolina appropriation is not included within operating revenue per GASB No. 35, beginning this year and going forward, the College will show a significant operating loss.

The sources of operating revenue for the College are tuition and fees, grants and contracts, auxiliary services, and other operating revenues.

The College strives to provide students with the opportunity to obtain a quality education. Future enrollments at the College may be affected by a number of factors including any material increases in tuition and other mandatory charges stemming from any material decrease in appropriation funding from the State of North Carolina.

Total operating revenues for fiscal year 2002 were \$4,900,252.60. Tuition and fees were \$1,481,173.53. The tuition discount was \$313,732.79. Operating expenses, including depreciation of \$456,242.22, totaled \$16,211,613.77. Of this total \$7,317,511.38 or 45% was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,481,173.53. The tuition discount for the 2002 fiscal year was \$313,732.79.

Grants and Contracts

This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received or when eligibility criteria have been met.

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2002:

	<u>Amount</u>
Federal Sources:	
Department of Education	\$ 2,504,392.12
State Sources:	
North Carolina Community College System	5,204.00
Other Sources	<u>7,400.00</u>
Total All Sources	<u>\$ 2,516,996.12</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$2,964.13 for the 2002 fiscal year.

Sales and Services, Net

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting.

Auxiliary enterprises primarily include the College bookstore. Certain revenues totaling \$15,775.61 have been eliminated from the auxiliary enterprise income and expense due to the use of services by campus departments.

Operating Expenses

Operating expenses totaling \$16,211,613.77 include salaries and benefits of \$10,480,957.90, scholarships and fellowships of \$1,909,992.92, utilities of \$338,875.49, supplies of \$1,922,525.97, services of \$1,103,019.27, and depreciation of \$456,242.22.

	<u>Amount</u>
Expenses by Function:	
Instruction	\$ 7,317,511.38
Academic Support	1,299,344.67
Student Services	934,048.57
Institutional Support	2,021,300.68
Operations and Maintenance of Plant	1,415,514.66
Student Financial Aid	1,891,752.87
Auxiliary Enterprises	875,898.72
Depreciation	<u>456,242.22</u>
 Total Operating Expenses by Function	 <u><u>\$ 16,211,613.77</u></u>

Nonoperating Revenues (Expenses)

State Aid

The College's largest source of nonoperating revenue is the State of North Carolina appropriation. The College received \$9,388,689.38 for 2001-2002 fiscal year, of which \$8,537,730.75 was for operations. State capital aid in the amount of \$443,023.63 was received for the purchase, construction, renovation, and repair of fixed assets. In addition, the College received \$407,935.00 in general obligation bonds of the State for capital improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

County Appropriations

The College also receives revenue from the county in which the school resides. The College uses the funding for salaries and benefits, for operational purposes. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The College received \$1,396,500.00 for the 2002 fiscal year from the county. This appropriation was fully recorded by the College during the fiscal year.

Noncapital Grants

The College also received grants from the State that are considered nonoperating due to the fact that they do not meet the classification of an exchange transaction. Therefore, the College reports this revenue from the State as noncapital grant revenue rather than as State contracts and grants. The amount received for the fiscal year totaled \$421,224.79.

Noncapital Gifts

This consists of gifts made to the College from a nongovernmental organization and/or individuals. The cash gifts totaled \$51,071.55 at June 30, 2002.

Investment Income, Net

This includes the interest income from the cash in the bank accounts, the State Treasurer's Short-Term Investment Pool (STIF), and the unrealized gains and losses on the investments held with an outside agency. The investment income at June 30, 2002 shows a deficit of \$270,534.99 in investment income due to the amount of losses incurred on the investments with the outside agency.

Other Nonoperating Expenses

This consists of the losses on the sale of fixed assets that the College incurred during the 2002 fiscal year. The total of the losses amounted to \$14,473.96.

Other Revenues

State Capital Aid

The State capital aid amount consists of revenue received from the North Carolina Community College System Office to purchase, construct, renovate, or repair capital assets. The amount recorded at June 30, 2002 was \$850,958.63.

Capital Grants

This includes revenue received from the North Carolina Community College System as a pass-through from federal agencies for capital projects during the fiscal year. The amount of this grant totaled \$39,320.72 for the 2002 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during a period. The Statement of Cash Flows also helps users assess:

- The ability to generate future net cash flows,
- The ability to meet obligations as they come due, and
- A need for external financing.

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2002

	<u>Amount</u>
Cash and Cash Equivalents Provided (Used) by:	
Operating Activities	\$ (10,856,329.50)
Noncapital Financing Activities	10,215,958.47
Capital and Related Financing Activities	638,457.15
Investing Activities	<u>104,832.81</u>
Net Increase in Cash and Cash Equivalents	102,918.93
Cash and Cash Equivalents – Beginning of the Year	<u>1,173,334.91</u>
Cash and Cash Equivalents – End of the Year	<u><u>\$ 1,276,253.84</u></u>

The major sources of funds included in operating activities include student tuition and fees, \$1,449,400.28, auxiliary enterprises, \$877,700.17, and grants and contracts, \$2,516,996.12. The major uses of funds were payments made to employees, \$10,512,328.53 and to suppliers, \$3,289,195.08.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$8,537,730.75.

Significant Capital Asset Transactions

On May 7, 2002, the Burke County Commissioners approved a proposal by the College for Burke County to construct a \$2.2 million Continuing Education Center on the Agricultural Campus Property of Western Piedmont Community College. On April 19, 2002, the State Board of Community Colleges approved the Continuing Education Center Project and also approved the conveyance of approximately four to eight acres of College property to Burke

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

County as permitted pursuant to General Statute 153A-158. The actual transfer was 3.73 acres. The conveyance will allow the county to use land as security in a loan transaction, which will provide the county with funds for capital improvements made to the property. The capital improvements will be made for the sole use of Western Piedmont Community College. Upon the county fulfilling the mortgage obligation, it will reconvey the title to this land, along with the improvements, to the Trustees of Western Piedmont Community College.

The College also engaged in other transactions regarding capital assets during the 2002 fiscal year. The College made improvements to the lighting in the campus parking areas totaling \$21,890.95. This amount was recorded as infrastructure at June 30, 2002. The College also made structural renovations to Moore and Patton buildings. The renovations totaled \$218,963.00. This amount was added to the previous total of the buildings. The final transaction regarding capital assets involves the College adding the John P. Rostan Horticulture Building during the 2002 fiscal year. The total cost of the building was \$304,956.35.

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2002 financial situation. The level of State support, compensation increases, student tuition and fee increases, and energy cost increases impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately fifty-five percent of general operations' revenue. The level of State support is therefore one of the key factors influencing the College's financial condition.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs, and new construction projects is a large challenge facing the College in the years to come.

Various committees and individuals are assessing the College's performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

Western Piedmont Community College		
Statement of Net Assets		
June 30, 2002		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,266,883.10	
Restricted Cash and Cash Equivalents (Overdraft)	(68,439.93)	
Receivables, Net (Note 3)	460,026.24	
Inventories	250,189.56	
Notes Receivable, Net (Note 3)	3,082.00	
Total Current Assets	1,911,740.97	
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	77,810.67	
Restricted Due from Primary Government	161,954.57	
Other Long-Term Investments	937,523.38	
Capital Assets, Net (Note 4)	9,937,682.02	
Total Noncurrent Assets	11,114,970.64	
Total Assets	13,026,711.61	
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)	255,356.23	
Due to Primary Government	5,320.13	
Deferred Revenue	20,904.00	
Long-Term Liabilities - Current Portion (Note 6)	16,952.73	
Total Current Liabilities	298,533.09	
Noncurrent Liabilities:		
Funds Held for Others	18,471.67	
Long-Term Liabilities (Note 6)	346,749.30	
Total Noncurrent Liabilities	365,220.97	
Total Liabilities	663,754.06	
NET ASSETS		
Invested in Capital Assets	9,937,682.02	
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships	59,339.00	
Expendable:		
Loans	9,378.00	
Capital Projects	121,610.63	
Other	1,058,589.24	
Unrestricted	1,176,358.66	
Total Net Assets	\$ 12,362,957.55	
The accompanying notes to the financial statements are an integral part of this statement.		

Western 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)	\$	1,481,173.53
Federal Grants and Contracts		2,504,392.12
State and Local Grants and Contracts		5,204.00
Nongovernmental Grants and Contracts		7,400.00
Sales and Services, Net (Note 8)		899,118.82
Other Operating Revenues		2,964.13
Total Operating Revenues		4,900,252.60
EXPENSES		
Operating Expenses:		
Personal Services		10,480,957.90
Supplies and Materials		1,922,525.97
Services		1,103,019.27
Scholarships and Fellowships		1,909,992.92
Utilities		338,875.49
Depreciation		456,242.22
Total Operating Expenses		16,211,613.77
Operating Loss		(11,311,361.17)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,537,730.75
County Appropriations		1,396,500.00
Noncapital Grants		421,224.79
Noncapital Gifts, Net (Note 8)		51,071.55
Investment Income, Net		(270,534.99)
Other Nonoperating Expenses		(14,473.96)
Net Nonoperating Revenues		10,121,518.14
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,189,843.03)
State Capital Aid		850,958.63
Capital Grants		39,320.72
Decrease in Net Assets		(299,563.68)
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 17)		12,662,521.23
Net Assets, June 30, 2002	\$	12,362,957.55
The accompanying notes to the financial statements are an integral part of this statement.		

Western 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		\$ 4,847,060.70
Payments to Employees and Fringe Benefits		(10,512,328.53)
Payments to Vendors and Suppliers		(3,289,195.08)
Payments for Scholarships and Fellowships		(1,904,088.15)
Loans Issued to Students		(24,496.25)
Collection of Loans to Students		24,112.50
Other Receipts		2,605.31
Net Cash Used by Operating Activities		(10,856,329.50)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		8,537,730.75
County Appropriations		1,396,500.00
Noncapital Grants Received		229,156.17
Noncapital Gifts and Endowments Received		52,571.55
Net Cash Provided by Noncapital Financing Activities		10,215,958.47
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		940,028.41
Capital Grants Received		328,049.57
Capital Gifts Received		(304,956.35)
Acquisition and Construction of Capital Assets		(324,664.48)
Net Cash Provided by Capital and Related Financing Activities		638,457.15
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		42,612.30
Interest on Investments		62,220.51
Net Cash Provided by Investing Activities		104,832.81
Net Increase in Cash and Cash Equivalents		102,918.93
Cash and Cash Equivalents, July 1, 2001		1,173,334.91
Cash and Cash Equivalents, June 30, 2002		\$ 1,276,253.84

Western Piedmont Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2002		Page 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED		
BY OPERATING ACTIVITIES		
Operating Loss	\$	(11,311,361.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		456,242.22
Provision for Uncollectible Loans and Writeoffs		2,021.00
Changes in Assets and Liabilities:		
Receivables, Net		(47,287.13)
Inventories		17,328.81
Notes Receivable, Net		(383.75)
Accounts Payable and Accrued Liabilities		49,334.70
Due to Primary Government		8.25
Funds Held for Others		2,605.31
Compensated Absences		(24,837.74)
Net Cash Used by Operating Activities	\$	(10,856,329.50)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	\$	50,370.94
Assets Acquired through a Gift		304,956.35
Change in Fair Value of Investments		(325,305.48)
Increase in Receivables Related to Nonoperating Income		211,472.62
The accompanying notes to the financial statements are an integral part of this statement.		

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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. Western 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Investments** - This classification includes equity investments and money market funds. Equity investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** – Receivables consist of tuition and fees charges 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.
- G. Inventories** – Inventories, consisting of expendable supplies, postage, fuel oil, and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 10 to 40 years for buildings, and 3 to 15 years for equipment.

The Senator Sam J. Ervin Library and Museum collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each September 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 August 31st plus the leave earned, less the leave taken between September 1st and June 30th.

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

- L. Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 \$1,413.60. The carrying amount of cash on deposit was \$1,274,840.24 and the bank balance was \$1,406,498.15.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 1,042,265.86	\$ 907,265.86
Cash on Deposit with Private Financial Institutions	232,574.38	499,232.29
	\$ 1,274,840.24	\$ 1,406,498.15

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, \$100,000.00 of the bank balance was covered by federal depository insurance and \$399,232.29 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – In addition to donated securities held by the College, the College is authorized to invest idle funds as provided by General Statute 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 non-guaranteed 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the College's investments at June 30, 2002 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Investments Categorized:				
Corporate Stocks	\$ 918,246.73	\$ 0.00	\$ 0.00	\$ 918,246.73
Investments Not Categorized:				
Money Market Funds				19,276.65
Total Investments				\$ 937,523.38

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 47,975.01	\$ 780.80	\$ 47,194.21
Accounts	47,735.11		47,735.11
Intergovernmental	342,255.56		342,255.56
Investment Earnings	3,656.83		3,656.83
Other	19,184.53		19,184.53
Total Current Receivables	\$ 460,807.04	\$ 780.80	\$ 460,026.24
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 5,103.00	\$ 2,021.00	\$ 3,082.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 627,402.50	\$ 0.00	\$ 0.00	\$ 10,071.00	\$ 617,331.50
Art, Literature, and Artifacts	145,014.00				145,014.00
Construction in Progress	32,451.15	(545,810.30)	513,359.15		0.00
Total Capital Assets, Non-Depreciable	804,867.65	(545,810.30)	513,359.15	10,071.00	762,345.50
Capital Assets, Depreciable:					
Buildings	12,955,160.76	523,919.35			13,479,080.11
Machinery and Equipment	1,788,676.93		166,632.62	14,349.56	1,940,959.99
General Infrastructure	392,963.16	21,890.95			414,854.11
Total Capital Assets, Depreciable	15,136,800.85	545,810.30	166,632.62	14,349.56	15,834,894.21
Less Accumulated Depreciation:					
Buildings	4,936,147.77		328,358.94		5,264,506.71
Machinery and Equipment	922,027.05		124,620.24	9,946.60	1,036,700.69
General Infrastructure	355,087.25		3,263.04		358,350.29
Total Accumulated Depreciation	6,213,262.07		456,242.22	9,946.60	6,659,557.69
Total Capital Assets, Depreciable, Net	8,923,538.78	545,810.30	(289,609.60)	4,402.96	9,175,336.52
Capital Assets, Net	\$ 9,728,406.43	\$ 0.00	\$ 223,749.55	\$ 14,473.96	\$ 9,937,682.02

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 113,688.09
Accrued Payroll	116,026.06
Contract Retainage	25,642.08
Total Accounts Payable and Accrued Liabilities	\$ 255,356.23

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 388,539.77	\$ 299,308.56	\$ 324,146.30	\$ 363,702.03	\$ 16,952.73

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$52,158.68.

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	\$ 1,795,597.82	\$ 0.00	\$ 313,732.79	\$ 691.50	\$ 1,481,173.53
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 951,831.84	\$ 15,775.61	\$ 165,980.96	\$ 0.00	\$ 770,075.27
Other	73,832.36				73,832.36
Sales and Services of Educational and Related Activities	55,211.19				55,211.19
Total Sales and Services	\$ 1,080,875.39	\$ 15,775.61	\$ 165,980.96	\$ 0.00	\$ 899,118.82
Nonoperating - Noncapital Gifts	\$ 51,071.55	\$ 0.00	\$ 0.00	\$ 0.00	\$ 51,071.55

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 6,380,308.20	\$ 615,398.48	\$ 318,933.83	\$ 0.00	\$ 2,870.87	\$ 0.00	\$ 7,317,511.38
Academic Support	1,167,428.83	62,255.58	62,151.85	7,508.41			1,299,344.67
Student Services	772,589.35	36,639.34	111,999.24	12,752.64	68.00		934,048.57
Institutional Support	1,460,143.69	89,251.07	471,905.92				2,021,300.68
Operations and Maintenance of Plant	599,217.40	366,831.73	114,200.06		335,265.47		1,415,514.66
Student Financial Aid			2,021.00	1,889,731.87			1,891,752.87
Auxiliary Enterprises	101,270.43	752,149.77	21,807.37		671.15		875,898.72
Depreciation						456,242.22	456,242.22
Total Operating Expenses	\$ 10,480,957.90	\$ 1,922,525.97	\$ 1,103,019.27	\$ 1,909,992.92	\$ 338,875.49	\$ 456,242.22	\$ 16,211,613.77

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2002, the College had a total payroll of \$8,994,052.74, of which \$7,242,260.09 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$434,535.61 and \$142,672.52, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$142,672.52, \$375,028.77, and \$537,666.48, 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. The voluntary contributions by employees amounted to \$24,770.00 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 \$140,388.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$170,193.11. 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 to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$37,659.75. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. A blanket honesty bond for all employees is handled by a private insurance company with coverage of \$100,000 per occurrence and \$250 deductible.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$57,670.40 and on other purchases were \$3,788.11 at June 30, 2002.
- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. 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 \$4,738,643.00 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - SIGNIFICANT TRANSACTIONS

On May 7, 2002, the Burke County Commissioners approved a proposal by the College for Burke County to construct a \$2.2 million Continuing Education Center on the Agricultural Campus Property of Western Piedmont Community College. On April 19, 2002, the State Board of Community Colleges approved the Continuing Education Center Project and also approved the conveyance of approximately four to eight acres of College property to Burke County as permitted pursuant to General Statute 153A-158. The actual transfer was 3.73 acres. The conveyance will allow the county to use land as security in a loan transaction, which will provide the county with funds for capital improvements made to the property. The capital improvements will be made for the sole use of Western Piedmont Community College. Upon the county fulfilling the mortgage obligation, it will reconvey the title to this land, along with improvements, to the Trustees of Western Piedmont Community College.

NOTE 15 - WESTERN PIEDMONT FOUNDATION, INC

The Western Piedmont Foundation, Inc. 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 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 \$255,053.92 for the year ended June 30, 2002.

NOTE 16 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 17 - NET ASSET RESTATEMENT

As referred to in Note 16, 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*.

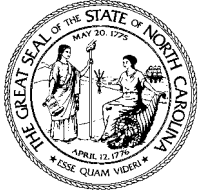
July 1, 2001 Fund Equity as previously reported	\$ 19,871,452.72
Implementation of GASB 34/35	<u>(7,208,931.49)</u>
July 1, 2001 Net Assets as Restated	<u><u>\$ 12,662,521.23</u></u>

**Western 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
<i>Projects Approved by the State Board</i>							
Lighting Retrofits	Feb 2001	\$ 205,000.00	\$ 0.00	\$ 205,000.00	\$ 204,423.12	99.72%	Feb 2002
Campus Renovations	Apr 2002	880,000.00		880,000.00	292,455.48	33.23%	Jan 2004
<i>Projects Pending Approval by the State Board</i>							
Allied Health/Child Care Center	Sep 2003	3,858,649.00		3,858,649.00			Nov 2005
<i>Projects Not Started - To Be Funded in Future Years</i>							
Repair and Renovation Projects	May 2004	401,274.00		401,274.00			Feb 2005
Total All Projects		\$ 5,344,923.00	\$ 0.00	\$ 5,344,923.00	\$ 496,878.60		

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.



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
Western Piedmont Community College
Morganton, North Carolina

We have audited the financial statements of Western 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 January 9, 2003.

As discussed in Note 16 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 disclosed no 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.
State Auditor

January 9, 2003

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. Jim A. Richardson	President, Western Piedmont Community College
Mr. C. Malone McNeely	Vice President for Administrative Services Western Piedmont Community College
Mr. Charles T. Henson	Chairman, Board of Trustees Western Piedmont Community College

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Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

February 10, 2003

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