STATE OF NORTH CAROLINA

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

Western Piedmont Community College

Morganton, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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 Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Western Piedmont Community College

We have completed a financial statement audit of Western Piedmont Community College for the year ended June 30, 2008, 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 disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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, 2008, 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., 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 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 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, 2008, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by*

Employers for Postemployment Benefits Other Than Pensions and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2009, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

March 27, 2009

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, 2008. 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

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. 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.

Analysis of Financial Position and Results of Operations

Condensed Statement of Net Assets

	FY 2007-08	FY 2006-07	Increase/ Decrease	Change
Assets				
Current Assets	$ 3,577,191.22	$ 3,291,246.94	$ 285,944.28	9%
Noncurrent Assets:				
Capital Assets- Nondepreciable	796,375.50	3,282,884.34	(2,486,508.84)	-76%
Capital Assets- Depreciable	12,321,045.12	8,710,534.48	3,610,510.64	41%
Other Noncurrent Assets	2,471,225.04	4,025,549.46	(1,554,324.42)	-39%
Total Assets	19,165,836.88	19,310,215.22	(144,378.34)	-1%
Liabilities				
Current Liabilities	430,009.20	629,141.56	(199,132.36)	-32%
Noncurrent Liabilities:				
Long-Term Liabilities	528,071.71	501,131.60	26,940.11	5%
Other Noncurrent Liabilities	27,230.34	18,136.34	9,094.00	50%
Total Liabilities	985,311.25	1,148,409.50	(163,098.25)	-14%
Net Assets				
Invested in Capital Assets	13,117,420.62	11,993,418.82	1,124,001.80	9%
Restricted:				
Nonexpendable	59,339.00	59,339.00	0.00	0%
Expendable	2,627,835.45	4,016,567.38	(1,388,731.93)	-35%
Unrestricted	2,375,930.56	2,092,480.52	283,450.04	14%
Total Net Assets	$ 18,180,525.63	$ 18,161,805.72	$ 18,719.91	

Assets and Liabilities

Management demonstrates that the financial position of the College has remained strong during the 2008 fiscal year.

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 75 years for infrastructure, 10 to 50 years for buildings and 2 to 25 years for equipment.

Current assets at June 30, 2008 had an overall increase of $285,944.28 mainly due to Cash and Cash Equivalents, which includes cash with the State Treasurer's Short-Term Investment Fund (STIF), increasing $374,999.80 as of June 30, 2008. This increase is contributed by an increase in Curriculum and Occupational Self-Supporting classes which generate increased sales in the Bookstore.

Noncurrent assets decreased from $16,018,968.28 to $15,588,645.66 for the 2008 fiscal year due to a decrease in Restricted Due from Primary Government and an increase in Capital Assets, Net due to the completion of the Health Science Building.

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. 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. Liabilities decreased by $163,098.25 due primarily to a decrease in accounts and retainage payables because of the completion of the Health Science Building in January 2008.

Net Assets

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets increased $18,719.91 for a year end total of $18,180,525.63. The increase of net assets is primarily due to the completion of the Health Science Building in January 2008.

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

	FY 2007-08	FY 2006-07	Increase/ (Decrease)	Change
Operating Revenues				
Student Tuition and Fees, Net	$ 1,528,761.94	$ 1,571,307.11	$ (42,545.17)	-3%
Grants and Contracts	4,578,961.78	3,774,470.25	804,491.53	21%
Sales and Services, Net	1,042,555.13	973,869.10	68,686.03	7%
Other Operating Revenues	23,457.45	27,784.97	(4,327.52)	-16%
Total Operating Revenues	7,173,736.30	6,347,431.43	826,304.87	13%
Operating Expenses				
Personal Services	15,187,774.08	14,054,247.48	1,133,526.60	8%
Supplies and Materials	3,046,879.06	3,422,020.78	(375,141.72)	-11%
Services	1,501,920.18	1,352,454.47	149,465.71	11%
Scholarships and Fellowships	2,871,270.46	2,277,059.58	594,210.88	26%
Utilities	386,847.37	387,750.15	(902.78)	0%
Depreciation	583,466.58	537,325.29	46,141.29	9%
Total Operating Expenses	23,578,157.73	22,030,857.74	1,547,299.99	7%
Operating Loss	(16,404,421.43)	(15,683,426.31)	(720,995.12)	5%
Nonoperating Revenues				
State Aid	12,469,323.97	11,430,080.54	1,039,243.43	9%
County Appropriations	1,650,000.00	1,534,500.00	115,500.00	8%
Other Nonoperating Revenues	935,490.01	1,283,221.43	(347,731.42)	-27%
Net Nonoperating Revenues	15,054,813.98	14,247,801.97	807,012.01	6%
Loss Before Other Revenues	(1,349,607.45)	(1,435,624.34)	86,016.89	-6%
Capital Contributions	1,260,872.78	5,398,934.72	(4,138,061.94)	-77%
Decrease in Net Assets	(88,734.67)	3,963,310.38	(4,052,045.05)	-102%
Net Assets Beginning of Year, Restated	18,269,260.30	14,198,495.34	4,070,764.96	29%
Restatement		107,454.58	(107,454.58)	
Net Assets End of Year	$ 18,180,525.63	$ 18,269,260.30	$ (88,734.67)	

Revenues

The College's revenues are classified as operating, nonoperating revenues and capital contributions. Total revenues decreased from $25,994,168.12 to $23,489,423.06 for the 2008 fiscal year, a decrease of $2,504,745.06. The largest variance is the decrease in State Capital Aid of $4,179,524.91 mainly due to the Health Science Building project of which the majority of the construction was completed during the 2007 fiscal year.

Operating revenues which include student tuition and fees; federal, State, and local grants; sales and services revenue; and other operating revenues experienced an increase of $826,304.87. This increase is primarily due to an increase in Federal Pell grants due to increased enrollment and financial assistance needs and also, an increase in State grants due to the NC Education Lottery Scholarship.

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 which increased $1,039,243.43 for the 2008 fiscal year. However, due to the declining economy Investment income experienced a large decrease of $320,124.77.

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 80% of the Health Science Building was paid in the 2007 fiscal year. Also, in the 2007 fiscal year, the College received a Facility grant award of $1 million to be used in renovation of a county building, Foothills Allied Health, for additional classrooms.

Operating Expenses

The majority of operating expenses are 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 net increase of $1,547,299.99 for the 2008 fiscal year. Salaries and benefits increased by $1,133,526.60 due to a 5% salary increase and also a one-time bonus awarded in November 2007.

Capital Asset Activity

Western Piedmont Community College's capital assets as of June 30, 2008, amount to $13,117,420.62. During the 2008 fiscal year, the Health Science Building was completed and the College transferred 20.1 acres to Burke County for the construction of the Emergency Services Training Complex.

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, 2008

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,809,652.86
Restricted Cash and Cash Equivalents	259,239.16
Receivables, Net (Note 4)	273,267.37
Inventories	234,700.83
Notes Receivable, Net (Note 4)	331.00
Total Current Assets	3,577,191.22
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	206,452.52
Restricted Due from Primary Government	1,236,299.30
Investments	1,028,473.22
Capital Assets - Nondepreciable (Note 5)	796,375.50
Capital Assets - Depreciable, Net (Note 5)	12,321,045.12
Total Noncurrent Assets	15,588,645.66
Total Assets	19,165,836.88
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	252,552.62
Due to Primary Government	4,951.39
Unearned Revenue	104,087.85
Long-Term Liabilities - Current Portion (Note 7)	68,417.34
Total Current Liabilities	430,009.20
Noncurrent Liabilities:	
Funds Held for Others	27,230.34
Long-Term Liabilities (Note 7)	528,071.71
Total Noncurrent Liabilities	555,302.05
Total Liabilities	985,311.25
NET ASSETS	
Invested in Capital Assets	13,117,420.62
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	59,339.00
Expendable:	
Scholarships and Fellowships	1,177,805.22
Loans	5,892.28
Capital Projects	1,348,804.10
Other	95,333.85
Unrestricted	2,375,930.56
Total Net Assets	$ 18,180,525.63

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, 2008 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 1,528,761.94
Federal Grants and Contracts	3,835,500.74
State and Local Grants and Contracts	743,461.04
Sales and Services, Net (Note 9)	1,042,555.13
Other Operating Revenues	23,457.45
Total Operating Revenues	7,173,736.30
EXPENSES	
Operating Expenses:	
Personal Services	15,187,774.08
Supplies and Materials	3,046,879.06
Services	1,501,920.18
Scholarships and Fellowships	2,871,270.46
Utilities	386,847.37
Depreciation	583,466.58
Total Operating Expenses	23,578,157.73
Operating Loss	(16,404,421.43)
NONOPERATING REVENUES (EXPENSES)	
State Aid	12,469,323.97
County Appropriations	1,650,000.00
Noncapital Grants	808,697.32
Noncapital Gifts	91,652.57
Investment Loss	(19,613.59)
Other Nonoperating Revenues	54,753.71
Net Nonoperating Revenues	15,054,813.98
Loss Before Other Revenues	(1,349,607.45)
State Capital Aid	1,194,857.42
Capital Grants	21,015.36
Capital Gifts	45,000.00
Decrease in Net Assets	(88,734.67)
NET ASSETS	
Net Assets, July 1, 2007 as Restated (Note 16)	18,269,260.30
Net Assets, June 30, 2008	$ 18,180,525.63

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, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,202,029.40
Payments to Employees and Fringe Benefits	(15,145,426.85)
Payments to Vendors and Suppliers	(5,009,490.48)
Payments for Scholarships and Fellowships	(2,871,270.46)
Loans Issued to Students	(15,656.00)
Collection of Loans to Students	18,551.37
Other Receipts	9,802.53
Net Cash Used by Operating Activities	(15,811,460.49)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,469,323.97
County Appropriations	1,650,000.00
Noncapital Grants Received	845,769.28
Noncapital Gifts	91,652.57
Cash Provided by Noncapital Financing Activities	15,056,745.82
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,664,793.65
Capital Grants Received	21,015.36
Capital Gifts Received	45,000.00
Proceeds from Sale of Capital Assets	7,592.63
Proceeds from Insurance on Capital Assets	104,982.00
Acquisition and Construction of Capital Assets	(1,778,443.77)
Net Cash Provided by Capital and Related Financing Activities	1,064,939.87
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	179,897.59
Cash Provided by Investing Activities	179,897.59
Net Increase in Cash and Cash Equivalents	490,122.79
Cash and Cash Equivalents, July 1, 2007	2,785,221.75
Cash and Cash Equivalents, June 30, 2008	$ 3,275,344.54

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(16,404,421.43)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		583,466.58
Provision for Uncollectible Loans and Write-Offs		599.53
Miscellaneous Nonoperating Income		708.53
Changes in Assets and Liabilities:		
Receivables, Net		24,878.58
Inventories		23,610.08
Notes Receivable, Net		2,895.37
Accounts Payable and Accrued Liabilities		(60,777.49)
Due to Primary Government		(8,231.98)
Unearned Revenue		3,414.52
Funds Held for Others		9,094.00
Compensated Absences		13,303.22
Net Cash Used by Operating Activities	$	(15,811,460.49)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,809,652.86
Restricted Cash and Cash Equivalents		259,239.16
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		206,452.52
Total Cash and Cash Equivalents - June 30, 2008	$	3,275,344.54

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	(199,511.18)

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

Western Piedmont Foundation, Inc.
Statement of Financial Position
June 30, 2008 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	204,792
Student Loans Receivable		14,588
Endowment Fund Short-Term Investment		1,017,376
Stocks		619,735
Total Assets		1,856,490
NET ASSETS		
Unrestricted		56,597
Temporarily Restricted		265,357
Permanently Restricted		1,534,537
Total Net Assets	$	1,856,490

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

Western Piedmont Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008 ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenue:		
Donations	$	8,522
Investment Return		2,580
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		196,395
Total Support and Revenue		207,498
Expenses:		
Program Services:		
Instructional Awards		2,000
Institutional Development Grants		500
Scholarship Awards		67,007
Construction Cost and Maintenance		146,800
Fund Raising Expenses:		
General Fund Raising Expense		24
Golf Tournament Expenses		8,537
Management and General:		
Professional Fees		7,488
Other Expenses		70,645
Total Expenses		303,001
Change in Net Assets		(95,504)
Net Assets, Beginning of Year		134,183
Transfers In		17,918
Net Assets, End of Year	$	56,597
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Support and Revenue:		
Donations	$	215,709
Investment Return		27,941
Program Grants		1,720
Golf Tournament Revenue		16,250
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(196,395)
Total Support and Revenue		65,225
Change in Net Assets		65,225
Net Assets, Beginning of Year		410,995
Transfers Out		(210,863)
Net Assets, End of Year	$	265,357

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Support and Revenue:		
Donations	$	592,563
Investment Return		6,813
Total Support and Revenue		599,376
Change in Net Assets		599,376
Net Assets, Beginning of Year		742,217
Transfers In		192,943
Net Assets, End of Year	$	1,534,537

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), 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 its 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 Unit - Western Piedmont Foundation, Inc. is a legally separate, tax-exempt, 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 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 is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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, 2008, the Foundation distributed $136,180.46 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., located in Morganton, North Carolina.

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

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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, 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, are valued at cost using the first-in, first-out cost method. Merchandise for resale is valued at the lower of cost or market 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 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 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.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous August 31 plus the leave earned, less the leave taken between September 1 and June 30.

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.

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.

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 $2,530.00, and deposits in private financial institutions with a carrying value of $645,063.96, and a bank balance of $1,335,572.13.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $2,627,750.58, 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 2.9 years as of June 30, 2008. 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.

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., is 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 College held fair value of $1,028,473.22 in closed-end mutual fund investments at June 30, 2008.

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 policy for custodial credit risk. The College's investments of $1,028,473.22 in closed-end mutual funds were exposed to custodial credit risk.

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. However, the investment manager uses an operating procedure of obtaining no more than 5% in one issuer of stock.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	$	2,530.00
Carrying Amount of Deposits with Private Financial Institutions		645,063.96
Investments in the Short Term Investment Fund		2,627,750.58
Investments		1,028,473.22
Total Deposits and Investments	$	4,303,817.76
Current:		
Cash and Cash Equivalents	$	2,809,652.86
Restricted Cash and Cash Equivalents		259,239.16
Noncurrent:		
Restricted Cash and Cash Equivalents		206,452.52
Long-Term Investments		1,028,473.22
Total	$	4,303,817.76

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, 2008, net appreciation of $3,060.08 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 217,309.35	$ 39,494.08	$ 177,815.27
Accounts	49,630.38		49,630.38
Intergovernmental	44,338.02		44,338.02
Other	2,354.80	871.10	1,483.70
Total Current Receivables	$ 313,632.55	$ 40,365.18	$ 273,267.37
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 5,837.72	$ 5,506.72	$ 331.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 705,631.50	$ 0.00	$ 54,270.00	$ 651,361.50
Art, Literature, and Artifacts	145,014.00			145,014.00
Construction in Progress	2,432,238.84	1,238,664.65	3,670,903.49	0.00
Total Capital Assets, Nondepreciable	3,282,884.34	1,238,664.65	3,725,173.49	796,375.50
Capital Assets, Depreciable:				
Buildings	13,764,884.83	3,670,903.49		17,435,788.32
Machinery and Equipment	2,885,941.13	368,222.73	73,039.75	3,181,124.11
General Infrastructure	676,794.84	51,655.87		728,450.71
Total Capital Assets, Depreciable	17,327,620.80	4,090,782.09	73,039.75	21,345,363.14
Less Accumulated Depreciation:				
Buildings	7,110,903.19	360,816.22		7,471,719.41
Machinery and Equipment	1,140,369.61	200,348.53	68,780.30	1,271,937.84
General Infrastructure	258,358.94	22,301.83		280,660.77
Total Accumulated Depreciation	8,509,631.74	583,466.58	68,780.30	9,024,318.02
Total Capital Assets, Depreciable, Net	8,817,989.06	3,507,315.51	4,259.45	12,321,045.12
Capital Assets, Net	$ 12,100,873.40	$ 4,745,980.16	$ 3,729,432.94	$ 13,117,420.62

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 59,128.25
Accrued Payroll	193,424.37
Total Accounts Payable and Accrued Liabilities	$ 252,552.62

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 583,185.83	$ 382,907.93	$ 369,604.71	$ 596,489.05	$ 68,417.34

NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was $61,726.72.

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	$ 2,642,785.15	$ 0.00	$ 1,082,516.34	$ 31,506.87	$ 1,528,761.94
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,579,379.46	$ 37,446.28	$ 677,669.81	$ 1,852.38	$ 862,410.99
Other	128,026.91				128,026.91
Sales and Services of Education and Related Activities	88,481.27		35,151.60	1,212.44	52,117.23
Total Sales and Services	$ 1,795,887.64	$ 37,446.28	$ 712,821.41	$ 3,064.82	$ 1,042,555.13

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	$ 9,060,619.45	$ 1,267,638.83	$ 475,537.96	$ 0.00	$ 0.00	$ 0.00	$ 10,803,796.24
Academic Support	1,476,870.27	103,670.25	53,707.23				1,634,247.75
Student Services	1,280,414.58	40,398.44	120,908.43	59,428.48			1,501,149.93
Institutional Support	2,408,264.63	173,788.48	662,072.75				3,244,125.86
Operations and Maintenance of Plant	820,155.08	209,225.66	152,311.85		386,847.37		1,568,539.96
Student Financial Aid				2,811,841.98			2,811,841.98
Auxiliary Enterprises	141,450.07	1,252,157.40	37,381.96				1,430,989.43
Depreciation						583,466.58	583,466.58
Total Operating Expenses	$ 15,187,774.08	$ 3,046,879.06	$ 1,501,920.18	$ 2,871,270.46	$ 386,847.37	$ 583,466.58	$ 23,578,157.73

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $12,645,825.60, of which $9,883,395.85 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $301,671.72 and $593,112.14, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $301,671.72, $247,310.80, and $207,044.72, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ 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 $22,560.00 for the year ended June 30, 2008.

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 $130,340.00 for the year ended June 30, 2008.

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 $96,141.00 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan’s benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers’ and State Employees’ Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers’ and State Employees’ Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $405,394.73, $353,050.01, and $336,432.52, respectively. 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*. 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.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide fro automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $51,393.66, $48,312.11, and $46,033.61, respectively. 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 the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the 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.

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 $1,236,299.30 at June 30, 2008.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

GASB Statement No. 50, *Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 18,161,805.72
Error in Establishing Useful Lives of Capital Assets	107,454.58
July 1, 2007 Net Assets as Restated	$ 18,269,260.30

NOTE 17 - SUBSEQUENT EVENTS

Fair Value of Investments - The fair market value of the College's investments decreased 26.8 percent over the four month period ending October 31, 2008. The market values for the investments were $1,028,473.22 at June 30, 2008 and declined to $753,036.54.

This change is primarily due to unrealized losses on investments as a result of the current economic and financial market conditions. College management along with their investment management advisors will continue to monitor investments for the purpose of managing investment risks and to maximize investment returns.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 27, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in both findings in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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)

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor
March 27, 2009

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

   The financial statements and notes to the financial statements contained several misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

   The College understated cash and cash equivalents by $2,542,815, overstated restricted cash and cash equivalents by $2,304,354, and overstated short-term investments by $238,461. Although the financial statements were misstated, the general ledger was stated correctly by general ledger account. The error occurred in combining unrestricted accounts for financial statement presentation.

   Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

   Response: The College concurs with the finding and will implement effective controls to ensure the completeness and accuracy of the financial statements.

2. LACK OF SEGREGATION OF DUTIES

   The College assigned business office employees access rights to the accounting system that did not support appropriate segregation of duties. These employees had the ability to initiate transactions and process them to completion. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect misstatements on a timely basis.

   Recommendation: The College should review access rights and ensure that they are assigned to support a proper segregation of duties.

   Response: The College concurs with the finding and will implement effective controls to ensure that access rights assigned to business office personnel support a proper segregation of duties.

[This Page Left Blank Intentionally]

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