

# **STATE OF NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT OF WESTERN PIEDMONT COMMUNITY COLLEGE**

**MORGANTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WESTERN PIEDMONT COMMUNITY COLLEGE**

**MORGANTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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)

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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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

*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.

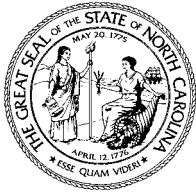


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Western Piedmont Community College  
Morganton, North Carolina

We have audited the accompanying financial statements of Western 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, 2004, which collectively comprise Western Piedmont Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Western Piedmont Foundation, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity is 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 Western Piedmont 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 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 Western Piedmont Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its 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)

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As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2005, 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 this 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.

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.



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

March 16, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Western Piedmont Community College's annual financial report presents management's discussion and analysis of the College's financial activity for the fiscal year ended June 30, 2004. The discussion should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, notes and this discussion are the responsibility of management.

### Using the Annual Report

This report consists 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*.

The statement format presents financial information in a form similar to that used by corporations. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements. Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. This statement combines current financial resources and capital assets.

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 operating or nonoperating. The financial reporting model classifies State and County appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the institution. Non-financial factors must also be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of non-financial factors that have an impact on the College's condition.

The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### College Assets and Liabilities

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables, inventories and notes receivable for student loans. Noncurrent assets consist of cash, receivables, investments and capital assets (land, construction in progress, buildings, infrastructure, and equipment). The College's capital assets are stated at historical cost less depreciation. A purchase is recorded as a capital asset if the item costs \$5,000 or more and has a useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for infrastructure, 10 to 40 years for buildings and 3 to 15 years for equipment.

Current assets at June 30, 2004, increased due to an increase in cash with financial institutions and with the State Treasurer's Short-Term Investment Fund (STIF). The cash balance in STIF increased \$282,030.41 as of June 30, 2004. In addition, several institutional funds cash balances increased significantly including the bookstore, which increased \$67,778.20. Receivables decreased and cash and cash equivalents increased because financial aid funding was received before the end of the fiscal year.

Noncurrent assets increased due to an increase in the receivable due from the North Carolina Community College System for construction projects from \$96,961.06 at 2003 to \$891,859.70 at 2004.

### Current and Noncurrent Assets

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and Cash Equivalents	\$ 1,786,291.16	\$ 1,329,529.86	\$ 456,761.30	34.36 %
Receivables, Net	378,148.50	516,816.35	(138,667.85)	(26.83) %
Inventories	278,821.88	272,311.47	6,510.41	2.39 %
Notes Receivable, Net	<u>5,958.48</u>	<u>2,475.00</u>	<u>3,483.48</u>	140.75 %
Total Current Assets	<u>2,449,220.02</u>	<u>2,121,132.68</u>	<u>328,087.34</u>	15.47 %
Cash and Cash Equivalents	91,268.32	91,788.90	(520.58)	(0.57) %
Receivables	891,859.70	96,961.06	794,898.64	819.81 %
Other Investments	1,030,019.65	883,324.93	146,694.72	16.61 %
Capital Assets, Net	<u>9,470,912.23</u>	<u>9,523,402.29</u>	<u>(52,490.06)</u>	(0.55) %
Total Noncurrent Assets	<u>11,484,059.90</u>	<u>10,595,477.18</u>	<u>888,582.72</u>	8.39 %
Total Assets	<u>\$ 13,933,279.92</u>	<u>\$ 12,716,609.86</u>	<u>\$ 1,216,670.06</u>	9.57 %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current liabilities increased due to contracts payable and the current portion of compensated absences at 2004. Noncurrent liabilities include compensated absences that will not be paid within the next fiscal year and Funds Held for Others which represents cash held in the College's bank account for students and clubs. Compensated absences increased from 2003 to 2004. Compensated absences at 2004 included the accumulated unused portion of the special annual leave bonus awarded to all full-time staff as of July 1, 2003. The bonus leave increased the 2004 noncurrent compensated absences total by \$156,582.44.

### Liabilities

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Other Liabilities	\$ 374,508.82	\$ 334,409.33	\$ 40,099.49	11.99 %
Long-Term Liabilities- Current Portion	73,791.18	8,929.91	64,861.27	726.34 %
Total Current Liabilities	<u>448,300.00</u>	<u>343,339.24</u>	<u>104,960.76</u>	30.57 %
Funds Held for Others	25,688.76	26,413.88	(725.12)	(2.75) %
Long-Term Liabilities	562,889.00	406,306.56	156,582.44	38.54 %
Total Noncurrent Liabilities	<u>\$ 588,577.76</u>	<u>\$ 432,720.44</u>	<u>\$ 155,857.32</u>	36.02 %

### Net Assets

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets increased \$955,851.98, for a year-end total of \$12,896,402.16. The largest increase in restricted net assets and is primarily due to increased activity in capital projects. Total net assets include these components: net assets invested in capital assets of \$9,470,912.23, restricted net assets of \$2,097,262.73, and unrestricted net assets of \$1,328,227.20.

### Comparative Statement of Net Assets

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Invested in Capital Assets	\$ 9,470,912.23	\$ 9,523,402.29	\$ (52,490.06)	(0.55) %
Restricted Net Assets	2,097,262.73	1,193,403.79	903,858.94	75.74 %
Unrestricted Net Assets	<u>1,328,227.20</u>	<u>1,223,744.10</u>	<u>104,483.10</u>	8.54 %
Total Net Assets	<u>\$ 12,896,402.16</u>	<u>\$ 11,940,550.18</u>	<u>\$ 955,851.98</u>	8.01 %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Revenues

The College's revenues are classified as operating and nonoperating revenues. Total revenues increased from \$18,138,281 in 2002-03 to \$20,987,467 in 2003-04 for an increase of \$2,849,186 or 15.71%. Operating revenues include student tuition and fees; federal, state, and local operating grants; sales and services revenue; and other operating revenues. Sales and services revenue mainly is derived from bookstore operations. The bookstore operations had an increase of sales totaling \$100,456.08 during the 2004 fiscal year. Federal Grant Revenue consists of revenue from the Federal Title IV student financial aid programs. The Pell grant program is the largest and accounts for \$3,514,556.90 or 97% of total Federal Grants and Contracts. Operating revenues in total showed a 10% increase compared to 2003.

### Operating Revenues

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Student Tuition and Fees, Net	\$ 1,819,380.05	\$ 1,683,877.41	\$ 135,502.64	8.05 %
Federal Grants and Contracts	3,612,789.04	3,286,510.29	326,278.75	9.93 %
State and Local Grants and Contracts	13,272.00	6,828.00	6,444.00	94.38 %
Sales and Services, Net	1,193,640.92	1,044,334.65	149,306.27	14.30 %
Other Operating Revenues	9,623.15	6,845.30	2,777.85	40.58 %
<b>Total Operating Revenues</b>	<b>\$ 6,648,705.16</b>	<b>\$ 6,028,395.65</b>	<b>\$ 620,309.51</b>	<b>10.29 %</b>

Nonoperating revenues comprise the major portion of the College's income and include appropriations from state and local governments, noncapital gifts and grants, and investment income. The largest amount, State aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations. Nonoperating revenues experienced a modest increase during the 2004 fiscal year. Investment income experienced a tremendous increase due to growth of the investments within the Ruth Mull account and an increase in the amount of interest income received during the fiscal year. Other Nonoperating Expense was much higher in 2003-04 due to the losses on the disposal of equipment that was not fully depreciated.

### Nonoperating Revenues

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
State Aid	\$ 9,600,162.88	\$ 8,590,814.26	\$ 1,009,348.62	11.75 %
County Appropriations	1,476,160.00	1,384,160.04	91,999.96	6.65 %
Noncapital Grants and Gifts	846,043.23	841,670.16	4,373.07	0.52 %
Investment Income	214,556.23	71,479.44	143,076.79	200.16 %
Other Nonoperating Revenue (Expense)	(12,344.72)	(1,844.04)	(10,500.68)	569.44 %
<b>Net Nonoperating Revenues</b>	<b>\$ 12,124,577.62</b>	<b>\$ 10,886,279.86</b>	<b>\$ 1,238,297.76</b>	<b>11.37 %</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Operating Expenses

The majority of operating expenses is for salaries and fringe benefits. Other expenses are for operating activities, which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB 34/35. Operating expenses showed a modest increase in 2003-04.

### Operating Expenses

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Salaries and Benefits	\$ 12,334,475.35	\$ 11,089,179.34	\$ 1,245,296.01	11.23 %
Supplies and Materials	2,691,725.39	2,789,087.91	(97,362.52)	(3.49) %
Services	1,172,024.02	1,129,023.38	43,000.64	3.81 %
Scholarships and Fellowships	2,986,898.34	2,741,134.03	245,764.31	8.97 %
Utilities	329,898.42	320,997.53	8,900.89	2.77 %
Depreciation	516,593.30	491,266.48	25,326.82	5.16 %
Total Operating Expenses	<u>\$ 20,031,614.82</u>	<u>\$ 18,560,688.67</u>	<u>\$ 1,470,926.15</u>	7.92 %

### Capital Contributions

Capital contributions consist of State and local appropriations for equipment, construction, building improvements and infrastructure. The federal portion of the State capital aid is classified as capital grants. State capital aid increased significantly because state construction revenue increased \$675,760.64 from \$403,040 in 2002-03 to \$1,078,800.64 in 2003-04. In addition, the College received donated equipment, buildings, and new construction funding totaling \$65,543.03.

### Capital Contributions

	FY 2003-04	FY 2002-03	Increase/ (Decrease)	% Increase/ (Decrease)
Capital Contributions				
State Capital Aid	\$ 2,104,640.42	\$ 1,199,450.66	\$ 905,189.76	75.47 %
Capital Grants	44,000.57	24,155.13	19,845.44	82.16 %
Capital Gifts	65,543.03		65,543.03	%
Total Capital Contributions	<u>\$ 2,214,184.02</u>	<u>\$ 1,223,605.79</u>	<u>\$ 990,578.23</u>	80.96 %

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Capital Asset Activity**

Western Piedmont Community College's capital assets as of June 30, 2004, amount to \$9,470,912.23 net of accumulated depreciation of \$7,568,271.33. Significant capital activity in the current year consists primarily of donation to buildings of \$43,450, construction for infrastructure additions totaling \$189,033.25 and construction in progress of \$130,023.51. The Health Sciences Building project is a new building in progress. The College also started a project to construct a Digital Sign in front of the campus that will be added to infrastructure. The College received two houses from Broughton Hospital that were moved to the College's East Campus property during this fiscal year. The College also installed a water and sewer line on the East Campus property as well. The total cost of the line was \$6,175.00. The NC Department of Transportation constructed a bridge on the Coal Shute Road Extension of the East Campus of Western Piedmont Community College totaling \$182,858.25.

### **Analysis of Financial Position**

For the year ended June 30, 2004, the College had a net increase in cash and cash equivalents of \$456,240.72, representing a 32.1% increase in cash and cash equivalents when compared to the July 1, 2003, balance.

Net Assets increased by \$955,851.98, reflecting an 8.01% change from Net Assets as of June 30, 2003.

Management concludes that the financial position of the College has remained strong during the past fiscal year.

### **Economic Factors and Next Year's Budget**

The State of North Carolina has experienced a revenue shortfall during the past two years and this may have a significant impact on future budgets.

**Western Piedmont Community College**  
**Statement of Net Assets**  
**June 30, 2004**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,671,300.97
Restricted Cash and Cash Equivalents	114,990.19
Receivables, Net (Note 4)	378,148.50
Inventories	278,821.88
Notes Receivable, Net (Note 4)	5,958.48

Total Current Assets	2,449,220.02
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	91,268.32
Restricted Due from Primary Government	891,859.70
Other Long-Term Investments	1,030,019.65
Capital Assets - Nondepreciable, Net (Note 5)	892,369.01
Capital Assets - Depreciable, Net (Note 5)	8,578,543.22

Total Noncurrent Assets	11,484,059.90
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Total Assets	13,933,279.92
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	237,142.13
Due to Primary Government	6,375.39
Deferred Revenue	130,991.30
Long-Term Liabilities - Current Portion (Note 7)	73,791.18

Total Current Liabilities	448,300.00
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Noncurrent Liabilities:

Funds Held for Others	25,688.76
Long-Term Liabilities (Note 7)	562,889.00

Total Noncurrent Liabilities	588,577.76
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Total Liabilities	1,036,877.76
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**NET ASSETS**

Invested in Capital Assets	9,470,912.23
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	59,339.00
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Expendable:

Scholarships and Fellowships	1,166,398.42
Loans	9,797.75
Capital Projects	863,307.10
Other	(1,579.54)

Unrestricted	1,328,227.20
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Total Net Assets	\$ 12,896,402.16
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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, 2004**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,819,380.05
Federal Grants and Contracts	3,612,789.04
State and Local Grants and Contracts	13,272.00
Sales and Services, Net (Note 9)	1,193,640.92
Other Operating Revenues	9,623.15

Total Operating Revenues	6,648,705.16
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	12,334,475.35
Supplies and Materials	2,691,725.39
Services	1,172,024.02
Scholarships and Fellowships	2,986,898.34
Utilities	329,898.42
Depreciation	516,593.30

Total Operating Expenses	20,031,614.82
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Operating Loss	(13,382,909.66)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	9,600,162.88
County Appropriations	1,476,160.00
Noncapital Grants	704,094.29
Noncapital Gifts	141,948.94
Investment Income, Net	214,556.23
Other Nonoperating Expenses	(12,344.72)

Net Nonoperating Revenues	12,124,577.62
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Income Before Other Revenues, Expenses, Gains, and Losses	(1,258,332.04)
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State Capital Aid	2,104,640.42
Capital Grants	44,000.57
Capital Gifts	65,543.03

Increase in Net Assets	955,851.98
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**NET ASSETS**

Net Assets, July 1, 2003	11,940,550.18
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Net Assets, June 30, 2004	\$ 12,896,402.16
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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, 2004**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 6,833,345.20
Payments to Employees and Fringe Benefits	(12,090,257.41)
Payments to Vendors and Suppliers	(4,212,148.34)
Payments for Scholarships and Fellowships	(2,986,898.34)
Loans Issued to Students	(28,114.00)
Collection of Loans to Students	25,655.27
Other Payments	(533.45)
	<hr/>
Net Cash Used by Operating Activities	(12,458,951.07)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	9,600,162.88
County Appropriations	1,476,160.00
Noncapital Grants Received	652,147.65
Noncapital Gifts and Endowments Received	141,948.94
	<hr/>
Net Cash Provided by Noncapital Financing Activities	11,870,419.47

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,309,741.78
Capital Grants Received	44,000.57
Capital Gifts Received	15,918.03
Proceeds from Sale of Capital Assets	341.40
Acquisition and Construction of Capital Assets	(396,740.85)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	973,260.93

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	25,000.00
Investment Income	46,511.39
	<hr/>
Net Cash Provided by Investing Activities	71,511.39

Net Increase in Cash and Cash Equivalents	456,240.72
Cash and Cash Equivalents, July 1, 2003	1,421,318.76
	<hr/>
Cash and Cash Equivalents, June 30, 2004	\$ 1,877,559.48

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

Operating Loss	\$ (13,382,909.66)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	516,593.30
Provision for Uncollectible Loans and Write-Offs	(1,024.75)
Miscellaneous Nonoperating Income	191.67
Changes in Assets and Liabilities:	
Receivables, Net	186,964.61
Inventories	(6,510.41)
Notes Receivable, Net	(2,458.73)
Accounts Payable and Accrued Liabilities	13,910.99
Due to Primary Government	(2,102.11)
Deferred Revenue	(2,324.57)
Funds Held for Others	(725.12)
Compensated Absences	221,443.71
	<hr/>
Net Cash Used by Operating Activities	\$ (12,458,951.07)



**Western Piedmont Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2004**

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

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,671,300.97
Restricted Cash and Cash Equivalents	114,990.19
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>91,268.32</u>
Total Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 1,877,559.48</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 30,615.18
Assets Acquired through a Gift	49,625.00
Change in Fair Value of Investments	171,694.72
Increase in Receivables Related to Nonoperating Income	846,845.28

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

**Western Piedmont Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2004**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$	79,469.00
Student Loans Receivable		3,005.00
Endowment Fund Cash		11,236.00
Stocks		581,039.00
Land		289,800.00
		<hr/>
Total Assets		964,549.00
		<hr/>

**NET ASSETS**

Unrestricted		352,476.00
Temporarily Restricted		329,376.00
Permanently Restricted		282,697.00
		<hr/>
Total Net Assets	\$	964,549.00
		<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

**Western Piedmont Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2004**

**Exhibit B-2**

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:	
Donations	\$ 83,263.00
Investment Return	140,660.00
Sale of Timber	2,525.00
Program Grants	1,500.00
Golf Tournament Revenue	13,375.00
	<hr/>
Total Unrestricted Revenues and Gains	241,323.00
	<hr/>
Expenses and Losses:	
Instructional Awards	1,037.00
Institutional Development Grants	19,405.00
Scholarship Awards	67,076.00
Construction Costs and Maintenance	80,132.00
General Fund Raising Expense	200.00
Golf Tournament Expense	8,986.00
Professional Fees	16,314.00
Other Expense	54,810.00
	<hr/>
Total Unrestricted Expenses	247,960.00
	<hr/>
Decrease in Unrestricted Net Assets	(6,637.00)
	<hr/>
<b>Net Assets at Beginning of Year</b>	971,186.00
	<hr/>
<b>Net Assets at End of Year</b>	<u><u>\$ 964,549.00</u></u>

See Note 1 in the Notes to the Financial Statements

**WESTERN PIEDMONT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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

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

The Western Piedmont Foundation, Inc., is a legally separate, 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 24 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Western Piedmont Foundation, Inc., 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 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.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2004, except for Western Piedmont Foundation, Inc., whose financial statements are as of and for the fiscal year ended December 31, 2003.

During the year ended June 30, 2004, the Foundation distributed \$204,562.95 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Lowdermilk Church and Co., L.L.P.

- 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 (BTA) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 portfolio. 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 valued at 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 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 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 fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. **Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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)

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,780.00. The carrying amount of cash on deposit was \$1,874,779.48 and the bank balance was \$2,417,949.70.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,469,427.93	\$ 1,469,427.93
Cash on Deposit with Private Financial Institutions	405,351.55	948,521.77
	\$ 1,874,779.48	\$ 2,417,949.70

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 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 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, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance, \$748,521.77 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.

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 nonguaranteed federal agencies; prime quality commercial paper bearing specified

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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, 2004, is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
Corporate Stocks	\$ 1,019,260.05	\$ 0.00	\$ 0.00	\$ 1,019,260.05
<b>Investments Not Categorized:</b>				
Money Market Funds				10,759.60
<b>Total Investments</b>				<b>\$ 1,030,019.65</b>

### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$1,911.51 was available to be spent, all of which was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 137,509.26	\$ 1,933.94	\$ 135,575.32
Accounts	37,559.75		37,559.75
Intergovernmental	170,825.39		170,825.39
Other	34,188.04		34,188.04
<b>Total Current Receivables</b>	<b>\$ 380,082.44</b>	<b>\$ 1,933.94</b>	<b>\$ 378,148.50</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 7,559.73	\$ 1,601.25	\$ 5,958.48

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 617,331.50	\$ 0.00	\$ 0.00	\$ 617,331.50
Art, Literature, and Artifacts	145,014.00			145,014.00
Construction in Progress		130,023.51		130,023.51
<b>Total Capital Assets, Nondepreciable</b>	<b>762,345.50</b>	<b>130,023.51</b>		<b>892,369.01</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	13,472,522.11	43,450.00		13,515,972.11
Machinery and Equipment	1,962,438.64	114,474.27	60,757.33	2,016,155.58
General Infrastructure	425,653.61	189,033.25		614,686.86
<b>Total Capital Assets, Depreciable</b>	<b>15,860,614.36</b>	<b>346,957.52</b>	<b>60,757.33</b>	<b>16,146,814.55</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	5,615,787.91	377,031.64		5,992,819.55
Machinery and Equipment	1,120,766.61	129,923.11	47,879.54	1,202,810.18
General Infrastructure	363,003.05	9,638.55		372,641.60
<b>Total Accumulated Depreciation</b>	<b>7,099,557.57</b>	<b>516,593.30</b>	<b>47,879.54</b>	<b>7,568,271.33</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>8,761,056.79</b>	<b>(169,635.78)</b>	<b>12,877.79</b>	<b>8,578,543.22</b>
<b>Capital Assets, Net</b>	<b>\$ 9,523,402.29</b>	<b>\$ (39,612.27)</b>	<b>\$ 12,877.79</b>	<b>\$ 9,470,912.23</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 81,972.36
Accrued Payroll	155,169.77
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 237,142.13</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 415,236.47	\$ 539,347.57	\$ 317,903.86	\$ 636,680.18	\$ 73,791.18

### NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$54,867.73

### NOTE 9 - 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
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 2,307,332.98	\$ 0.00	\$ 487,829.29	\$ 123.64	\$ 1,819,380.05
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,276,340.46	\$ 19,740.03	\$ 269,669.60	\$ (141.62)	\$ 987,072.45
Other	128,568.42				128,568.42
Sales and Services of Education and Related Activities	78,005.05			5.00	78,000.05
<b>Total Sales and Services</b>	\$ 1,482,913.93	\$ 19,740.03	\$ 269,669.60	\$ (136.62)	\$ 1,193,640.92

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - 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	\$ 7,468,130.65	\$ 1,265,609.04	\$ 284,259.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,017,999.26
Academic Support	1,367,610.97	110,135.88	82,188.15				1,559,935.00
Student Services	938,943.49	48,977.26	120,747.05	52,739.03			1,161,406.83
Institutional Support	1,772,139.74	121,745.57	498,129.49				2,392,014.80
Operations and Maintenance of Plant	672,786.05	142,575.56	159,678.92		329,898.42		1,304,938.95
Student Financial Aid				2,934,159.31			2,934,159.31
Auxiliary Enterprises	114,864.45	1,002,682.08	27,020.84				1,144,567.37
Depreciation						516,593.30	516,593.30
<b>Total Operating Expenses</b>	<b>\$ 12,334,475.35</b>	<b>\$ 2,691,725.39</b>	<b>\$ 1,172,024.02</b>	<b>\$ 2,986,898.34</b>	<b>\$ 329,898.42</b>	<b>\$ 516,593.30</b>	<b>\$ 20,031,614.82</b>

### NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$10,442,183.40, of which \$8,249,163.95 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$494,949.84 and \$18,148.16, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$18,148.16, \$0.00, and \$142,672.52, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$14,256.00 for the year ended June 30, 2004.

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 \$41,300.00 for the year ended June 30, 2004.

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 \$121,753.00 for the year ended June 30, 2004.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$263,973.25. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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 13 - 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000 there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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.

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. There were no employer contributions required for the current fiscal year.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 14 - 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 \$276,726.95 at June 30, 2004.
- 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 \$600 million 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 were authorized for issuance 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 of \$3,439,660.00 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 (CONCLUDED)

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### NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

### NOTE 16 - SUBSEQUENT EVENTS

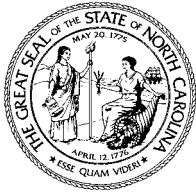
On September 24, 2004, Broughton Hospital gave a 5.14 acre tract containing a building known as the Old North Colony Building and Abattair Building to the College. No approximate value has been given to this property since the College is in the process of getting this 5.14 acre tract surveyed and appraised.

**Western Piedmont Community College**  
**Schedule of General Obligation Bond Project Authorizations,**  
**Budgets, and Expenditures**  
**For Project-to-Date as of June 30, 2004**

**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Original Projected Start Date</b>	<b>Revised/ Actual Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Original Expected Completion Date</b>	<b>Revised/ Actual Completion Date</b>
<i>Projects Approved by the State Board</i>									
Lighting Retrofit	Feb 2001		\$ 205,000.00	\$ 0.00	\$ 205,000.00	\$ 204,423.12	99.72%	Feb 2002	
Campus Renovations	Feb 2001		880,000.00		880,000.00	752,230.18	85.48%	Aug 2004	Dec 2004
Health/Sciences Building	Sep 2003	Jan 2004	3,858,649.00		3,858,649.00	87,365.18	2.26%	Nov 2005	Jun 2006
Campus Repairs/Renovations	Jun 2004	Sep 2004	401,274.00		401,274.00		0.00%	Jul 2005	Dec 2005
<b>Total All Projects</b>			<u>\$ 5,344,923.00</u>	<u>\$ 0.00</u>	<u>\$ 5,344,923.00</u>	<u>\$ 1,044,018.48</u>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.



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

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

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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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Western Piedmont Community College's basic financial statements, and have issued our report thereon dated March 16, 2005. We did not audit the financial statements of Western Piedmont Foundation, Inc., which represent 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 opinion, insofar as it relates to the amounts included for Western Piedmont Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of Western Piedmont Foundation, Inc., was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to this discretely presented component unit.

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 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 over financial reporting that

**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)**

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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.

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 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.

*Leslie W. Merritt, Jr.*

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

March 16, 2005

## DISTRIBUTION OF AUDIT REPORT

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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 Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Mr. H. Martin Lancaster  
Dr. Jim A. Richardson  
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Ms. Juleigh Sitton

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
President, Western Piedmont Community College  
Vice President for Administrative Services  
Western Piedmont Community College  
Chairperson, Board of Trustees  
Western Piedmont Community College

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### Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

May 11, 2005



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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
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Raleigh, North Carolina 27699-0601

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