



# STATE OF NORTH CAROLINA

**WESTERN PIEDMONT COMMUNITY COLLEGE**

**MORGANTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**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, 2012**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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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, 2012, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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.

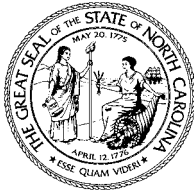
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets .....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	12
A-3 Statement of Cash Flows .....	13
Component Unit Exhibits	
B-1 Statement of Financial Position .....	15
B-2 Statement of Activities .....	16
Notes to the Financial Statements .....	17
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	35
ORDERING INFORMATION .....	37



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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Western Piedmont Community College  
Morganton, North Carolina

We have audited the accompanying financial statements of Western Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, 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 relate to the amounts included for that entity, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Western Piedmont Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

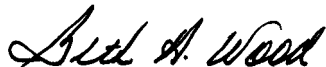
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Piedmont Community College and its discretely presented component unit as of June 30, 2012, and the respective 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA  
State Auditor

October 24, 2012

## **WESTERN PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2012 with comparative data for the fiscal year ended June 30, 2011. The discussion and analysis should be read in conjunction with the Financial Statements and Notes to the Financial Statements. The Management's Discussion and Analysis, Financial Statements, and Notes to the Financial Statements 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 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.

The statement format presents financial information to emulate 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 format 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 expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and County appropriations as nonoperating revenue which results in an operating loss on the statements. This is consistent with most public institutions. The utilization of capital assets is reflected in the financial statements as depreciation.
- 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 type of activities: operating, noncapital financing, capital and related financing and investing activities.

### **Financial Highlights**

- The College has experienced unprecedented enrollment during the recent recession serving the unemployed and underemployed citizens of Burke County and surrounding areas. However, during the academic year for 2011-2012, the College experienced a decline in Full Time Equivalents (FTE).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The College's total State budget allocation based on enrollment was \$20,407,761. The initial allocation was immediately reduced by \$1,208,719 through a Management Flexibility Reduction. During the fiscal year, there was also a call back (or reversion) of \$175,510.
- The College's total County budget allocation used for operations and maintenance of plant for 2011-2012 was reduced from \$2,115,000 in the prior year to \$2,009,250, or a 5% reduction, due to the tight economic conditions still prevalent within Burke County.

### Analysis of Financial Position and Results of Operations

#### Condensed Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (total assets minus total liabilities) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2012. The data provides readers of this statement information on assets available to continue operations, amounts due to vendors and employees; and the net assets available for operations by the College. Management demonstrates that the financial position of the College has remained strong during the FY 2012 with an overall increase in total net assets.

	FY 2011-2012	FY 2010-2011	Increase / (Decrease)	% Change
<b>Assets</b>				
Current Assets	\$ 5,561,032.92	\$ 5,351,794.71	\$ 209,238.21	3.91 %
Noncurrent Assets:				
Capital Assets - Nondepreciable	822,924.57	814,609.70	8,314.87	1.02 %
Capital Assets - Depreciable	13,862,116.70	13,785,323.02	76,793.68	0.56 %
Other Noncurrent Assets	1,395,833.02	851,186.53	544,646.49	63.99 %
<b>Total Assets</b>	<b>21,641,907.21</b>	<b>20,802,913.96</b>	<b>838,993.25</b>	<b>4.03 %</b>
<b>Liabilities</b>				
Current Liabilities	1,051,723.83	1,122,991.50	(71,267.67)	(6.35) %
Noncurrent Liabilities	501,601.49	638,443.86	(136,842.37)	(21.43) %
<b>Total Liabilities</b>	<b>1,553,325.32</b>	<b>1,761,435.36</b>	<b>(208,110.04)</b>	<b>(11.81) %</b>
<b>Net Assets</b>				
Invested in Capital Assets	14,685,041.27	14,599,932.72	85,108.55	0.58 %
Restricted:				
Nonexpendable	59,339.00	59,339.00		%
Expendable	1,551,553.83	1,005,877.30	545,676.53	54.25 %
Unrestricted	3,792,647.79	3,376,329.58	416,318.21	12.33 %
<b>Total Net Assets</b>	<b>\$ 20,088,581.89</b>	<b>\$ 19,041,478.60</b>	<b>\$ 1,047,103.29</b>	<b>5.50 %</b>

Current assets include cash and cash equivalents, receivables, inventories, and notes receivable for short term student loans. Noncurrent assets consist of cash, restricted due from primary government, investments, and capital assets. Capital assets include land, construction in progress, buildings, infrastructure, and equipment. The College's capital assets are



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

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recorded at acquisition cost, or fair market value for donations, less depreciation. A capital asset is recorded when the purchase price for an item is \$5,000 or more and has a useful life of more than one year. Depreciation is computed utilizing the straight-line method over the estimated useful life of the asset; generally 10-100 years for infrastructure and buildings, and 2-30 years for equipment.

Current liabilities include amounts due to vendors, payroll compensation, unearned revenue for the summer term, and the current portion of compensated absences for vacation leave due to employees. Noncurrent liabilities include the funds held for others and the long term portion of compensated absences for vacation leave due to employees.

Net assets are a measure of the value of all the College's assets less liabilities.

Notable changes in the above table:

- Other Noncurrent Assets increased by \$544,646.49, or 63.99%, mainly due to an increase in Restricted Due from Primary Government for the Capital Improvement (CI) account created for college repairs and renovations. This account was initiated through a transfer of state equipment funds to a Capital Improvement account. These projects include, but not limited to, renovation of office space, new flooring including carpet and tile, pond shelter repair, electrical upgrade to the Server Room in Moore Hall, and repairs and striping for parking lot and driveway areas.
- Noncurrent liabilities decreased \$136,842.37, or 21.43%, mainly due to the decrease in the long-term portion of compensated absences of \$137,221.44, which can be attributed to retirements of long term employees, new hires earning less vacation leave amounts, and more vacation leave time used during the fiscal year.
- Net Assets increased \$1,047,103.29, or 5.5%, due to the \$545,676.53 increase in Expendable Capital Projects which consist of the repairs and renovation projects mentioned above and \$416,318.21 increase in Unrestricted Assets mainly consisting of increases in cash and cash equivalents.

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

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and nonoperating. The College receives the majority of its funding from appropriations which are recorded as nonoperating revenue which results in an operating loss on the statements which is normal for public institutions. Depreciation is recognized and presented as an operating expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	FY 2011-2012	FY 2010-2011	Increase / (Decrease)	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 2,077,494.32	\$ 1,707,936.06	\$ 369,558.26	21.64 %
Sales and Services, Net	726,640.32	939,826.44	(213,186.12)	(22.68) %
Other Operating Revenues, Net	1,531.66	44,020.69	(42,489.03)	(96.52) %
<b>Total Operating Revenues</b>	<b>2,805,666.30</b>	<b>2,691,783.19</b>	<b>113,883.11</b>	<b>4.23 %</b>
<b>Operating Expenses</b>				
Salaries and Benefits	16,844,544.17	17,104,748.86	(260,204.69)	(1.52) %
Supplies and Materials	4,492,978.80	5,373,594.06	(880,615.26)	(16.39) %
Services	1,446,749.50	1,409,301.61	37,447.89	2.66 %
Scholarships and Fellowships	4,765,508.90	6,401,544.61	(1,636,035.71)	(25.56) %
Utilities	509,353.58	514,679.93	(5,326.35)	(1.03) %
Depreciation	563,416.19	566,374.26	(2,958.07)	(0.52) %
<b>Total Operating Expenses</b>	<b>28,622,551.14</b>	<b>31,370,243.33</b>	<b>(2,747,692.19)</b>	<b>(8.76) %</b>
<b>Operating Loss</b>	<b>(25,816,884.84)</b>	<b>(28,678,460.14)</b>	<b>2,861,575.30</b>	<b>9.98 %</b>
<b>Nonoperating Revenues</b>				
State Aid	12,280,342.04	12,555,484.62	(275,142.58)	(2.19) %
County Appropriations	2,009,250.00	2,115,000.00	(105,750.00)	(5.00) %
Noncapital Grants	9,647,631.04	11,711,916.79	(2,064,285.75)	(17.63) %
Other Nonoperating Revenues	112,883.64	146,296.11	(33,412.47)	(22.84) %
<b>Net Nonoperating Revenues</b>	<b>24,050,106.72</b>	<b>26,528,697.52</b>	<b>(2,478,590.80)</b>	<b>(9.34) %</b>
<b>Capital Contributions</b>				
State Capital Aid	2,602,571.75	2,712,874.51	(110,302.76)	(4.07) %
Other Capital Contributions	211,309.66	316,285.25	(104,975.59)	(33.19) %
<b>Total Capital Contributions</b>	<b>2,813,881.41</b>	<b>3,029,159.76</b>	<b>(215,278.35)</b>	<b>(7.11) %</b>
<b>Increase in Net Assets</b>	<b>1,047,103.29</b>	<b>879,397.14</b>	<b>167,706.15</b>	<b>19.07 %</b>
<b>Net Assets Beginning of Year</b>	<b>19,041,478.60</b>	<b>18,162,081.46</b>	<b>879,397.14</b>	<b>4.84 %</b>
<b>Net Assets End of Year</b>	<b>\$ 20,088,581.89</b>	<b>\$ 19,041,478.60</b>	<b>\$ 1,047,103.29</b>	<b>5.50 %</b>

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are used to acquire or produce the resources required to provide for the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided such as state and county aid, grants, and gifts.

Notable changes in the above table:

- Tuition increased \$10 per credit hour for 2011-2012 in-state tuition increased from \$56.50 to \$66.50 per credit hour; out-of-state tuition increased from \$248.50 to \$258.50 per the General Assembly. This increase in tuition can explain the \$369,558.26, or 21.64%, increase in Student Tuition and Fees, Net, even with a decline in FTE.

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

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- There was a decrease in Curriculum FTE of 285 for 2011-2012 from 2762 (budgeted) to 2477 (actual), or 10.32%, which had a negative effect on the Sales and Services, Net, by a decrease of \$213,186.12, or 22.68%. Many students also would purchase books online or rent texts in an effort to save money.
- Supplies and Materials decreased \$880,615.26, or 16.39%, due to declining FTE which resulted in less supplies and equipment being purchased. The College also transferred equipment allocation of \$698,627 to a Capital Improvement account for repairs and renovation. A majority of these funds have yet to be expensed.
- Scholarships and Fellowships decreased \$1,636,035.71, or 25.56%.
  - The Year-Round Pell was eliminated for this academic year from the Department of Education.
  - There were stricter Satisfactory Academic Progress (SAP) regulations put in place by the Department of Education which resulted in more students losing their financial aid eligibility.
  - The College had a decrease in Curriculum FTE.
- State Aid decreased due to the Management Flexibility Reduction and Call Back funds during the year.
- County Appropriations decreased \$105,750.00, or 5%, by the Burke County Commissioners due to the tight economic constraints in Burke County.
- Noncapital Grants decreased \$2,064,285.75, or 17.63%. These accounts include student financial aid in which the Pell Grant Program is the largest amount of \$8,110,595.94. The decrease is attributed to the reasons noted above for Scholarships and Fellowships.

### **Capital Asset Activity**

The College's capital assets remained stable through the 2011-2012 year with a slight increase of \$85,108.55, or .58%. Capital Assets increased mainly due to the purchase of equipment. Buildings increased slightly due to additions to existing buildings and general infrastructure increased mainly due to upgrades to the parking lot lights.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	FY 2011-2012	FY 2010-2011	Increase / (Decrease)	% Change
<b>Capital Assets:</b>				
Land	\$ 651,361.50	\$ 651,361.50	\$ 0.00	0.00 %
Art, Literature and Artifacts	145,014.00	145,014.00		
Construction in Progress	26,549.07	18,234.20	8,314.87	45.60 %
Buildings	18,604,658.22	18,489,382.63	115,275.59	0.62 %
Machinery and Equipment	4,592,390.52	4,338,037.28	254,353.24	5.86 %
General Infrastructure	1,594,003.98	1,447,385.87	146,618.11	10.13 %
<b>Total Capital Assets</b>	<b>25,613,977.29</b>	<b>25,089,415.48</b>	<b>524,561.81</b>	<b>2.09 %</b>
<b>Less: Accumulated Depreciation</b>				
Buildings	8,831,661.60	8,495,120.16	336,541.44	3.96 %
Machinery and Equipment	1,720,969.42	1,646,203.44	74,765.98	4.54 %
General Infrastructure	376,305.00	348,159.16	28,145.84	8.08 %
<b>Total Accumulated Depreciation</b>	<b>10,928,936.02</b>	<b>10,489,482.76</b>	<b>439,453.26</b>	<b>4.19 %</b>
<b>Capital Assets, Net</b>	<b>\$ 14,685,041.27</b>	<b>\$ 14,599,932.72</b>	<b>\$ 85,108.55</b>	<b>0.58 %</b>

### Analysis of Financial Position

The change in net assets is one indicator of the financial well-being of the College as well as industry standard financial ratios. A few ratios for the College are as follows:

#### Western Piedmont Community College Financial Ratios

##### Liquidity

Current Ratio

Current Assets	5,561,032.92	
Current Liabilities	1,051,723.83	5.29

##### Profitability

Primary Reserve Ratio

Expendable Net Assets	5,344,201.62	
Operating Expenses	28,622,551.14	18.67%

Return of Net Assets Ratio

Change in Net Assets	1,047,103.29	
Total Net Assets	20,088,581.89	5.21%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

However, nonfinancial factors must also be analyzed to determine the complete picture of the College's overall condition. Examples of nonfinancial factors include enrollment trends, age and stability of buildings, community demographics.

### Western Piedmont Community College Analysis of Full Time Equivalents (FTE)

#### Curriculum FTE

Reporting Year	Actual FTE	3 Year Average	Actual Budget FTE
2012-2013		2691	2691
2011-2012	2477	2666	2762
2010-2011	2762	2486	2835
2009-2010	2835	2244	2400
2008-2009	2400	2137	2223

#### Continuing Education

Reporting Year	Occupational Extension	Basic Skills
	Budget FTE	Budget FTE
2012-2013	384	448
2011-2012	393	455
2010-2011	385	474
2009-2010	411	448
2008-2009	372	432

### Economic Factors and Next Year's Budget

The College employs strong fiscal procedures and sound planning to manage FTE growth as well as the expected decline in the coming year. While we expect the next 3 years to be tighter than it has been, we fully expect the College to remain financially strong and stable.

The economy of the State of North Carolina is expected to remain flat; therefore, the state may face difficulty in maintaining current funding levels. Economic recovery is expected to continue at a slow pace due to modest consumer spending and slower than expected economic activity. With FY 2013 budget, the College's budget is \$19,395,283 with another Management Flexibility Reduction of \$1,237,731. The budget allocations formula is the higher of the FTE earned in the most recent year or the average of the last three years. For FY 2013, we will be funded on the FTE earned through the three year average. We realize with the decline in FTE for FY 2012 and the expected decline in FY 2013, we will use the three year average after the next fiscal year (2013-2014) and there will be a dramatic decrease in state funding.

It was inevitable that eventually the enrollment growth that we had experienced in FY 2007-2008, 2008-2009, and 2009-2010 could not be maintained. We do expect the enrollment for 2012-2013 to be down as much as 13% from 2011-2012 and we could be looking at funding losses in excess of \$750,000.00. Management is looking at several opportunities to help lessen the effects from the FTE decline such as; the opening of the Advising Center to increase recruitment and retention, the hiring of a Director of Distance Learning and Instructional Technologist to improve our distance learning programs, increased attention on Workforce Development, and a renewed effort to focus on our area high schools.

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

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The College's County Appropriation for FY 2013 will decrease another 1.46% or \$29,250.00 which will affect maintenance and plant operations of the College. Burke County, as well as surrounding areas, is still experiencing some of the highest unemployment rates in the state and high underemployment situations.

***Western Piedmont Community College***  
***Statement of Net Assets***  
***June 30, 2012***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,275,169.53
Restricted Cash and Cash Equivalents	293,499.92
Receivables, Net (Note 4)	520,903.66
Inventories	467,424.38
Notes Receivable, Net (Note 4)	4,035.43

Total Current Assets	<u>5,561,032.92</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	127,691.98
Restricted Due from Primary Government	574,017.19
Restricted Investments	694,123.85
Capital Assets - Nondepreciable (Note 5)	822,924.57
Capital Assets - Depreciable, Net (Note 5)	<u>13,862,116.70</u>

Total Noncurrent Assets	<u>16,080,874.29</u>
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Total Assets	<u>21,641,907.21</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	670,530.52
Due to Primary Government	549.26
Unearned Revenue	209,101.75
Long-Term Liabilities - Current Portion (Note 7)	<u>171,542.30</u>

Total Current Liabilities	<u>1,051,723.83</u>
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Noncurrent Liabilities:

Funds Held for Others	23,365.46
Long-Term Liabilities (Note 7)	<u>478,236.03</u>

Total Noncurrent Liabilities	<u>501,601.49</u>
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Total Liabilities	<u>1,553,325.32</u>
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**NET ASSETS**

Invested in Capital Assets	14,685,041.27
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	59,339.00
Expendable:	
Scholarships and Fellowships	903,504.73
Loans	8,148.38
Capital Projects	607,180.86
Other	32,719.86

Unrestricted	<u>3,792,647.79</u>
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Total Net Assets	<u>\$ 20,088,581.89</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Western Piedmont Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2012***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 2,077,494.32
Sales and Services, Net (Note 9)	726,640.32
Other Operating Revenues	1,531.66

Total Operating Revenues	<u>2,805,666.30</u>
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	16,844,544.17
Supplies and Materials	4,492,978.80
Services	1,446,749.50
Scholarships and Fellowships	4,765,508.90
Utilities	509,353.58
Depreciation	563,416.19

Total Operating Expenses	<u>28,622,551.14</u>
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Operating Loss	<u>(25,816,884.84)</u>
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	12,280,342.04
County Appropriations	2,009,250.00
Noncapital Grants - Student Financial Aid	8,839,960.09
Noncapital Grants	807,670.95
Noncapital Gifts	126,737.85
Investment Income	15,222.37
Other Nonoperating Expenses	(29,076.58)

Net Nonoperating Revenues	<u>24,050,106.72</u>
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Loss Before Other Revenues	<u>(1,766,778.12)</u>
----------------------------	-----------------------

State Capital Aid	2,602,571.75
Capital Grants	172,475.66
Capital Gifts	38,834.00

Increase in Net Assets	<u>1,047,103.29</u>
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**NET ASSETS**

Net Assets, July 1, 2011	<u>19,041,478.60</u>
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Net Assets, June 30, 2012	<u><u>\$ 20,088,581.89</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



***Western Piedmont Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2012***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,568,330.83
Payments to Employees and Fringe Benefits	(16,929,377.62)
Payments to Vendors and Suppliers	(6,399,487.08)
Payments for Scholarships and Fellowships	(4,765,508.90)
Loans Issued to Students	(24,805.74)
Collection of Loans to Students	21,242.31
Other Receipts	1,703.69
	<hr/>
Net Cash Used by Operating Activities	(25,527,902.51)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	12,280,342.04
County Appropriations	2,009,250.00
Noncapital Grants - Student Financial Aid	8,842,041.09
Noncapital Grants Received	917,470.69
Noncapital Gifts Received	126,737.85
William D. Ford Direct Lending Receipts	2,956,710.00
William D. Ford Direct Lending Disbursements	(2,956,710.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	24,175,841.67

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

State Capital Aid Received	2,031,054.56
Capital Grants Received	172,475.66
Capital Gifts Received	38,834.00
Proceeds from Sale of Capital Assets	655.43
Acquisition and Construction of Capital Assets	(669,581.37)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,573,438.28

**CASH FLOWS FROM INVESTING ACTIVITIES**

Loss on Sales and Maturities of Investments	(9,447.05)
Investment Income	67,330.11
	<hr/>
Net Cash Provided by Investing Activities	57,883.06

Net Increase in Cash and Cash Equivalents	279,260.50
Cash and Cash Equivalents, July 1, 2011	4,417,100.93
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 4,696,361.43

***Western Piedmont Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2012***

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

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

Operating Loss	\$ (25,816,884.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	563,416.19
Provision for Uncollectible Loans and Write-Offs	(22.00)
Miscellaneous Nonoperating Income	1,324.62
Changes in Assets and Liabilities:	
Receivables, Net	(121,212.22)
Inventories	67,149.21
Notes Receivable, Net	(3,563.43)
Accounts Payable and Accrued Liabilities	(30,064.88)
Due to Primary Government	34.33
Unearned Revenue	(116,123.25)
Funds Held for Others	379.07
Compensated Absences	(72,335.31)
Net Cash Used by Operating Activities	<u><u>\$ (25,527,902.51)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 4,275,169.53
Restricted Cash and Cash Equivalents	293,499.92
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>127,691.98</u>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 4,696,361.43</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 10,000.00
Change in Fair Value of Investments	(42,660.69)
Increase in Receivables Related to Nonoperating Income	571,517.19
Loss on Disposal of Capital Assets	30,401.20

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

***Western Piedmont Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2012***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	1,722,061
Marketable Securities		518,195
Student Loan Receivables		1,954
Land		<u>138,000</u>
Total Assets		<u>2,380,210</u>

**NET ASSETS**

Unrestricted		199,645
Temporarily Restricted		311,953
Permanently Restricted		<u>1,868,612</u>
Total Net Assets	\$	<u>2,380,210</u>

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, 2012**

**Exhibit B-2**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
Donations	\$ 21,600	\$ 155,758	\$ 64,300	\$ 241,658
Investment Return	(14,669)	24,360	(1,910)	7,781
Program Grants		1,029		1,029
Golf Tournament Revenue		14,765		14,765
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	106,986	(106,986)		
Total Support and Revenue	113,917	88,926	62,390	265,233
<b>EXPENSES</b>				
Program Services:				
Instructional Awards	6,352			6,352
Institutional Development Grants	9,986			9,986
Scholarship Awards	91,103			91,103
Fund Raising Expenses:				
General Fund Raising Expense	4,286			4,286
Golf Tournament Expense	8,478			8,478
Management and General:				
Professional Fees	5,100			5,100
Other Expense	32,852			32,852
Total Expenses	158,157			158,157
Change in Net Assets	(44,240)	88,926	62,390	107,076
<b>NET ASSETS</b>				
Net Assets, Beginning of Year	198,225	272,322	1,802,587	2,273,134
Transfers In (Out)	45,660	(49,295)	3,635	
Net Assets, End of Year	\$ 199,645	\$ 311,953	\$ 1,868,612	\$ 2,380,210

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, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 a different GAAP reporting model and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Western Piedmont Foundation, Inc. (Foundation) 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 is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 16 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.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Statements. As such, certain revenue recognition criteria and presentation features are different from the 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, 2012, the Foundation distributed \$125,608.69 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 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 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, include 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-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

**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 July 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 June 30 plus the leave earned, less the leave taken between July 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)

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

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

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

**N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College's bookstore. All internal sales activities to College departments from auxiliary operations 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 by the College.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2012 was \$3,060.00. The carrying amount of the College's deposits not with the State Treasurer was \$547,447.06, and the bank balance was \$1,273,018.84.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,145,854.37, 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 1.5 years as of June 30, 2012. 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments of the College's 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.

The College held fair value of \$694,123.85 in closed-end mutual fund investments at June 30, 2012.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk.

*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.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$	3,060.00
Carrying Amount of Deposits with Private Financial Institutions		547,447.06
Investments in the Short-Term Investment Fund		4,145,854.37
Closed-end Mutual Fund		694,123.85
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>5,390,485.28</b>
Current:		
Cash and Cash Equivalents	\$	4,275,169.53
Restricted Cash and Cash Equivalents		293,499.92
Noncurrent:		
Restricted Cash and Cash Equivalents		127,691.98
Restricted Investments		694,123.85
<b>Total</b>	<b>\$</b>	<b>5,390,485.28</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Component Unit:

**Deposits** - The Foundation had the following cash and cash equivalents at June 30, 2012:

Checking - Smith Barney	\$ 19,599
NC Department of State Treasurer	
Short-Term Investment Fund	<u>1,702,462</u>
<b>Total</b>	<u><u>\$ 1,722,061</u></u>

**Investments** - 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	<b>June 30, 2012</b>		
	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
2 shares Mimosa Hills Golf Club	\$ 4,000	\$ 3,750	\$ 250
Shares of Merck & Co., Inc. (114 shares)	4,760	7,274	(2,514)
Shares of Express Scripts Holding Company (21 shares)	1,172		1,172
Washington Mutual Fund	30,418	28,074	2,344
Morgan Stanley Smith Barney Portfolio	<u>477,845</u>	<u>548,675</u>	<u>(70,830)</u>
<b>Total</b>	<u><u>\$ 518,195</u></u>	<u><u>\$ 587,773</u></u>	<u><u>\$ (69,578)</u></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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

otherwise. At June 30, 2012, net appreciation of \$430.40 was available to be spent, all of which was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 463,091.96	\$ 212,135.78	\$ 250,956.18
Student Sponsors	62,546.65		62,546.65
Accounts	196,577.40		196,577.40
Intergovernmental	8,780.28		8,780.28
Other	3,037.60	994.45	2,043.15
<b>Total Current Receivables</b>	<u>\$ 734,033.89</u>	<u>\$ 213,130.23</u>	<u>\$ 520,903.66</u>
<b>Notes Receivable - Current</b>			
Institutional Student Loan Program	<u>\$ 7,286.05</u>	<u>\$ 3,250.62</u>	<u>\$ 4,035.43</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
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	18,234.20	270,208.57	261,893.70	26,549.07
<b>Total Capital Assets, Nondepreciable</b>	<u>814,609.70</u>	<u>270,208.57</u>	<u>261,893.70</u>	<u>822,924.57</u>
Capital Assets, Depreciable:				
Buildings	18,489,382.63	115,275.59		18,604,658.22
Machinery and Equipment	4,338,037.28	409,372.80	155,019.56	4,592,390.52
General Infrastructure	1,447,385.87	146,618.11		1,594,003.98
<b>Total Capital Assets, Depreciable</b>	<u>24,274,805.78</u>	<u>671,266.50</u>	<u>155,019.56</u>	<u>24,791,052.72</u>
Less Accumulated Depreciation:				
Buildings	8,495,120.16	336,541.44		8,831,661.60
Machinery and Equipment	1,646,203.44	198,728.91	123,962.93	1,720,969.42
General Infrastructure	348,159.16	28,145.84		376,305.00
<b>Total Accumulated Depreciation</b>	<u>10,489,482.76</u>	<u>563,416.19</u>	<u>123,962.93</u>	<u>10,928,936.02</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>13,785,323.02</u>	<u>107,850.31</u>	<u>31,056.63</u>	<u>13,862,116.70</u>
<b>Capital Assets, Net</b>	<u>\$ 14,599,932.72</u>	<u>\$ 378,058.88</u>	<u>\$ 292,950.33</u>	<u>\$ 14,685,041.27</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 104,902.15
Accrued Payroll	555,628.37
Contract Payable	10,000.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 670,530.52</b>

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 722,113.64	\$ 514,996.46	\$ 587,331.77	\$ 649,778.33	\$ 171,542.30

### NOTE 8 - LEASE OBLIGATIONS

The College entered into yearly operating leases for a copier, postage meter, welding gas cylinders, servers, and office equipment. Rental expense for these operating leases during the year was \$80,320.29.

### NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 4,788,071.79	\$ 0.00	\$ 2,707,402.00	\$ 3,175.47	\$ 2,077,494.32
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,998,392.51	\$ 16,592.69	\$ 1,403,759.96	\$ 21,892.03	\$ 556,147.83
Other	107,775.41				107,775.41
Sales and Services of Education and Related Activities	120,401.82		58,910.72	(1,225.98)	62,717.08
<b>Total Sales and Services</b>	\$ 2,226,569.74	\$ 16,592.69	\$ 1,462,670.68	\$ 20,666.05	\$ 726,640.32

## 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	\$ 10,197,428.50	\$ 2,066,297.83	\$ 309,017.56	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,572,743.89
Academic Support	1,694,199.25	78,452.45	54,681.46				1,827,333.16
Student Services	1,571,477.39	34,383.75	188,613.03	45,754.00			1,840,228.17
Institutional Support	2,462,964.33	283,386.18	571,301.65				3,317,652.16
Operations and Maintenance of Plant	770,629.26	406,286.94	285,872.96		509,353.58		1,972,142.74
Student Financial Aid				4,719,754.90			4,719,754.90
Auxiliary Enterprises	147,845.44	1,624,171.65	37,262.84				1,809,279.93
Depreciation						563,416.19	563,416.19
<b>Total Operating Expenses</b>	<b>\$ 16,844,544.17</b>	<b>\$ 4,492,978.80</b>	<b>\$ 1,446,749.50</b>	<b>\$ 4,765,508.90</b>	<b>\$ 509,353.58</b>	<b>\$ 563,416.19</b>	<b>\$ 28,622,551.14</b>

### NOTE 11 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,568,387.04, of which \$9,992,088.06 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$743,411.35 and \$599,525.28, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$743,411.35, \$513,623.57, and \$369,022.81, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

### **B. Deferred Compensation and Supplemental Retirement Income Plans**

- Internal Revenue Code 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 \$34,122.00 for the year ended June 30, 2012.

Internal Revenue Code 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 \$147,065.00 for the year ended June 30, 2012.

Internal Revenue Code 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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are the responsibility of the Plan participants. The plan administrators are AXA Equitable Life Insurance Company and AIG VALIC. No costs are incurred by the College. The voluntary contributions by employees amounted to \$60,378.96 for the year ended June 30, 2012.

### 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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$499,604.40, \$499,734.00, and \$465,154.80, respectively. The College assumes no liability for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2012, 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, 2011, and 2010, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$51,958.86, \$52,699.80, and \$53,751.22, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The risk of tort claims of up to \$1,000,000 per claimant is 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 from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and 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 honest 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 discretely presented component unit 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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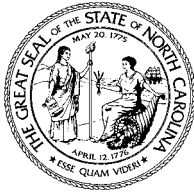
Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$453,667.09 at June 30, 2012.

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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<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**

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Board of Trustees  
Western Piedmont Community College  
Morganton, North Carolina

We have audited the financial statements of Western Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 24, 2012. Our report was modified to include a reference to other auditors.

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

**Internal Control Over Financial Reporting**

The College's management is responsible for establishing and maintaining effective 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.

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 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.

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

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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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the 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

October 24, 2012



## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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

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This audit required 497 audit hours at an approximate cost of \$35,784. The cost represents .165% of the College's total assets and .125% of the College's total expenses subjected to audit.