

STATE OF NORTH CAROLINA

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

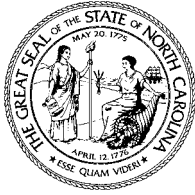
BOARD OF TRUSTEES

ROBERT L. CALDWELL, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. JIM W. BURNETT, PRESIDENT

C. MALONE MCNEELY, EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER



Beth A. Wood, CPA
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>

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, 2010, 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 the finding.

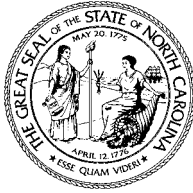
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC 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	13
B-2 Statement of Activities	14
Notes to the Financial Statements	15
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
AUDIT FINDINGS AND RESPONSES	35
ORDERING INFORMATION	37



Beth A. Wood, CPA
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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Western Piedmont Foundation, Inc., 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 relates 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.

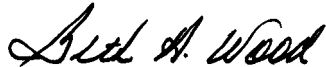
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Piedmont Community College and its discretely presented component unit as of June 30, 2010, and the respective 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

May 11, 2011

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, 2010. The discussion should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, notes to the financial statements, 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.

- **Statement of Net Assets** includes all assets and liabilities. This statement combines current financial resources and capital assets.
- **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. 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 non-financial factors that have an impact on the College's condition.
- **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, noncapital financing, capital and related financing and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Financial Position and Results of Operations

Condensed Statement of Net Assets

	<u>FY 2009-10</u>	<u>FY 2008-09</u>	<u>Increase / (Decrease)</u>	<u>Change</u>
Assets				
Current Assets	\$ 4,719,522.44	\$ 3,928,252.81	\$ 791,269.63	20%
Noncurrent Assets:				
Capital Assets - Nondepreciable	907,757.31	1,226,240.67	(318,483.36)	-26%
Capital Assets - Depreciable	13,216,239.41	12,116,656.42	1,099,582.99	9%
Other Noncurrent Assets	<u>811,407.87</u>	<u>1,678,296.92</u>	<u>(866,889.05)</u>	-52%
Total Assets	<u>19,654,927.03</u>	<u>18,949,446.82</u>	<u>705,480.21</u>	4%
Liabilities				
Current Liabilities	931,547.52	582,355.76	349,191.76	60%
Noncurrent Liabilities:				
Long-Term Liabilities	570,203.47	525,793.84	44,409.63	8%
Other Noncurrent Liabilities	<u>31,638.81</u>	<u>34,004.56</u>	<u>(2,365.75)</u>	-7%
Total Liabilities	<u>1,533,389.80</u>	<u>1,142,154.16</u>	<u>391,235.64</u>	34%
Net Assets				
Invested in Capital Assets	14,123,996.72	13,342,897.09	781,099.63	6%
Restricted:				
Nonexpendable	59,339.00	59,339.00		0%
Expendable	1,030,635.80	1,823,364.78	(792,728.98)	-43%
Unrestricted	<u>2,907,565.71</u>	<u>2,581,691.79</u>	<u>325,873.92</u>	13%
Total Net Assets	<u>\$ 18,121,537.23</u>	<u>\$ 17,807,292.66</u>	<u>\$ 314,244.57</u>	2%

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 100 years for infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment.

Current assets on June 30, 2010 had an increase of \$791,269.63. Cash and cash equivalents increased by \$466,191.77 as of June 30, 2010 which includes cash with the State Treasurer's Short-Term Investment. This increase is attributed to an increase in enrollment which generated sales increases for the Bookstore. Inventory for materials and supplies also increased \$206,479.90 due to the addition of the Foothills Higher Education Center. Receivables increased \$39,811.03 due to economic restraints on our students and increased R2T4 (Return to Title IV) calculations.

Noncurrent assets decreased from \$15,021,194.01 to \$14,935,404.59 for the 2010 fiscal year due to decreases in other investments, restricted state aid, and nondepreciable capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

However, the Foothills Higher Education Center and the Emergency Services Training Center were asset additions for the 2010 fiscal year which primarily attributed to the increase in depreciable capital assets by \$1,099,582.99.

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 Accrued Liabilities. Accrued accounts payable increased over the previous year due to a few more invoices, higher amounts, and the addition of utilities for the Foothills Higher Education Center. Also, accrued salaries increased due to the increase in part-time faculty for our Foothills Higher Education Center and additional full-time faculty spreading their annual contract over 12 months. 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.

Net Assets

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets increased \$314,244.57 for a year end total of \$18,121,537.23. The increase of net assets is primarily due to the increases in investment in capital assets and unrestricted assets. Investment in capital assets increased due to the need for capital purchases of equipment due to the enrollment growth and unrestricted assets increased because of the increase in fees, tuition, and bookstore sales related to the enrollment growth also. Capital projects decreased \$846,957.10 which is attributable to the completion of Foothills Higher Education Center and the Emergency Services Training Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	FY 2009-10	FY 2008-09	Increase / (Decrease)	Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,683,942.32	\$ 1,328,274.92	\$ 355,667.40	27%
Sales and Services, Net	982,943.51	986,681.01	(3,737.50)	0%
Other Operating Revenues	41,918.89	33,320.62	8,598.27	26%
Total Operating Revenues	2,708,804.72	2,348,276.55	360,528.17	15%
Operating Expenses				
Salaries and Benefits	16,895,379.61	16,377,707.38	517,672.23	3%
Supplies and Materials	4,245,545.65	3,889,276.44	356,269.21	9%
Services	1,139,504.33	1,144,522.93	(5,018.60)	0%
Scholarships and Fellowships	6,934,395.97	4,031,881.89	2,902,514.08	72%
Utilities	480,050.76	432,393.66	47,657.10	11%
Depreciation	551,170.26	583,289.90	(32,119.64)	-6%
Total Operating Expenses	30,246,046.58	26,459,072.20	3,786,974.38	14%
Operating Loss	(27,537,241.86)	(24,110,795.65)	(3,426,446.21)	-14%
Nonoperating Revenues				
State Aid	12,199,031.33	13,207,567.44	(1,008,536.11)	-8%
County Appropriations	2,115,000.00	1,850,510.32	264,489.68	14%
Noncapital Grants and Gifts	11,684,429.56	7,227,802.70	4,456,626.86	62%
Other Nonoperating Revenues (Expenses)	103,929.59	(202,043.16)	305,972.75	151%
Net Nonoperating Revenues	26,102,390.48	22,083,837.30	4,018,553.18	18%
Loss Before Other Revenues	(1,434,851.38)	(2,026,958.35)	592,106.97	29%
Capital Contributions	1,749,095.95	1,653,725.38	95,370.57	6%
Increase\ (Decrease) in Net Assets	314,244.57	(373,232.97)	687,477.54	184%
Net Assets Beginning of Year	17,807,292.66	18,180,525.63	(373,232.97)	-2%
Net Assets End of Year	\$ 18,121,537.23	\$ 17,807,292.66	\$ 314,244.57	2%

Revenues and Expenses

Operating Revenues

The College's revenues are classified as operating, nonoperating revenues and capital contributions. Total revenues increased from \$26,085,839.23 to \$30,560,291.15 for 2010 fiscal year, an increase of \$4,474,451.92. The largest increase was in student financial aid assistance from federal and state grants of \$4,456,626.86 due to increased enrollment and the amount awarded to students. There were restraints on the state budget therefore; the state aid and state capital aid decreased \$1,047,469.39.

Operating revenues experienced an increase of \$360,528.17 due primarily to Student Tuition and Fees revenue. The student enrollment (Full Time Equivalent) increased by 14.7%. The bookstore operations had an increase in fund balance for the year of \$215,767.92.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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. The depreciation expense is recognized in accordance with GASB Statements No. 34/35. Operating expenses showed a net increase of \$3,786,974.38 for the 2010 fiscal year. Salaries and benefits increased by \$517,672.23 due to increase in medical insurance premiums and retirement rate as well as an increased number of retirees. Supplies and materials, and scholarships and fellowships increased by \$356,269.21 and \$2,902,514.08 respectively due to increased enrollment. Services and depreciation had a slight decrease of \$37,138.24. Utilities increased \$47,657.10 mostly due to the operation of the new Foothills Higher Education Center.

Nonoperating Revenues

Nonoperating revenues comprise the major portion of the College's income and include appropriations from state and local governments, noncapital grants and gifts, and investment income. State Aid consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations. State Aid decreased by \$1,008,536.11 due to budget constraints on State funds across the state. Spending restrictions were not enforced but highly recommended to conserve as much state funds as possible. Noncapital Grants consists of revenue from the Federal Title IV student financial aid and various state student financial aid programs. The Pell grant program is the largest and accounts for \$9,184,791.66 of the Noncapital Grants and Contracts. The increase in Noncapital Grants is due to the increase in the amount awarded to students and the increase in enrollment. Investment income experienced an increase due to the Ruth Mull investments.

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.

Capital Asset Activity

Western Piedmont Community College's capital assets as of June 30, 2010 amount to \$14,123,996.72. During the 2010 fiscal year, Foothills Higher Education Center and Emergency Services Training Center were completed. During the 2011 fiscal year capital projects planned include renovation of a chemistry lab and various other small renovations throughout the campus. Burke County Board of Commissioners is funding the majority of a tiered parking lot which is expected to be completed in the 2011 fiscal year.

Analysis of Financial Position

For the year ended June 30, 2010, the College had an increase in cash and cash equivalents of \$466,191.77, representing a 15.21% increase as compared to the June 30, 2009 balance.

Net Assets increased by \$314,244.57 reflecting a 2% increase from net assets as of June 30, 2009. Construction of the Foothills Higher Education Center which started in the

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)

2009 fiscal year was completed in the 2010 fiscal year. The Emergency Service Training Center was also completed in 2010 fiscal year.

Management concludes that while the current recession has affected the College, the financial position of Western Piedmont Community College is still strong. The College will continue its mission to provide accessible, high-quality education that improves lives and promotes growth in our community.

Economic Factors and Next Year’s Budget

The State of North Carolina has experienced a revenue shortfall during the past several years and expects fiscal year 2011-2012 to be much the same, if not worse. During this recession the Community College System as a whole and Western Piedmont specifically has experienced record enrollment growth. So while we have not had drastic cuts like many state agencies, we have not been able to fully fund our growth needs. The College continues to work hard to ensure that budget shortfalls will not impact the quality of its educational products.

The primary funding for College operations is based upon budget FTE (Full Time Equivalent). The formula budget is based on the Curriculum, Occupational Extension and Basic Skills FTE. The FTE used for budget allocation will be either the prior year’s FTE or the average of the past three years, whichever is greater.

The following tables illustrate the FTE trend for budget allocation over the past several years for the College. This trend shows the strong enrollment growth we have experienced. The prison FTE was only funded at 68% of what was earned which contributed to the decrease in Occupational Extension.

CURRICULUM FTE

Reporting Year	Actual FTE	3 Year Average	Actual Budget FTE
2010-2011		2486	2835
2009-2010	2835	2244	2400
2008-2009	2400	2137	2223
2007-2008	2223	2102	2109

CONTINUING EDUCATION FTE

	OCUPTIONAL EXTENSION	BASIC SKILLS
Reporting Year	Budget FTE	Budget FTE
2010-2011	385	474
2009-2010	411	448
2008-2009	372	432
2007-2008	340	429

Western Piedmont Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,531,476.24
Restricted Cash and Cash Equivalents	322,551.31
Receivables, Net (Note 4)	405,781.13
Inventories	459,466.76
Notes Receivable, Net (Note 4)	247.00
	<hr/>
Total Current Assets	4,719,522.44

Noncurrent Assets:

Restricted Cash and Cash Equivalents	124,725.53
Restricted Due from Primary Government	73,304.88
Other Investments	613,377.46
Capital Assets - Nondepreciable (Note 5)	907,757.31
Capital Assets - Depreciable, Net (Note 5)	13,216,239.41
	<hr/>
Total Noncurrent Assets	14,935,404.59
	<hr/>
Total Assets	19,654,927.03

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	540,469.89
Due to Primary Government	8,668.64
Unearned Revenue	299,757.59
Long-Term Liabilities - Current Portion (Note 7)	82,651.40
	<hr/>
Total Current Liabilities	931,547.52

Noncurrent Liabilities:

Funds Held for Others	31,638.81
Long-Term Liabilities (Note 7)	570,203.47
	<hr/>
Total Noncurrent Liabilities	601,842.28
	<hr/>
Total Liabilities	1,533,389.80

NET ASSETS

Invested in Capital Assets	14,123,996.72
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	59,339.00
Expendable:	
Scholarships and Fellowships	896,062.08
Loans	7,897.80
Capital Projects	80,905.47
Other	45,770.45
Unrestricted	2,907,565.71
	<hr/>
Total Net Assets	\$ 18,121,537.23

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,683,942.32
Sales and Services, Net (Note 9)	982,943.51
Other Operating Revenues	41,918.89

Total Operating Revenues	2,708,804.72
--------------------------	--------------

EXPENSES

Operating Expenses:

Salaries and Benefits	16,895,379.61
Supplies and Materials	4,245,545.65
Services	1,139,504.33
Scholarships and Fellowships	6,934,395.97
Utilities	480,050.76
Depreciation	551,170.26

Total Operating Expenses	30,246,046.58
--------------------------	---------------

Operating Loss	(27,537,241.86)
----------------	-----------------

NONOPERATING REVENUES (EXPENSES)

State Aid	12,199,031.33
County Appropriations	2,115,000.00
Noncapital Grants - Student Financial Aid	10,667,583.07
Noncapital Grants	936,030.70
Noncapital Gifts	80,815.79
Investment Income	132,708.41
Other Nonoperating Expenses	(28,778.82)

Net Nonoperating Revenues	26,102,390.48
---------------------------	---------------

Loss Before Other Revenues	(1,434,851.38)
----------------------------	----------------

State Capital Aid	1,560,337.68
County Capital Aid	122,502.71
Capital Grants	59,255.56
Capital Gifts	7,000.00

Increase in Net Assets	314,244.57
------------------------	------------

NET ASSETS

Net Assets, July 1, 2009	17,807,292.66
--------------------------	---------------

Net Assets, June 30, 2010	\$ 18,121,537.23
---------------------------	------------------

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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,696,095.08
Payments to Employees and Fringe Benefits	(16,578,451.10)
Payments to Vendors and Suppliers	(6,046,089.27)
Payments for Scholarships and Fellowships	(6,934,395.97)
Loans Issued to Students	(18,107.70)
Collection of Loans to Students	19,938.12
Other Payments	(2,486.29)
	<hr/>
Net Cash Used by Operating Activities	(26,863,497.13)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,199,031.33
County Appropriations	2,115,000.00
Noncapital Grants - Student Financial Aid	10,697,316.30
Noncapital Grants Received	929,500.17
Noncapital Gifts	80,815.79
	<hr/>
Cash Provided by Noncapital Financing Activities	26,021,663.59

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,391,173.37
County Capital Aid	122,502.71
Capital Grants Received	59,255.56
Capital Gifts Received	7,000.00
Proceeds from Sale of Capital Assets	133.75
Acquisition and Construction of Capital Assets	(1,361,061.92)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,219,003.47

CASH FLOWS FROM INVESTING ACTIVITIES

Loss from Sales and Maturities of Investments	(3.44)
Investment Income	168,418.34
	<hr/>
Net Cash Provided by Investing Activities	168,414.90

Net Increase in Cash and Cash Equivalents	545,584.83
Cash and Cash Equivalents, July 1, 2009	3,433,168.25
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 3,978,753.08

Western Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (27,537,241.86)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	551,170.26
Provision for Uncollectible Loans and Write-Offs	(877.42)
Miscellaneous Nonoperating Expense	(120.54)
Changes in Assets and Liabilities:	
Receivables, Net	(63,013.73)
Inventories	(206,479.90)
Notes Receivable, Net	1,830.42
Accounts Payable and Accrued Liabilities	281,189.56
Due to Primary Government	6,406.57
Unearned Revenue	50,304.09
Funds Held for Others	(2,365.75)
Compensated Absences	55,701.17
	<u>55,701.17</u>
Net Cash Used by Operating Activities	<u>\$ (26,863,497.13)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 3,531,476.24
Restricted Cash and Cash Equivalents	322,551.31
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>124,725.53</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 3,978,753.08</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 4,130.35
Change in Fair Value of Investments	(35,706.49)

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

Western Piedmont Foundation, Inc.
Statement of Financial Position
June 30, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	1,512,779
Student Loans Receivable		3,188
Marketable Securities		507,086

Total Assets		2,023,054
--------------	--	-----------

NET ASSETS

Unrestricted		29,241
Temporarily Restricted		216,706
Permanently Restricted		1,777,107

Total Net Assets	\$	2,023,054
------------------	----	-----------

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, 2010

Exhibit B-2

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Donations	\$ 2,879	\$ 140,022	\$ 15,500	\$ 158,401
Investment Return	(3,395)	47,520	2,930	47,055
Program Grants		821		821
Golf Tournament Revenue		13,245		13,245
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	107,857	(107,857)		
Total Support and Revenue	107,341	93,751	18,430	219,523
EXPENSES				
Program Services:				
Instructional Awards	2,000			2,000
Institutional Development Grants	4,063			4,063
Scholarship Awards	90,064			90,064
Fund Raising Expenses:				
General Fund Raising Expense	34			34
Golf Tournament Expense	8,118			8,118
Management and General:				
Professional Fees	6,000			6,000
Other Expense	34,494			34,494
Total Expenses	144,773			144,773
Change in Net Assets	(37,433)	93,751	18,430	74,750
NET ASSETS				
Net Assets, Beginning of Year	27,236	224,545	1,696,525	1,948,306
Transfers In (Out)	39,438	(101,590)	62,152	
Net Assets, End of Year	\$ 29,241	\$ 216,706	\$ 1,777,107	\$ 2,023,054

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

WESTERN PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 College's 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 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 20 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.

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 the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the Foundation distributed \$120,011.13 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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, 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated 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 100 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- 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 \$2,600.00, and deposits in private financial institutions with a carrying value of \$693,248.99, and a bank balance of \$968,908.52.

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, 2010, 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,282,904.09, 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

The College held fair value of \$613,377.46 in closed-end mutual fund investments at June 30, 2010. While this mutual fund is not an authorized investment type, the College received this investment as a donation.

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 \$613,377.46 in closed-end mutual funds were exposed to custodial credit risk.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$	2,600.00
Carrying Amount of Deposits with Private Financial Institutions		693,248.99
Investments in the Short Term Investment Fund		3,282,904.09
Other Investments		<u>613,377.46</u>
Total Deposits and Investments	\$	<u><u>4,592,130.54</u></u>
Current:		
Cash and Cash Equivalents	\$	3,531,476.24
Restricted Cash and Cash Equivalents		322,551.31
Noncurrent:		
Restricted Cash and Cash Equivalents		124,725.53
Other Long-Term Investments		<u>613,377.46</u>
Total	\$	<u><u>4,592,130.54</u></u>

Component Unit - Investments of the College's discretely presented component unit, Western Piedmont Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Western Piedmont Foundation, Inc. reports under the FASB reporting model, disclosures of the various

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment risks are not required. The following is an analysis of investments by type:

	June 30, 2010		
	Market Value	Cost	Unrealized Gain (Loss)
2 Shares Mimosa Hills Golf Club	\$ 4,000	\$ 3,750	\$ 250
Shares of Merck & Co., Inc. (114 Shares)	3,974	7,274	(3,300)
Shares of Medco Health Solutions (26 Shares)	1,432		1,432
Washington Mutual Fund	21,811	26,834	(5,023)
Smith Barney Portfolio	475,869	549,008	(73,139)
Total	<u>\$ 507,086</u>	<u>\$ 586,866</u>	<u>\$ (79,780)</u>

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, 2010, net appreciation of \$973.92 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 457,608.20	\$ 144,243.44	\$ 313,364.76
Accounts	59,001.03		59,001.03
Intergovernmental	31,188.74		31,188.74
Other	3,074.05	847.45	2,226.60
Total Current Receivables	\$ 550,872.02	\$ 145,090.89	\$ 405,781.13
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 3,748.20	\$ 3,501.20	\$ 247.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 651,361.50	\$ 0.00	\$ 0.00	\$ 651,361.50
Art, Literature, and Artifacts	145,014.00			145,014.00
Construction in Progress	429,865.17	1,024,763.03	1,343,246.39	111,381.81
Total Capital Assets, Nondepreciable	1,226,240.67	1,024,763.03	1,343,246.39	907,757.31
Capital Assets, Depreciable:				
Buildings	17,435,788.32	1,049,991.53		18,485,779.85
Machinery and Equipment	3,494,248.36	326,254.43	108,830.82	3,711,671.97
General Infrastructure	728,450.71	303,299.32		1,031,750.03
Total Capital Assets, Depreciable	21,658,487.39	1,679,545.28	108,830.82	23,229,201.85
Less Accumulated Depreciation for:				
Buildings	7,819,597.73	337,296.91		8,156,894.64
Machinery and Equipment	1,418,923.55	193,163.57	80,038.79	1,532,048.33
General Infrastructure	303,309.69	20,709.78		324,019.47
Total Accumulated Depreciation	9,541,830.97	551,170.26	80,038.79	10,012,962.44
Total Capital Assets, Depreciable, Net	12,116,656.42	1,128,375.02	28,792.03	13,216,239.41
Capital Assets, Net	\$ 13,342,897.09	\$ 2,153,138.05	\$ 1,372,038.42	\$ 14,123,996.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 76,464.00
Accrued Payroll	459,875.54
Contract Retainage	4,130.35
Total Accounts Payable and Accrued Liabilities	\$ 540,469.89

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 597,153.70	\$ 423,945.40	\$ 368,244.23	\$ 652,854.87	\$ 82,651.40

NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$79,008.20.

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 Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 4,068,917.79	\$ 0.00	\$ 2,350,732.05	\$ 34,243.42	\$ 1,683,942.32
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,249,972.03	\$ 33,044.62	\$ 1,429,331.98	\$ 23,219.31	\$ 764,376.12
Other	165,837.17				165,837.17
Sales and Services of Education and Related Activities	108,572.09		54,324.42	1,517.45	52,730.22
Total Sales and Services	\$ 2,524,381.29	\$ 33,044.62	\$ 1,483,656.40	\$ 24,736.76	\$ 982,943.51

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,496,050.78	\$ 1,915,678.28	\$ 181,236.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,592,965.39
Academic Support	1,383,928.46	80,558.00	34,991.36				1,499,477.82
Student Services	1,553,681.13	35,849.21	120,572.61	56,348.92			1,766,451.87
Institutional Support	2,450,987.82	219,102.87	464,517.05				3,134,607.74
Operations and Maintenance of Plant	859,559.99	202,592.72	291,896.17		480,050.76		1,834,099.64
Student Financial Aid				6,878,047.05			6,878,047.05
Auxiliary Enterprises	151,171.43	1,791,764.57	46,290.81				1,989,226.81
Depreciation						551,170.26	551,170.26
Total Operating Expenses	<u>\$ 16,895,379.61</u>	<u>\$ 4,245,545.65</u>	<u>\$ 1,139,504.33</u>	<u>\$ 6,934,395.97</u>	<u>\$ 480,050.76</u>	<u>\$ 551,170.26</u>	<u>\$ 30,246,046.58</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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,952,044.37, of which \$10,336,773.36 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$369,022.81 and \$620,206.40, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$369,022.81, \$360,420.55, and \$301,671.72, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 \$26,988.00 for the year ended June 30, 2010.

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 \$127,180.00 for the year ended June 30, 2010.

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 \$67,386.00 for the year ended June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. The required contribution rate for the years ended June 30, 2009, and 2008, was 4.1% for both years. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$465,154.80, \$439,520.30, and \$405,394.73, 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

page,” then “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 for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2009, and 2008, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$53,751.22, \$55,744.03, and \$51,393.66, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$365,065.25 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

[This Page Left Blank Intentionally]



Beth A. Wood, CPA
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
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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 11, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 opinions 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a

**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)**

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's response to the finding identified in our audit is 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.

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



Beth A. Wood, CPA
State Auditor

May 11, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding and recommendation was identified during the current audit and discusses conditions that represent a deficiency in internal control.

LACK OF INTERNAL CONTROLS OVER INFORMATION SYSTEMS ACCESS

The College did not maintain adequate internal control over access to its computer systems and data. Bookstore employees are not assigned access rights to the point-of-sale system which support appropriate segregation of duties. As a result, errors or fraud could occur and not be detected in a timely manner.

Employees in the bookstore share user login and password information when receipting funds into the point-of-sale system. The employees may also void receipts and refund transactions without prior supervisory review or approval.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. When employees have more access to system functions and information than is needed for their jobs, there is a greater risk of error or fraud.

Recommendation: Management should evaluate and reassign job duties and system access rights to better segregate duties and enhance internal control.

College Response: The College concurs with the finding and will implement effective measures to ensure better segregation of duties and enhance internal control in the Bookstore.

[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