

STATE OF NORTH CAROLINA

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

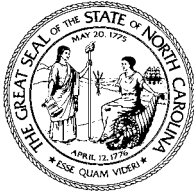
FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



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 Pat McCrory, 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, 2014, 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.

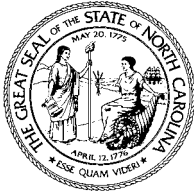
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position	15
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	17
A-3 Statement of Cash Flows	18
Component Unit Exhibits	
B-1 Statement of Financial Position	20
B-2 Statement of Activities.....	21
Notes to the Financial Statements	23
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 AUDITING STANDARDS</i>	39
ORDERING INFORMATION	41

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Western Piedmont Community College
Morganton, North Carolina

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Western Piedmont Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Western Piedmont Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

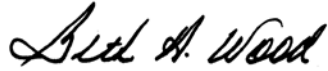
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 9, 2015

[This Page Left Blank Intentionally]

WESTERN PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Western Piedmont Community College's (College) annual financial report represents Management's Discussion and Analysis of the College's financial activity for the fiscal year ended June 30, 2014 with comparative data for the fiscal year ended June 30, 2013. 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 and notes to the financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flow.

- The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is reported as net position. This statement combines current financial resources and capital assets.
- The Statement of Revenues, Expenses, and Changes in Net Position present 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's enrollment, measured by Full Time Equivalent (FTE), has declined but is at a level consistent with other North Carolina community colleges.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The College's initial state budget allocation was \$18,633,348. The initial allocation was immediately reduced by \$1,000,108 through a Management Flexibility Reduction. Management Flexibility Reduction is a budget cut that the General Assembly does not specify how to implement, but gives the College's management the flexibility to determine the budget area to reduce. State appropriation allocations are based on three methodologies: base allocation, FTE enrollment, and performance based allocations.
- The College's county appropriation is used primarily for operations and maintenance of the College. Appropriations for 2013-2014 were increased from \$1,980,000 in the prior year to \$2,080,000 or a 5.05% increase. This increase was based on the inflationary costs of maintenance for the College.

Analysis of Financial Position and Results of Operations

Condensed Statement of Net Position

The Statement of Net Position represents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2014. The data provides readers of this statement information on assets available to continue operations, amounts due to vendors and employees; and the net position available for operations by the College. Management demonstrates that the financial position of the College has remained strong during the FY 2014 with a slight decrease in total net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	FY 2013-2014	FY 2012-2013	Increase / (Decrease)	% Change
Assets				
Current Assets	\$ 5,951,817.78	\$ 5,816,628.48	\$ 135,189.30	2.32 %
Noncurrent Assets:				
Capital Assets - Nondepreciable	796,375.50	805,182.00	(8,806.50)	(1.09) %
Capital Assets - Depreciable	13,514,750.73	13,687,316.23	(172,565.50)	(1.26) %
Other Noncurrent Assets	1,229,466.61	1,500,155.86	(270,689.25)	(18.04) %
Total Assets	<u>21,492,410.62</u>	<u>21,809,282.57</u>	<u>(316,871.95)</u>	<u>(1.45) %</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00 %</u>
Liabilities				
Current Liabilities	785,098.95	954,896.68	(169,797.73)	(17.78) %
Noncurrent Liabilities:				
Long-Term Liabilities	599,194.49	582,139.87	17,054.62	2.93 %
Funds Held for Others	32,649.87	24,504.40	8,145.47	33.24 %
Total Liabilities	<u>1,416,943.31</u>	<u>1,561,540.95</u>	<u>(144,597.64)</u>	<u>(9.26) %</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00 %</u>
Net Position				
Invested in Capital Assets	14,311,126.23	14,492,498.23	(181,372.00)	(1.25) %
Restricted:				
Nonexpendable	59,339.00	59,339.00		
Expendable	1,280,672.94	1,614,337.20	(333,664.26)	(20.67) %
Unrestricted	4,424,329.14	4,081,567.19	342,761.95	8.40 %
Total Net Position	<u>\$ 20,075,467.31</u>	<u>\$ 20,247,741.62</u>	<u>\$ (172,274.31)</u>	<u>(0.85) %</u>

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, restricted investments, and capital assets. Capital assets include land, art, literature, and artifacts, construction in progress, buildings, infrastructure, and equipment. The College's capital assets are 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 10-75 years for general infrastructure, 10-100 years for 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.

The financials present the College's total assets and deferred outflows of resources, less total liabilities and deferred inflows of resources as a measure of net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Other noncurrent assets decreased due to a decrease in restricted due from primary government for the capital improvement account created for college repairs and renovations. Projects completed during FY 2013-2014 included the maintenance building and Emergency Services Training Center (ESTC) classroom building. The funds for these projects were received upon completion.
- Current liabilities decreased \$169,797.73 or 17.78% due to the decrease in accounts payable at year end because of declining budget availability and declining FTE which resulted in less purchases.
- Net position decreased \$172,274.31, or .85%, due to the \$333,664.26 decrease in restricted: expendable net position. In FY 2012-2013 there was an increase in expendable capital projects; however these projects have ended resulting in the decrease for FY 2013-2014. Additionally, the net position changed due to the \$181,372.00 decrease in investment in capital assets which was the result of fewer purchases in capitalized equipment from the prior year. Unrestricted net position increased \$342,761.95 due to increase in cash and cash equivalents and accounts receivable.

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

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. This 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 2013-2014	FY 2012-2013	Increase / (Decrease)	% Change
Operating Revenue				
Student Tuition and Fees, Net	\$ 1,402,288.01	\$ 1,693,101.69	\$ (290,813.68)	(17.18) %
Sales and Services, Net	571,039.85	715,275.86	(144,236.01)	(20.17) %
Other Operating Revenue, Net	60,389.51	76,146.66	(15,757.15)	(20.69) %
Total Operating Revenue	2,033,717.37	2,484,524.21	(450,806.84)	(18.14) %
Operating Expenses				
Salaries and Benefits	16,716,985.69	17,758,997.04	(1,042,011.35)	(5.87) %
Supplies and Materials	2,934,134.53	3,950,661.23	(1,016,526.70)	(25.73) %
Services	1,373,015.92	1,548,285.46	(175,269.54)	(11.32) %
Scholarships and Fellowships	3,328,907.81	3,813,146.68	(484,238.87)	(12.70) %
Utilities	621,653.91	545,552.90	76,101.01	13.95 %
Depreciation	563,728.65	587,461.80	(23,733.15)	(4.04) %
Total Operating Expenses	25,538,426.51	28,204,105.11	(2,665,678.60)	(9.45) %
Operating Loss	(23,504,709.14)	(25,719,580.90)	2,214,871.76	8.61 %
Nonoperating Revenues				
State Aid	12,712,154.51	13,350,503.45	(638,348.94)	(4.78) %
County Appropriations	2,080,000.00	1,980,000.00	100,000.00	5.05 %
Noncapital Grants	7,703,954.04	8,431,354.01	(727,399.97)	(8.63) %
Other Nonoperating Revenues	153,662.96	33,608.93	120,054.03	357.21 %
Net Nonoperating Revenues	22,649,771.51	23,795,466.39	(1,145,694.88)	(4.81) %
Capital Contributions				
State Capital Aid	502,607.37	2,009,724.18	(1,507,116.81)	(74.99) %
County Capital Aid	141,000.00		141,000.00	
Other Capital Contributions	39,055.95	73,550.06	(34,494.11)	(46.90) %
Total Capital Contributions	682,663.32	2,083,274.24	(1,400,610.92)	(67.23) %
Increase (Decrease) in Net Position	(172,274.31)	159,159.73	(331,434.04)	(208.24) %
Net Position Beginning of Year	20,247,741.62	20,088,581.89	159,159.73	0.79 %
Net Position End of Year	\$ 20,075,467.31	\$ 20,247,741.62	\$ (172,274.31)	(0.85) %
<u>Reconciliation of Change in Net Position</u>				
Total Revenues	\$ 25,366,152.20	\$ 28,363,264.84	\$ (2,997,112.64)	(10.57) %
Less: Total Expenses	25,538,426.51	28,204,105.11	(2,665,678.60)	(9.45) %
Change in Net Position	\$ (172,274.31)	\$ 159,159.73	\$ (331,434.04)	(208.24) %

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Notable changes in the above table:

- Total operating revenue decreased \$450,806.84, or 18.14%.
 - There was an decrease in actual FTE of 154 for FY 2013-2014 from 2125 to 1971, or 7.24%
 - Per the General Assembly, both in-state and out-of-state tuition increased \$2.50 per credit hour for 2013-2014. However, there was a decline in the net student tuition and fees of \$290,813.68, or 17.18% due primarily to the drop in enrollment.
 - Sales and services, which includes the bookstore and SGA fees, decreased \$144,236.01, or 20.17%. Students may purchase books online or rent texts in an effort to save money.
 - Other operating revenue, which includes specific class fees, parking fines, and library fines, decreased by \$15,757.15, or 20.69%.
- Supplies and materials decreased \$1,016,526.70, or 25.73%, due to declining budget availability and declining FTE which resulted in less supplies and equipment being purchased.
- Salaries and benefits, which includes both staff and faculty required to continue college operations, experienced a decrease of \$1,042,011.35, or 5.87%. The decrease was not as large of a percentage decrease as other expense items, as faculty will be directly impacted by the declining FTE amount. Staff, however, is indirectly impacted as a minimum level are required under any FTE funding model, to maintain college operations and student support services.
- Scholarships and fellowships decreased \$484,238.87, or 12.70%.
 - Starting in 2012, the Department of Education set limits to the number of semester hours a student can obtain PELL assistance.
 - Also starting in 2012, stricter Satisfactory Academic Progress (SAP) regulations were 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 from 2125 in FY 2013 to 1971 in FY 2014 for a 7.24% reduction.
- State aid decreased by \$638,348.94, or 4.78% due to the decrease in FTE.
- County appropriations increased \$100,000, or 5.05% primarily for increases in utilities and maintenance costs.
- The County also provided \$141,000 for capital improvements to our HVAC system.
- Noncapital grants decreased \$727,399.97, or 8.63%. These accounts include student financial aid in which the Pell Grant Program is the largest amount of \$6,094,618.02. The decrease is attributed to the reasons noted above for scholarships and fellowships.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Other nonoperating revenues increased by \$120,054.03 or, 357.21% due to a considerable increase in investment income. The 2013-2014 market performed better than previous years allowing the College to readjust from a slow market. We do not expect growth to be this high in the future.
- State capital aid decreased by \$1,507,116.81 or 74.99% because of the completion of the maintenance building and ESTC building projects within the current fiscal year and no new construction or renovation projects began during the fiscal year. State capital aid also decreased due to low enrollment and additional cash restrictions imposed by the Office of State Budget and Management.

Capital Asset Activity

The College's net capital assets, decreased by \$181,372.00, or 1.25% in 2013-2014. This decrease was due to the increase in accumulated depreciation being larger than the increase in new assets acquired during the year. The College completed a maintenance building and the ESTC building during the year.

	FY 2013-2014	FY 2012-2013	Increase / (Decrease)	% Change
Capital Assets:				
Land	\$ 651,361.50	\$ 651,361.50	\$ 0.00	0.00 %
Art, Literature and Artifacts	145,014.00	145,014.00		
Construction in Progress		8,806.50	(8,806.50)	(100.00) %
Buildings	18,875,358.53	18,643,925.66	231,432.87	1.24 %
Machinery and Equipment	4,927,703.34	4,869,128.79	58,574.55	1.20 %
General Infrastructure	1,594,003.98	1,594,003.98		
Total Capital Assets	26,193,441.35	25,912,240.43	281,200.92	1.09 %
Less: Accumulated Depreciation				
Buildings	9,510,086.13	9,184,121.96	325,964.17	3.55 %
Machinery and Equipment	1,937,235.59	1,829,971.04	107,264.55	5.86 %
General Infrastructure	434,993.40	405,649.20	29,344.20	7.23 %
Total Accumulated Depreciation	11,882,315.12	11,419,742.20	462,572.92	4.05 %
Capital Assets, Net	\$ 14,311,126.23	\$ 14,492,498.23	\$ (181,372.00)	(1.25) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Financial Position

The change in net position 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	5,951,817.78	
	Current Liabilities	785,098.95	7.58

Profitability

Primary Reserve Ratio

	Expendable Net Position	5,705,002.08	
	Operating Expenses	25,538,426.51	0.22

Return of Net Position Ratio

	Change in Net Position	(172,274.31)	
	Total Net Position	20,075,467.31	(0.01)

Non-financial factors must also be analyzed to determine the complete picture of the College's overall condition. Examples of non-financial 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	2-Year Average	3-Year Average	Actual Budget FTE
2014-2015		2048	2191	2048
2013-2014	1971	2301	2454	2301
2012-2013	2125		2691	2691
2011-2012	2477		2666	2762
2010-2011	2762		2486	2835
2009-2010	2835		2244	2400

Non-Curriculum

Reporting Year	Non-Curriculum	Basic Skills
	Budget FTE	Budget FTE
2014-2015	356	406
2013-2014	369	426
2012-2013	384	448
2011-2012	393	455
2010-2011	385	474

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The budget allocation formula is the higher of the FTE earned in the most recent year or the average of the last two years. During FY 2013-2014, the College received non-recurring transition funds of \$275,835 due to the change in funding formula from the 3-year average to the 2-year average.

The following tables represent curriculum and non-curriculum tuition rates for the last five years. In-state curriculum tuition increased 43.00% from FY 2010 to FY 2014 while non-curriculum tuition stayed relatively stable.

Curriculum Tuition Rates

Reporting Year	In-State Tuition	Out-of-State Tuition
2013-2014	71.50	263.50
2012-2013	69.00	261.00
2011-2012	66.50	258.50
2010-2011	56.50	248.50
2009-2010	50.00	241.30

Non-Curriculum Tuition Rates

Reporting Year	0-24 Hours	25-50 Hours	50+ Hours
2013-2014	70.00	125.00	180.00
2012-2013	65.00	120.00	175.00
2011-2012	65.00	120.00	175.00
2010-2011	65.00	120.00	175.00
2009-2010	65.00	120.00	175.00

Economic Factors and Next Year's Budget

The College employs strong fiscal procedures and sound planning to manage FTE fluctuations. Even though the FTE is declining, after unprecedented growth, we anticipate the College will remain financially stable.

The NC State Board of Community Colleges has approved the 2014-2015 State Aid Allocation and Budget Policies for all 58 community colleges. Our College's budget is \$17,141,549 with a Management Flexibility Reduction of \$733,976. As stated above, we will be funded on the FTE earned through the two year average which is considerably less than what the previous funding formula would have been with the 3-year average. The College is adjusting to declines in budget through cost reduction strategies such as limiting travel, supplies, equipment and personnel as needed.

The College has aggressively established recruitment and retention efforts to stabilize enrollment. The College held several job fairs, open houses and other advising opportunities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

We invited several manufacturing representatives to visit our campus to increase student interest. There have been advertisements utilizing billboards, radio, and printed materials all focused on retaining and attracting students.

County appropriations will increase \$270,329 in FY 2015. The increase in appropriation will be allocated to increased cost associated with utilities, insurance, facility cost, and maintenance cost. The County is also providing an additional \$100,000 for capital improvements to our restroom facilities and walkway repairs.

For FY 2015, the College has implemented a new parking fee of \$5.00 for all curriculum students and a technology fee of \$2.00 per credit hour, with a maximum charge of \$32.00. Both of these fees are assessed to students each semester. The parking fee will assist with the maintenance of our parking areas. The technology fee will assist with changing technology needs that include equipment, software, and maintenance.

The Affordable Care Act (ACA) will be implemented on January 1, 2015. This implementation will limit the resources the college can use and pose an administrative burden in costs and time due to the additional monitoring and maintenance of records to ensure compliance with ACA.

Finally, another area of concern is the population of Burke County which has decreased by 1,039, or 1.3% since 2010. The unemployment rate also decreased from 9.5% in June 2013 to 6.8% in June 2014; however, this number does not include many underemployed or unemployed whose benefits have been exhausted. Many residents are moving out of the county in search of work which ultimately affects the College's potential student population.

Western Piedmont Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,858,315.50
Restricted Cash and Cash Equivalents	196,390.98
Receivables, Net (Note 4)	408,868.11
Inventories	486,861.19
Notes Receivable, Net (Note 4)	<u>1,382.00</u>
Total Current Assets	<u>5,951,817.78</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	134,694.57
Receivables (Note 4)	192,638.84
Restricted Due from Primary Government	250,797.23
Restricted Investments	651,335.97
Capital Assets - Nondepreciable (Note 5)	796,375.50
Capital Assets - Depreciable, Net (Note 5)	<u>13,514,750.73</u>
Total Noncurrent Assets	<u>15,540,592.84</u>

Total Assets	<u>21,492,410.62</u>
--------------	----------------------

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<u>0.00</u>
--------------------------------------	-------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	530,148.26
Due to Primary Government	1,098.28
Unearned Revenue	168,352.27
Long-Term Liabilities - Current Portion (Note 7)	<u>85,500.14</u>
Total Current Liabilities	<u>785,098.95</u>

Noncurrent Liabilities:

Funds Held for Others	32,649.87
Long-Term Liabilities (Note 7)	<u>599,194.49</u>
Total Noncurrent Liabilities	<u>631,844.36</u>

Total Liabilities	<u>1,416,943.31</u>
-------------------	---------------------

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<u>0.00</u>
-------------------------------------	-------------

Western Piedmont Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	14,311,126.23
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	59,339.00
Expendable:	
Scholarships and Fellowships	931,007.80
Loans	6,277.60
Capital Projects	293,621.73
Other	49,765.81
Unrestricted	<u>4,424,329.14</u>
Total Net Position	<u><u>\$ 20,075,467.31</u></u>

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 Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,402,288.01
Sales and Services, Net (Note 9)	571,039.85
Other Operating Revenues, Net (Note 9)	<u>60,389.51</u>
Total Operating Revenues	<u>2,033,717.37</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	16,716,985.69
Supplies and Materials	2,934,134.53
Services	1,373,015.92
Scholarships and Fellowships	3,328,907.81
Utilities	621,653.91
Depreciation	<u>563,728.65</u>
Total Operating Expenses	<u>25,538,426.51</u>
Operating Loss	<u>(23,504,709.14)</u>

NONOPERATING REVENUES (EXPENSES)

State Aid	12,712,154.51
County Appropriations	2,080,000.00
Noncapital Grants - Student Financial Aid	6,719,528.03
Noncapital Grants	984,426.01
Noncapital Gifts	78,554.88
Investment Income (Net of Investment Expense of \$8,863.29)	87,276.12
Other Nonoperating Expenses	<u>(12,168.04)</u>
Net Nonoperating Revenues	<u>22,649,771.51</u>
Loss Before Other Revenues	(854,937.63)
State Capital Aid	502,607.37
County Capital Aid	141,000.00
Capital Grants	8,455.95
Capital Gifts	<u>30,600.00</u>
Decrease in Net Position	(172,274.31)

NET POSITION

Net Position, July 1, 2013	<u>20,247,741.62</u>
Net Position, June 30, 2014	<u>\$ 20,075,467.31</u>

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, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,923,324.95
Payments to Employees and Fringe Benefits	(16,797,473.00)
Payments to Vendors and Suppliers	(4,935,189.87)
Payments for Scholarships and Fellowships	(3,328,907.81)
Loans Issued to Students	(13,428.65)
Collection of Loans to Students	12,428.30
Other Receipts	8,002.47
	<hr/>
Net Cash Used by Operating Activities	(23,131,243.61)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,712,154.51
County Appropriations	2,080,000.00
Noncapital Grants - Student Financial Aid	6,714,528.03
Noncapital Grants	977,505.93
Noncapital Gifts	78,554.88
William D. Ford Direct Lending Receipts	34,274.00
William D. Ford Direct Lending Disbursements	(34,274.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	22,562,743.35

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	909,821.64
County Capital Aid	141,000.00
Capital Grants	8,455.95
Proceeds from Sale of Capital Assets	2,931.27
Acquisition and Construction of Capital Assets	(382,712.96)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	679,495.90

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,942,653.13
Investment Income	20,916.60
Purchase of Investments and Related Fees	(2,004,414.59)
	<hr/>
Net Cash Used by Investing Activities	(40,844.86)

Net Increase in Cash and Cash Equivalents	70,150.78
Cash and Cash Equivalents, July 1, 2013	5,119,250.27
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 5,189,401.05

Western Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (23,504,709.14)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	563,728.65
Provision for Uncollectible Loans and Write-Offs	786.78
Nonoperating Other Expenses	(143.00)
Changes in Assets and Liabilities:	
Receivables, Net	(61,236.29)
Inventories	(72.62)
Notes Receivable, Net	(1,000.35)
Accounts Payable and Accrued Liabilities	(89,398.98)
Due to Primary Government	549.14
Unearned Revenue	(49,156.13)
Funds Held for Others	8,145.47
Compensated Absences	1,262.86
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (23,131,243.61)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,858,315.50
Restricted Cash and Cash Equivalents	196,390.98
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	134,694.57
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 5,189,401.05</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 30,600.00
Change in Fair Value of Investments	23,499.61
Increase in Receivables Related to Nonoperating Income	11,920.08
Loss on Disposal of Capital Assets	12,025.04

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

Western Piedmont Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	48,808
Student Loans Receivable		1,200
Land		138,000
Marketable Securities		2,579,761

Total Assets \$ 2,767,769

NET ASSETS

Unrestricted	\$	175,659
Temporarily Restricted		575,052
Permanently Restricted		2,017,058

Total Net Assets \$ 2,767,769

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, 2014

Exhibit B-2

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Donations	\$ 22,969	\$ 147,263	\$ 61,000	\$ 231,232
Investment Return	44,102	104,765		148,867
Program Grants		1,585		1,585
Golf Tournament Revenue		16,505		16,505
Net Assets Released from Restrictions: Satisfaction of Program Restrictions	152,876	(152,876)		
Total Support and Revenue	219,947	117,242	61,000	398,189
EXPENSES				
Program Services:				
Instructional Awards	2,460			2,460
Institutional Development Grants	28,509			28,509
Scholarship Awards	113,707			113,707
Fund Raising Expenses:				
General Fund Raising Expense	4,575			4,575
Golf Tournament Expense	9,601			9,601
Management and General:				
Professional Fees	8,120			8,120
Other Expense	31,369			31,369
Total Expenses	198,341			198,341
Change in Net Assets	21,606	117,242	61,000	199,848
Net Assets, Beginning of Year	116,234	495,609	1,956,078	2,567,921
Transfers In (Out)	37,819	(37,799)	(20)	
Net Assets, End of Year	\$ 175,659	\$ 575,052	\$ 2,017,058	\$ 2,767,769

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

[This Page Left Blank Intentionally]

WESTERN PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 (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. See below for further discussion of the College's component unit.

Discretely Presented Component Unit - Western Piedmont Foundation, Inc. (Foundation) is legally separate nonprofit corporation and is reported as discretely presented component unit based on the nature and significance of their 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 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.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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, 2014, the Foundation distributed \$93,285.25 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.

- 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, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, and investment brokers for unsettled transactions at year end. 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 75 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 cost or 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 for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 Position** - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

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

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

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College's bookstore. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 appropriations and county capital appropriations 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, 2014 was \$25,773.00. The carrying amount of the College's deposits not with the State Treasurer was \$535,894.34, and the bank balance was \$658,335.41.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Investments

College - In addition to donated securities, 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$4,627,733.71, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF 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 STIF) 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

Investments of the College's component unit, the Foundation, 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 \$651,335.97 in equity weighted, closed-end mutual fund investments valued at fair value at June 30, 2014.

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.

Component Unit - Investments of the College's discretely presented component unit, the Foundation, 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 report under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	June 30, 2014		
	Market Value	Cost	Unrealized Gain (Loss)
Wells Fargo Portfolio Securities			
Fixed Income	\$ 717,884	\$ 707,906	\$ 9,978
Equities	1,171,569	1,106,256	65,313
Complementary Strategies	273,707	277,999	(4,292)
Money Market	94,650	94,650	
Real Asset Funds	321,951	295,366	26,585
	Total	\$ 2,482,177	\$ 97,584
	\$ 2,579,761	\$ 2,482,177	\$ 97,584

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	25,773.00
Carrying Amount of Deposits with Private Financial Institutions		535,894.34
Investments in the Short-Term Investment Fund		4,627,733.71
Other Investments		<u>651,335.97</u>
Total Deposits and Investments	\$	<u><u>5,840,737.02</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	4,858,315.50
Restricted Cash and Cash Equivalents		196,390.98
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>134,694.57</u>
Total Deposits		<u>5,189,401.05</u>
Investments		
Noncurrent:		
Restricted Investments		<u>651,335.97</u>
Total Investments		<u>651,335.97</u>
Total Deposits and Investments	\$	<u><u>5,840,737.02</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 otherwise. At June 30, 2014, net appreciation of \$244.36 was available to be spent, all of which was classified in net position as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 638,208.98	\$ 528,318.90	\$ 109,890.08
Student Sponsors	13,454.09		13,454.09
Accounts	250,891.92		250,891.92
Intergovernmental	33,810.57		33,810.57
Other	3,192.70	2,371.25	821.45
Total Current Receivables	\$ 939,558.26	\$ 530,690.15	\$ 408,868.11
Noncurrent Receivables:			
Pending Trades	\$ 192,638.84	\$ 0.00	\$ 192,638.84
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 6,503.40	\$ 5,121.40	\$ 1,382.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
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	8,806.50	235,279.94	244,086.44	0.00
Total Capital Assets, Nondepreciable	805,182.00	235,279.94	244,086.44	796,375.50
Capital Assets, Depreciable:				
Buildings	18,643,925.66	244,086.44	12,653.57	18,875,358.53
Machinery and Equipment	4,869,128.79	162,033.02	103,458.47	4,927,703.34
General Infrastructure	1,594,003.98			1,594,003.98
Total Capital Assets, Depreciable	25,107,058.43	406,119.46	116,112.04	25,397,065.85
Less Accumulated Depreciation for:				
Buildings	9,184,121.96	337,268.41	11,304.24	9,510,086.13
Machinery and Equipment	1,829,971.04	197,116.04	89,851.49	1,937,235.59
General Infrastructure	405,649.20	29,344.20		434,993.40
Total Accumulated Depreciation	11,419,742.20	563,728.65	101,155.73	11,882,315.12
Total Capital Assets, Depreciable, Net	13,687,316.23	(157,609.19)	14,956.31	13,514,750.73
Capital Assets, Net	\$ 14,492,498.23	\$ 77,670.75	\$ 259,042.75	\$ 14,311,126.23

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 77,801.93
Accrued Payroll	452,346.33
Total Current Accounts Payable and Accrued Liabilities	\$ 530,148.26

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 683,431.77	\$ 546,462.01	\$ 545,199.15	\$ 684,694.63	\$ 85,500.14

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$37,646.77. The College has no noncancelable operating leases requiring disclosure.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 3,817,954.71	\$ 0.00	\$ 2,315,959.97	\$ 99,706.73	\$ 1,402,288.01
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	1,535,822.39	4,847.12	1,094,203.09	63,385.05	373,387.13
Other	151,336.30				151,336.30
Sales and Services of Education and Related Activities	95,374.47		46,259.50	2,798.55	46,316.42
Total Sales and Services	\$ 1,782,533.16	\$ 4,847.12	\$ 1,140,462.59	\$ 66,183.60	\$ 571,039.85
Other Operating Revenue	\$ 88,925.61	\$ 0.00	\$ 17,668.81	\$ 10,867.29	\$ 60,389.51

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	\$ 9,557,053.85	\$ 975,542.31	\$ 281,607.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,814,203.41
Academic Support	1,700,314.57	42,151.88	62,191.20				1,804,657.65
Student Services	1,832,027.38	44,619.93	163,240.46	41,952.00			2,081,839.77
Institutional Support	2,666,183.40	275,553.88	551,688.97				3,493,426.25
Operations and Maintenance of Plant	827,146.69	448,047.82	282,566.14		621,653.91		2,179,414.56
Student Financial Aid				3,286,955.81			3,286,955.81
Auxiliary Enterprises	134,259.80	1,148,218.71	31,721.90				1,314,200.41
Depreciation						563,728.65	563,728.65
Total Operating Expenses	\$ 16,716,985.69	\$ 2,934,134.53	\$ 1,373,015.92	\$ 3,328,907.81	\$ 621,653.91	\$ 563,728.65	\$ 25,538,426.51

NOTE 11 - PENSION 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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$13,172,554.51, of which \$10,098,690.52 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$877,576.21 and \$605,921.43, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$877,576.21, \$867,542.11, and \$743,411.35, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The TSERS 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.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$545,329.29, \$551,977.58, and \$499,604.40, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$44,434.23, \$45,824.56, and \$51,958.86, 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 a limit of \$100,000 per occurrence and a \$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.

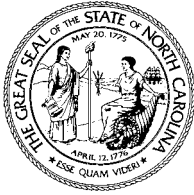
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$250,797.23 at June 30, 2014.

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
Western Piedmont Community College
Morganton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Western Piedmont 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 9, 2015. Our report includes a reference to other auditors who audited the financial statements of Western Piedmont Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Western Piedmont Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Western Piedmont Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

**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)**

prevented, or detected and corrected on a timely basis. 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 by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 9, 2015

ORDERING INFORMATION

Copies of this report 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

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513