



STATE OF NORTH CAROLINA

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

JULEIGH SITTON, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. JIM W. BURNETT, PRESIDENT

C. MALONE McNEELY, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Western Piedmont Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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

Leslie W. Merritt, Jr.

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

April 16, 2007

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Component Unit Exhibits	
B-1 Statement of Financial Position..	14
B-2 Statement of Activities..	15
Notes to the Financial Statements	17
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	33
ORDERING INFORMATION	35



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Western Piedmont Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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 opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Piedmont Community College and its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

January 31, 2007

WESTERN PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. 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. Nonfinancial 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 nonfinancial 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, 2006, increased due to increases in all areas of current assets. Cash and Cash Equivalents including cash with the State Treasurer's Short-Term Investment Fund (STIF) increased \$104,481.96 as of June 30, 2006. Restricted Cash and Cash Equivalents increased by \$165,888.36. Receivables and inventories also had increases while net notes receivable had a decrease.

Noncurrent assets decreased largely due to a reduction in the receivable due from the North Carolina Community College System for construction projects from \$2,748,339.45 at 2005 to \$1,299,808.57 at 2006. Of the \$2,748,339.45 recorded as a Restricted Due from Primary Government in 2005, \$1,309,560.00 was reallocated in 2006 to other colleges based on the North Carolina System Office (NCCCSO) cash flow allocation for bond allotment monies.

Current and Noncurrent Assets

	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Cash and Cash Equivalents	\$ 2,265,276.62	\$ 1,994,906.30	\$ 270,370.32	13.55 %
Receivables, Net	554,735.85	373,078.98	181,656.87	48.69 %
Inventories	275,185.98	244,468.45	30,717.53	12.57 %
Notes Receivable, Net	1,400.00	4,795.54	(3,395.54)	(70.81) %
Total Current Assets	<u>3,096,598.45</u>	<u>2,617,249.27</u>	<u>479,349.18</u>	18.31 %
Restricted Cash and Cash Equivalents	95,221.37	90,109.58	5,111.79	5.67 %
Receivables	1,299,808.57	2,748,339.45	(1,448,530.88)	(52.71) %
Other Investments	1,079,317.20	1,001,514.27	77,802.93	7.77 %
Capital Assets, Net	<u>9,163,362.47</u>	<u>9,392,030.63</u>	<u>(228,668.16)</u>	(2.43) %
Total Noncurrent Assets	<u>11,637,709.61</u>	<u>13,231,993.93</u>	<u>(1,594,284.32)</u>	(12.05) %
Total Assets	<u>\$ 14,734,308.06</u>	<u>\$ 15,849,243.20</u>	<u>\$ (1,114,935.14)</u>	(7.03) %

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 an increase in accounts payable and current portion of long term liabilities at 2006. Noncurrent

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 decreased from 2005. Compensated absences at 2006 included the accumulated unused portion of the special annual leave bonuses awarded to all full-time staff.

Liabilities

	FY 2005-06	FY 2004-05	Increase/ (Decrease)	% Increase/ (Decrease)
Other Liabilities	\$ 345,252.83	\$ 325,082.83	\$ 20,170.00	6.20 %
Long-Term Liabilities - Current Portion	105,859.60	86,269.08	19,590.52	22.71 %
Total Current Liabilities	<u>451,112.43</u>	<u>411,351.91</u>	<u>39,760.52</u>	9.67 %
Funds Held for Others	22,581.27	24,363.36	(1,782.09)	(7.31) %
Long-Term Liabilities	<u>461,453.40</u>	<u>519,553.11</u>	<u>(58,099.71)</u>	(11.18) %
Total Noncurrent Liabilities	<u>484,034.67</u>	<u>543,916.47</u>	<u>(59,881.80)</u>	(11.01) %
Total Liabilities	<u>\$ 935,147.10</u>	<u>\$ 955,268.38</u>	<u>\$ (20,121.28)</u>	(2.11) %

Net Assets

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets decreased \$1,094,813.86 for a year end total of \$13,799,160.96. The reduction of net assets includes the decrease in restricted net assets and is primarily due to the decrease in capital projects.

Comparative Statement of Net Assets

	FY 2005-06	FY 2004-05	Increase/ (Decrease)	% Increase/ (Decrease)
Invested in Capital Assets	\$ 9,163,362.47	\$ 9,392,030.63	\$ (228,668.16)	(2.43) %
Restricted Net Assets	2,874,607.44	3,977,404.18	(1,102,796.74)	(27.73) %
Unrestricted Net Assets	<u>1,761,191.05</u>	<u>1,524,540.01</u>	<u>236,651.04</u>	15.52 %
Total Net Assets	<u>\$ 13,799,160.96</u>	<u>\$ 14,893,974.82</u>	<u>\$ (1,094,813.86)</u>	(7.35) %

Revenues

The College's revenues are classified as operating and nonoperating revenues. Total revenues decreased from \$23,213,616.41 to \$19,495,015.72 for 2006 for a decrease of \$3,718,600.69 or 16.02%. Operating revenues include student tuition and fees; federal, State, and local

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

operating grants; sales and services revenue; and other operating revenues. Tuition and fees decreased because of decreased enrollment and increase in tuition discount. Sales and services revenue mainly is derived from bookstore operations. The bookstore operations had an increase in fund balance for the year of \$109,573.69. 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 \$3,305,763.76 or 97.18% of total Federal Grants and Contracts. State and local grants and contracts increased \$205,029.73 or 285.61% due to the NCCCSO scholarship being sent directly to the College instead of being sent to the student directly as in prior years.

Operating Revenues

	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Student Tuition and Fees	\$ 1,494,642.95	\$ 1,859,597.84	\$ (364,954.89)	(19.63) %
Federal Grants and Contracts	3,401,548.51	3,713,629.53	(312,081.02)	(8.40) %
State and Local Grants and Contracts	276,815.87	71,786.14	205,029.73	285.61 %
Sales and Services, Net	912,656.58	1,206,746.49	(294,089.91)	(24.37) %
Other Operating Revenues	<u>15,781.40</u>	<u>8,287.60</u>	<u>7,493.80</u>	90.42 %
Total Operating Revenues	<u>\$ 6,101,445.31</u>	<u>\$ 6,860,047.60</u>	<u>\$ (758,602.29)</u>	(11.06) %

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 decrease during the 2006 fiscal year. Investment income experienced a large increase due to the investments within the Ruth Mull account and increase in the amount of interest income received during the fiscal year. Other nonoperating expenses increased \$1,306,561.88 or 21571.14% due to the bond allotment recumbent.

Nonoperating Revenues

	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
State Aid	\$ 10,845,545.88	\$ 10,699,820.14	\$ 145,725.74	1.36 %
County Appropriations	1,476,159.96	1,476,159.96		
Noncapital Grants and Gifts	1,166,670.06	813,031.91	353,638.15	43.50 %
Investment Income	206,327.82	73,657.19	132,670.63	180.12 %
Other Nonoperating Expense	<u>(1,312,618.87)</u>	<u>(6,056.99)</u>	<u>(1,306,561.88)</u>	(21,571.14) %
Net Nonoperating Revenues	<u>\$ 12,382,084.85</u>	<u>\$ 13,056,612.21</u>	<u>\$ (674,527.36)</u>	(5.17) %

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 Statement No. 34/35. Operating expenses showed a net decrease of \$626,214.17 for 2006. Salaries and benefits increased by \$322,978.27. Scholarships and fellowships decreased by \$661,744.05 due to the increase in tuition discounts. Depreciation decreased by \$248,945.78 due to prior year's recording of depreciation for buildings donated in 2005.

Operating Expenses

	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Salaries and Benefits	\$ 13,523,572.93	\$ 13,200,594.66	\$ 322,978.27	2.45 %
Supplies and Materials	2,648,836.43	2,664,895.60	(16,059.17)	(0.60) %
Services	1,240,414.39	1,293,597.18	(53,182.79)	(4.11) %
Scholarships and Fellowships	2,344,849.33	3,006,593.38	(661,744.05)	(22.01) %
Utilities	378,928.05	348,188.70	30,739.35	8.83 %
Depreciation	453,228.45	702,174.23	(248,945.78)	(35.45) %
Total Operating Expenses	<u>\$ 20,589,829.58</u>	<u>\$ 21,216,043.75</u>	<u>\$ (626,214.17)</u>	(2.95) %

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 decreased significantly due to a prior year's recording of revenue from 2000 State Bond monies used for capital projects. In addition, the College received donated equipment, land, buildings, and new construction funding totaling \$325,610.00 in 2005.

Capital Contributions

	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
State Capital Aid	\$ 950,458.59	\$ 2,926,090.60	\$ (1,975,632.01)	(67.52) %
Capital Grants	30,026.18	45,256.00	(15,229.82)	(33.65) %
Capital Gifts	31,000.79	325,610.00	(294,609.21)	(90.48) %
Total Capital Contributions	<u>\$ 1,011,485.56</u>	<u>\$ 3,296,956.60</u>	<u>\$ (2,285,471.04)</u>	(69.32) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset Activity

Western Piedmont Community College's capital assets as of June 30, 2006, amount to \$9,163,362.47 net of the accumulated depreciation totaling \$8,606,693.06. Construction in progress has a balance of \$297,188.14 consisting of renovations for a new Information Center and the Health Sciences Building. The College completed and added the addition to the Alpine Tower to infrastructure for \$16,000.

Analysis of Financial Position

For the year ended June 30, 2006, the College had an increase in cash and cash equivalents of \$104,481.96, representing a 5.56% increase in cash and cash equivalents when compared to the June 30, 2005, balance.

Net Assets decreased by \$1,094,813.86, reflecting a 7.35% change from Net Assets from June 30, 2005.

Management concludes that the financial position of the College has remained strong during the past fiscal year. The decrease in net assets is mainly due to the accounting policy on recognition of allotted funds for capital projects from the NC Community College System.

Economic Factors and Next Year's Budget

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

Western Piedmont Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,982,861.54
Restricted Cash and Cash Equivalents	282,415.08
Receivables, Net (Note 4)	397,235.85
Due from State of North Carolina Component Units	157,500.00
Inventories	275,185.98
Notes Receivable, Net (Note 4)	1,400.00

Total Current Assets	3,096,598.45
----------------------	--------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	95,221.37
Restricted Due from Primary Government	1,299,808.57
Other Long-Term Investments	1,079,317.20
Capital Assets - Nondepreciable (Note 5)	1,147,833.64
Capital Assets - Depreciable, Net (Note 5)	8,015,528.83

Total Noncurrent Assets	11,637,709.61
-------------------------	---------------

Total Assets	14,734,308.06
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	220,715.88
Due to Primary Government	4,675.27
Deferred Revenue	119,861.68
Long-Term Liabilities - Current Portion (Note 7)	105,859.60

Total Current Liabilities	451,112.43
---------------------------	------------

Noncurrent Liabilities:

Funds Held for Others	22,581.27
Long-Term Liabilities (Note 7)	461,453.40

Total Noncurrent Liabilities	484,034.67
------------------------------	------------

Total Liabilities	935,147.10
-------------------	------------

NET ASSETS

Invested in Capital Assets	9,163,362.47
----------------------------	--------------

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	59,339.00
Expendable:	
Scholarships and Fellowships	1,229,121.05
Loans	6,442.44
Capital Projects	1,299,418.16
Other	280,286.79

Unrestricted	1,761,191.05
--------------	--------------

Total Net Assets	\$ 13,799,160.96
------------------	------------------

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, 2006

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,494,642.95
Federal Grants and Contracts	3,401,548.51
State and Local Grants and Contracts	276,815.87
Sales and Services, Net (Note 9)	912,656.58
Other Operating Revenues	15,781.40

Total Operating Revenues	6,101,445.31
--------------------------	--------------

EXPENSES

Operating Expenses:

Personal Services	13,523,572.93
Supplies and Materials	2,648,836.43
Services	1,240,414.39
Scholarships and Fellowships	2,344,849.33
Utilities	378,928.05
Depreciation	453,228.45

Total Operating Expenses	20,589,829.58
--------------------------	---------------

Operating Loss	(14,488,384.27)
----------------	-----------------

NONOPERATING REVENUES (EXPENSES)

State Aid	10,845,545.88
County Appropriations	1,476,159.96
Noncapital Grants	966,808.28
Noncapital Gifts	199,861.78
Investment Income, Net	206,327.82
Refund to Grantor	(1,309,560.00)
Other Nonoperating Expenses	(3,058.87)

Net Nonoperating Revenues	12,382,084.85
---------------------------	---------------

Income Before Other Revenues, Expenses, Gains, and Losses	512,820.58
---	------------

State Capital Aid	950,458.59
Capital Grants	30,026.18
Capital Gifts	31,000.79

Decrease in Net Assets	1,524,306.14
------------------------	--------------

NET ASSETS

Net Assets, July 1, 2005	14,893,974.82
--------------------------	---------------

Net Assets, June 30, 2006	\$ 16,418,280.96
---------------------------	------------------

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, 2006***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,064,362.26
Payments to Employees and Fringe Benefits	(13,548,304.50)
Payments to Vendors and Suppliers	(4,297,482.43)
Payments for Scholarships and Fellowships	(2,344,849.33)
Loans Issued to Students	(16,723.75)
Collection of Loans to Students	17,567.23
Other Payments	(1,309,849.95)
	<u>(15,435,280.47)</u>
Net Cash Used by Operating Activities	<u>(15,435,280.47)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,845,545.88
County Appropriations	1,476,159.96
Noncapital Grants Received	822,774.53
Noncapital Gifts and Endowments Received	199,861.78
	<u>13,344,342.15</u>
Net Cash Provided by Noncapital Financing Activities	<u>13,344,342.15</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,398,989.47
Capital Grants Received	30,026.18
Capital Gifts Received	31,000.79
Proceeds from Sale of Capital Assets	770.51
Acquisition and Construction of Capital Assets	(222,891.41)
	<u>2,237,895.54</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,237,895.54</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>128,524.89</u>
Net Cash Provided by Investing Activities	<u>128,524.89</u>

Net Increase in Cash and Cash Equivalents	275,482.11
Cash and Cash Equivalents, July 1, 2005	<u>2,085,015.88</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 2,360,497.99</u>

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

Exhibit A-3

Page 2

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

Operating Loss	\$ (14,488,384.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	453,228.45
Provision for Uncollectible Loans and Write-Offs	2,552.06
Miscellaneous Nonoperating Income	(1,308,067.86)
Changes in Assets and Liabilities:	
Receivables, Net	(37,623.12)
Inventories	(30,717.53)
Notes Receivable, Net	843.48
Accounts Payable and Accrued Liabilities	14,430.29
Due to Primary Government	(1,790.76)
Deferred Revenue	540.07
Funds Held for Others	(1,782.09)
Compensated Absences	(38,509.19)
	<u>(38,509.19)</u>
Net Cash Used by Operating Activities	<u>\$ (15,435,280.47)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,982,861.54
Restricted Cash and Cash Equivalents	282,415.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>95,221.37</u>
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 2,360,497.99</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 6,990.40
Change in Fair Value of Investments	77,802.93
Increase in Receivables Related to Nonoperating Income	157,500.00

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

Western Piedmont Foundation, Inc.
Statement of Financial Position
June 30, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	181,458
Student Loans Receivables		12,683
Endowment Fund Cash		11,982
Stocks		574,149
		<hr/>
Total Assets		780,272
		<hr/>

NET ASSETS

Unrestricted		81,560
Temporarily Restricted		388,863
Permanently Restricted		309,849
		<hr/>
Total Net Assets	\$	780,272
		<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, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenue:	
Donations	\$ 4,524
Investment Return	6,285
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	160,340
	<hr/>
Total Support and Revenue	171,149
	<hr/>
Expenses:	
Program Services:	
Instructional Awards	2,000
Institutional Development Grants	10,600
Scholarship Awards	101,857
Construction Cost and Maintenance	14,009
Fund Raising Expenses:	
Golf Tournament Expense	9,173
Management and General:	
Professional Fees	3,726
Other Expense	108,010
	<hr/>
Total Expenses	249,375
	<hr/>
Change in Net Assets	(78,226)
Net Assets, Beginning of Year	101,167
Transfers In	58,619
	<hr/>
Net Assets, End of Year	\$ 81,560
	<hr/> <hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Support and Revenue:	
Donations	\$ 145,726
Investment Return	4,584
Program Grants	1,550
Golf Tournament Revenue	12,650
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(160,340)
	<hr/>
Total Support and Revenue	4,170
	<hr/>
Change in Net Assets	4,170
Net Assets, Beginning of Year	437,605
Transfers Out	(52,912)
	<hr/>
Net Assets, End of Year	\$ 388,863
	<hr/> <hr/>

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

Exhibit B-2

Page 2

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Support and Revenue:	
Donations	\$ 1,675
Investment Return	<u>24,998</u>
Total Support and Revenue	<u>26,673</u>
Change in Net Assets	26,673
Net Assets, Beginning of Year	288,883
Transfers Out	<u>(5,707)</u>
Net Assets, End of Year	<u>\$ 309,849</u>

See Note 1 in the notes to the financial statements.

[This Page Left Blank Intentionally]

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – 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)

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

During the year ended June 30, 2006, the Foundation distributed \$206,900.71 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 and accordingly, is reported within a single column in the basic financial statements.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out, method. Merchandise for resale is valued using the retail inventory method.

- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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)

- 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- 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 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)

- 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 *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$3,200.00, and deposits in private financial institutions with a carrying value of \$548,501.83 and a bank balance of \$980,290.81.

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)

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,808,796.16, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 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.

Investments of the College's component unit, Western Piedmont Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value
Investment Type	
Other Securities	
Domestic Stocks	1,045,880.93
Money Market Funds	33,436.27
	<hr/>
Total Investments	\$ 1,079,317.20

In addition to the interest rate risk disclosed above, the College's investments include investments with fair values highly sensitive to interest rate changes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

policy for custodial credit risk. The College's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Money Market Funds	\$ 33,436.27
Domestic Stocks	1,045,880.93
	\$ 1,079,317.20
Total	\$ 1,079,317.20

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in Domestic Stocks. These investments are 97% of the College's investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 3,200.00
Carrying Amount of Deposits with Private Financial Institutions	548,501.83
Investments in the Short Term Investment Fund	1,808,796.16
Other Investments	1,079,317.20
	\$ 3,439,815.19
Total Deposits and Investments	
	\$ 3,439,815.19
Current:	
Cash and Cash Equivalents	\$ 1,982,861.54
Restricted Cash and Cash Equivalents	282,415.08
Noncurrent:	
Restricted Cash and Cash Equivalents	95,221.37
Other Long-Term Investments	1,079,317.20
	\$ 3,439,815.19
Total	\$ 3,439,815.19

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

otherwise. At June 30, 2006, net appreciation of \$2,023.72 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 145,294.98	\$ 2,453.80	\$ 142,841.18
Accounts	100,021.78		100,021.78
Intergovernmental	139,127.36		139,127.36
Other	15,417.03	171.50	15,245.53
Total Current Receivables	\$ 399,861.15	\$ 2,625.30	\$ 397,235.85
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 6,356.56	\$ 4,956.56	\$ 1,400.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 705,631.50	\$ 0.00	\$ 0.00	\$ 705,631.50
Art, Literature, and Artifacts	145,014.00			145,014.00
Construction in Progress	272,236.60	40,951.54	16,000.00	297,188.14
Total Capital Assets, Nondepreciable	1,122,882.10	40,951.54	16,000.00	1,147,833.64
Capital Assets, Depreciable:				
Buildings	13,728,688.11			13,728,688.11
Machinery and Equipment	2,093,447.96	188,930.27	65,639.29	2,216,738.94
General Infrastructure	660,794.84	16,000.00		676,794.84
Total Capital Assets, Depreciable	16,482,930.91	204,930.27	65,639.29	16,622,221.89
Less Accumulated Depreciation:				
Buildings	6,539,117.19	311,369.55		6,850,486.74
Machinery and Equipment	1,284,419.94	119,758.53	60,317.77	1,343,860.70
General Infrastructure	390,245.25	22,100.37		412,345.62
Total Accumulated Depreciation	8,213,782.38	453,228.45	60,317.77	8,606,693.06
Total Capital Assets, Depreciable, Net	8,269,148.53	(248,298.18)	5,321.52	8,015,528.83
Capital Assets, Net	\$ 9,392,030.63	\$ (207,346.64)	\$ 21,321.52	\$ 9,163,362.47

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 44,186.79
Accrued Payroll	170,566.09
Contract Retainage	5,963.00
Total Accounts Payable and Accrued Liabilities	\$ 220,715.88

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 605,822.19	\$ 409,938.81	\$ 448,448.00	\$ 567,313.00	\$ 105,859.60

NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$75,362.25.

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
Operating Revenues:					
Student Tuition and Fees	\$ 2,408,150.38	\$ 0.00	\$ 912,693.43	\$ 814.00	\$ 1,494,642.95
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,322,512.47	\$ 16,203.92	\$ 559,456.10	\$ 8.00	\$ 746,844.45
Other	113,185.41				113,185.41
Sales and Services of Education and Related Activities	75,419.92		22,958.15	(164.95)	52,626.72
Total Sales and Services	\$ 1,511,117.80	\$ 16,203.92	\$ 582,414.25	\$ (156.95)	\$ 912,656.58

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,420,804.92	\$ 1,122,806.40	\$ 302,459.65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,846,070.97
Academic Support	1,383,498.18	91,049.59	61,707.28				1,536,255.05
Student Services	1,119,095.28	25,758.48	130,256.11	52,821.85			1,327,931.72
Institutional Support	1,727,136.07	109,570.39	569,671.09				2,406,377.55
Operations and Maintenance of Plant	740,953.92	242,813.76	147,283.29		378,928.05		1,509,979.02
Student Financial Aid			4,154.31	2,292,027.48			2,296,181.79
Auxiliary Enterprises	132,084.56	1,056,837.81	24,882.66				1,213,805.03
Depreciation						453,228.45	453,228.45
Total Operating Expenses	<u>\$ 13,523,572.93</u>	<u>\$ 2,648,836.43</u>	<u>\$ 1,240,414.39</u>	<u>\$ 2,344,849.33</u>	<u>\$ 378,928.05</u>	<u>\$ 453,228.45</u>	<u>\$ 20,589,829.58</u>

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

For the year ended June 30, 2006, the College had a total payroll of \$11,400,711.18, of which \$8,843,443.57 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$530,606.62 and \$207,044.72, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$207,044.72, \$193,692.91, and \$18,148.16, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$19,181.00 for the year ended June 30, 2006.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental 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 \$83,180.00 for the year ended June 30, 2006.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$91,466.00 for the year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$336,432.52. 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 year ended June 30, 2006, the College's total contribution to the DIPNC was \$46,033.61. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

Fire and other property losses are covered by 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. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$151,161.57 at June 30, 2006.

NOTE 15 - SUBSEQUENT EVENT

The Burke County Commissioners committed \$2.5 million to Western Piedmont Community College for an Emergency Services Training Complex in their February 21, 2007, meeting. The complex, scheduled for completion before the end of the year, has an estimated cost of \$11.8 million.



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Trustees
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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 31, 2007. Our report was modified to include reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted a matter involving the internal control over financial reporting and its operation that we have reported to management of the College in a separate letter dated March 6, 2007.

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

Compliance and Other Matters

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

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

Leslie W. Merritt, Jr.

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

January 31, 2007

ORDERING INFORMATION

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

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647