WILKES COMMUNITY COLLEGE
Wilkesboro, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2012

WILKES COMMUNITY COLLEGE
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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Wilkes Community College Board of Trustees
Wilkesboro, North Carolina

We have audited the accompanying financial statements of Wilkes 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 Wilkes Community College Endowment Corporation, the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this 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 Wilkes Community College Endowment Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Wilkes Community College and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10 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.

Anderson Smith & Wike PLLC

December 19, 2012
Statesville, North Carolina
(704) 562-5039

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Wilkes Community College's Financial Statements presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2012 and June 30, 2011. Since management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and notes to financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

This annual report consists of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.*

The statement format presents financial information in a form similar to that used by corporations. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements. Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. This statement combines current financial resources and capital assets. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well-being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the institution. Nonfinancial factors must also be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of nonfinancial factors that have an impact on the College's condition.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and County appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense.

The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

College Assets and Liabilities

The assets of the College are divided between current and noncurrent assets. Current Assets include Cash and Cash Equivalents, Short Term Investments, Receivables and Inventories. Noncurrent Assets consist of Cash and Cash Equivalents, Receivables, Investments and Capital Assets (land, buildings, infrastructure and equipment). The College's capital assets are stated at historical cost less depreciation. A purchase is recorded as a capital asset if the item costs $5,000 or more and has a useful life of more than one year.

Current and Noncurrent Assets

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
Assets:				
Cash and Cash Equivalents	2,181,192.50	2,528,293.76	(347,101.26)	-13.73%
Short-term Investments	1,304,707.00	1,242,294.22	62,412.78	5.02%
Receivables	873,566.78	885,764.55	(12,197.77)	-1.38%
Inventories	511,296.65	457,128.97	54,167.68	11.85%
Total Current Assets	4,870,762.93	5,113,481.50	(242,718.57)	-4.75%
Cash and Cash Equivalents	270,769.47	334,375.18	(63,605.71)	-19.02%
Receivables	663,200.95	5,403.95	657,797.00	12172.52%
Investments	2,898,921.22	2,843,948.55	54,972.67	1.93%
Capital Assets, Net	27,448,789.65	28,020,179.79	(571,390.14)	-2.04%
Total Noncurrent Assets	31,281,681.29	31,203,907.47	77,773.82	0.25%
Total Assets	36,152,444.22	36,317,388.97	(164,944.75)	-0.45%

Current assets at June 30, 2012 decreased primarily due to a net decrease in cash. Cash and cash equivalents decreased due to the use of cash reserves to compensate for budget reductions and the increase in financial resource needs for student scholarship aid. Investment balances increased due to an improved investment climate much of the fiscal year.

Noncurrent assets increased primarily due to the net changes in receivables and capital asset accounts associated with capital projects and annual depreciation expense.

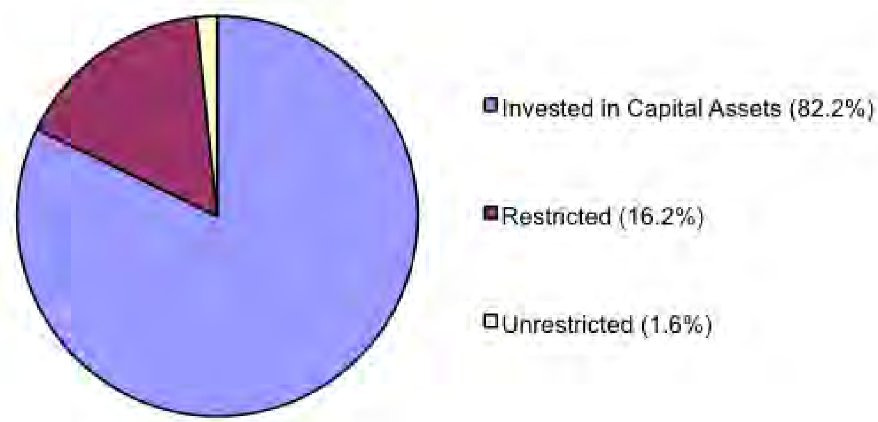
Liabilities

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
Current Liabilities	1,329,749.26	1,470,191.09	(140,441.83)	-9.55%
Noncurrent Liabilities	1,504,647.87	1,578,808.84	(74,160.97)	-4.70%
Total Liabilities	2,834,397.13	3,048,999.93	(214,602.80)	-7.04%

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Noncurrent Liabilities include compensated absences that will not be paid within the next fiscal year and capital lease payable.

Net Assets

Net assets are a measure of the value of all of the College's assets less liabilities. The College's net assets increased $49,658.05 for the fiscal year for a year-end total of $33,318,047.09. The total consists of net assets invested in capital assets of $27,371,907.93, restricted net assets of $5,384,886.41, and unrestricted net assets of $561,252.75.



Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees; federal, state and local operating grants, sales and services revenue; and other operating revenues. Sales and services revenue is primarily derived from bookstore operations, hospitality services, and event ticket sales. Nonoperating revenues comprise the major portion of the College's income and include appropriations from State and local governments, noncapital gifts and grants, and investment income. The largest amount, State Aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations.

Operating Revenues

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
Student Tuition and Fees	1,934,081.06	2,249,240.93	(315,159.87)	-14.01%
Federal Grants and Contracts	1,185,228.03	925,409.84	259,818.19	28.08%
State and Local Grants and Contracts	535,909.20	704,870.29	(168,961.09)	-23.97%
Sales and Services, Net	1,811,644.15	2,023,739.44	(212,095.29)	-10.48%
Other Operating Revenues	17,029.37	27,506.90	(10,477.53)	-38.09%
Total Operating Revenues	5,483,891.81	5,930,767.40	(446,875.59)	-7.53%

Student tuition and fees decreased due a decrease in student enrollment and an increase in tuition discounts and allowances. Federal Grants and Contracts increased primarily due to an increase in funding through the Workforce Investment Act. State and Local Grants and Contracts decreased due to reductions in curriculum tuition grants and reduced funding for state funded scholarships. Sales and services decreased primarily due to lower revenues from the college's auxiliary services.

Nonoperating Revenues

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
State Aid	12,307,261.44	13,539,324.12	(1,232,062.68)	-9.10%
County Appropriations	3,573,915.83	3,502,046.83	71,869.00	2.05%
Noncapital Grants	7,371,325.33	7,580,885.40	(209,560.07)	-2.76%
Noncapital Gifts, Net	1,009,492.62	1,194,386.60	(184,893.98)	-15.48%
Investment Income, Net	89,532.14	776,895.54	(687,363.40)	-88.48%
Other Operating Revenues (Expenses)	(103,080.41)	(12,561.08)	(90,519.33)	720.63%
Total Nonoperating Revenues	24,248,446.95	26,580,977.41	(2,332,530.46)	-8.78%

State Aid decreased due to decreased appropriations resulting from lower student enrollments in the previous year and state budget reductions. Noncapital grants decreased due primarily to a decrease in grant funding passed through the NC Community College System during the fiscal year. Noncapital gifts decreases were the result of reduced transfers from the WCC Endowment Corporation in the 2012 year. Investment income decreased because of significant improvement in financial markets during the 2010/2011 fiscal year that were not sustainable in the current year.

The following is a graphical representation of revenues by source, and includes operating revenues as well as nonoperating revenues.

Revenue by Source

Operating Expenses

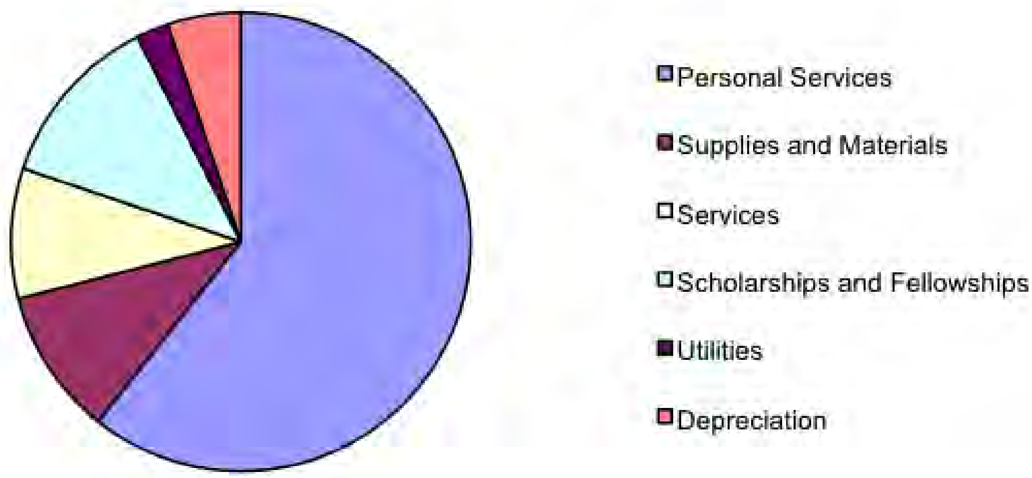
The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for the operating activities that are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statement No. 34/35.

Opertating Expenses

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
Personal Services	19,099,774.80	19,027,595.83	72,178.97	0.38%
Supplies and Materials	3,252,590.22	4,635,278.97	(1,382,688.75)	-29.83%
Services	2,883,368.68	3,768,204.54	(884,835.86)	-23.48%
Scholarships and Fellowships	3,900,993.33	4,615,217.42	(714,224.09)	-15.48%
Utilities	712,635.21	749,676.28	(37,041.07)	-4.94%
Depreciation	1,627,967.29	1,521,145.04	106,822.25	7.02%
Total Operating Expenses	31,477,329.53	34,317,118.08	(2,839,788.55)	-8.28%

Operating expenses for fiscal year 2012 decreased $2,839,788.55 from fiscal year 2011. Personal services increased due to higher employee benefit costs. Supplies and materials expenses decreased primarily as a result of a reduction in spending on minor equipment (below the capitalization threshold). Services decreased due to a fewer number of professional services agreements for instruction and training. Scholarships and fellowships decreased due to an increase in tuition discounts and allowances and a reduction in state-funded financial aid awards.

The following is a graphical representation of operating expenses.



Other Revenues, Expenses, Gains or Losses

This category consists of State and local appropriations for equipment, construction, building improvements and infrastructure and additions to endowments.

Other Revenues, Expenses, Gains or Losses

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	1,535,214.86	2,493,993.06	(958,778.20)	-38.44%
County Capital Appropriations	21,659.17	90,531.17	(68,872.00)	-76.08%
Capital Grants	0.00	8,996.04	(8,996.04)	-100.00%
Capital Gifts, Net	215,049.14	684,612.44	(469,563.30)	-68.59%
Additions to Endowments	22,725.65	24,361.11	(1,635.46)	-6.71%
Total Other Revenues, Expenses, Gains or Losses	1,794,648.82	3,302,493.82	(1,507,845.00)	-45.66%

State capital aid decreased in fiscal year 2012 as a result of a reduction in revenues required to fund equipment expenditures. Equipment expenditures were significantly lower than the previous year. Capital Gifts decreased due to the completion of capital projects in fiscal year 2011 funded through donations from the WCC Endowment Corporation. Capital activity decreased in 2012.

Capital Asset Activity

At the end of fiscal year 2012, capital assets, net of accumulated depreciation amounted to $27,448,789.65 in a broad range of capital assets (see table below). Depreciation charges for the 2011-12 fiscal year totaled $1,627,967.29. Capital asset events during the fiscal year included additions and disposals of machinery and equipment, minor building renovations, an addition to

Randolph Hall, paving projects, installation of energy-efficient windows and doors and planning/design of a new automotive technology complex.

Capital Assets

	June 30, 2012	June 30, 2011	Increase/ (Decrease)
Land	1,290,927.20	1,290,927.20	0.00
Buildings	30,767,176.59	30,336,268.00	430,908.59
Infrastructure	4,237,058.86	4,074,845.10	162,213.76
Machinery and Equipment	7,265,407.92	6,908,513.79	356,894.13
Art, Literature and Artifacts	45,500.00	45,500.00	0.00
Construction in Progress	396,155.01	324,753.90	71,401.11
Total	44,002,225.58	42,980,807.99	1,021,417.59
Less Accumulated Depreciation	16,553,435.93	14,960,628.20	1,592,807.73
Capital Assets, Net	27,448,789.65	28,020,179.79	(571,390.14)

Analysis of Financial Position

For the year ended June 30, 2012, the College had a net decrease in cash and cash equivalents of $410,706.97, representing a 14.35% decrease in cash and cash equivalents when compared to the June 30, 2011 balance. As discussed in the College Assets and Liabilities section, the decrease can be attributed to the use of cash reserves to compensate for budget reductions and increased cash needs for student financial aid. Changes in total assets and net assets were not significant as compared to the June 30, 2011 balances.

Management concludes that the College's financial position has remained strong during the past fiscal year and that it is well positioned to serve the needs of its students and the community.

Factors Impacting Future Periods

After several years of significantly increasing curriculum student enrollments associated with the nationwide economic slowdown, enrollments have corrected over the past two years to historical growth trends, although fall semester 2012 enrollment shows increases over the fall 2011 enrollment. State and local funding to the college has been impacted due to budget reductions. For the 2012/13 fiscal year, state funding was reduced as the result of lower enrollments last year. Local funding remained relatively flat, but the college continues to feel the effects of a reduction in local funds of 15% from prior years. Thorough planning and cost controls will allow the College to maintain its healthy financial position through the current economic downturn with minimal impact on services, students and staff. Enrollment trends will continue to be monitored to determine the optimal mix of services offered to continue to provide expanded learning opportunities to students and to continue to focus on the college's core educational mission.

In an effort to increase enrollments, the College is continuing to place an emphasis on distance learning as well as partnerships with public school systems in its educational service area. This includes the Wilkes Early College High School that opened in August 2009 and continues to expand and the Career and College Promise program that was implemented during the last year. These programs target populations that may be underserved and offer expanded opportunities for educational growth for high school students. Possible new educational programs are also being reviewed which will bring in new students and meet some pressing community needs. In addition, existing programs are being reviewed to ensure that they are viable.

The nation and the State of North Carolina have experienced a significant economic downturn during the past four years. If historical trends hold true, this will continue to result in record levels of student enrollments at community colleges. With depressed sales and income tax receipts, increasing funding requirements in other state programs and the uncertainties associated with upcoming federal and state elections, the potential exists that there will be less state revenues to support these higher enrollments. College budgets could be impacted significantly if economic conditions within the state continue to decline or remain stagnant or if educational priorities change as the result of elections.

Requests for Information

This financial report is designed to provide an overview of Wilkes Community College's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wilkes Community College, Senior Vice-President of Administration, PO Box 120, 1328 South Collegiate Drive, Wilkesboro, North Carolina 28697.

Wilkes Community College
Statement of Net Assets
June 30, 2012

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,552,420.75
Restricted Cash and Cash Equivalents		628,771.75
Short-Term Investments		120,289.03
Restricted Short-Term Investments		1,184,417.97
Receivables, Net (Note 4)		867,664.53
Due From Community College Component Unit		5,902.25
Inventories		511,296.65
Total Current Assets		4,870,762.93
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		270,769.47
Restricted Due from Primary Government		663,200.95
Restricted Investments		2,898,921.22
Capital Assets - Nondepreciable (Note 5)		1,687,082.21
Capital Assets - Depreciable, Net (Note 5)		25,761,707.44
Total Noncurrent Assets		31,281,681.29
Total Assets		36,152,444.22
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		572,581.67
Due to Primary Government		3,401.34
Unearned Revenue		280,589.00
Funds Held for Others		251,652.74
Long-Term Liabilities - Current Portion (Note 7)		221,524.51
Total Current Liabilities		1,329,749.26
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,504,647.87
Total Noncurrent Liabilities		1,504,647.87
Total Liabilities		2,834,397.13

NET ASSETS

Invested in Capital Assets, Net of Related Debt		27,371,907.93
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,476,124.59
Restricted for Specific Programs		1,430,520.15
Expendable:		
Scholarships and Fellowships		1,304,002.30
Capital Projects		490,481.56
Restricted for Specific Programs		683,757.81
Unrestricted		561,252.75
Total Net Assets	$	33,318,047.09

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

Wilkes 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)	$ 1,934,081.06
Federal Grants and Contracts	1,185,228.03
State and Local Grants and Contracts	535,909.20
Sales and Services, Net (Note 9)	1,811,644.15
Other Operating Revenues	17,029.37
Total Operating Revenues	5,483,891.81
EXPENSES	
Operating Expenses:	
Salaries and Benefits	19,099,774.80
Supplies and Materials	3,252,590.22
Services	2,883,368.68
Scholarships and Fellowships	3,900,993.33
Utilities	712,635.21
Depreciation/ Amortization	1,627,967.29
Total Operating Expenses	31,477,329.53
Operating Loss	(25,993,437.72)
NONOPERATING REVENUES (EXPENSES)	
State Aid	12,307,261.44
County Appropriations	3,573,915.83
Noncapital Grants - Student Financial Aid	6,862,942.80
Noncapital Grants	508,382.53
Noncapital Gifts, Net	1,009,492.62
Investment Income, Net	89,532.14
Interest and Fees on Debt	(6,107.22)
Other Nonoperating Revenues (Expenses)	(96,973.19)
Net Nonoperating Revenues	24,248,446.95
Income Before Other Revenues, Expenses, Gains, and Losses	(1,744,990.77)
State Capital Aid	1,535,214.86
County Capital Aid	21,659.17
Capital Gifts, Net	215,049.14
Additions to Endowments	22,725.65
Increase in Net Assets	49,658.05
NET ASSETS	
Net Assets, July 1, 2011	33,268,389.04
Net Assets, June 30, 2012	$ 33,318,047.09

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

Wilkes Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,506,836.19
Payments to Employees and Fringe Benefits	(19,097,828.89)
Payments to Vendors and Suppliers	(6,927,634.15)
Payments for Scholarships and Fellowships	(3,970,767.19)
Other Receipts (Payments)	104,840.09
Net Cash Provided (Used) by Operating Activities	(24,384,553.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,307,261.44
County Appropriations	3,573,915.83
Noncapital Grants - Student Financial Aid	6,872,655.80
Noncapital Grants Received	319,408.65
Noncapital Gifts and Endowments Received	1,032,218.27
William D. Ford Direct Lending Receipts	1,976,030.00
William D. Ford Direct Lending Disbursements	(1,976,030.00)
Net Cash Provided (Used) by Noncapital Financing Activities	24,105,459.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	877,417.86
County Capital Aid	(3,340.83)
Capital Gifts Received	251,421.33
Proceeds from Sale of Capital Assets	1,116.74
Acquisition and Construction of Capital Assets	(1,148,764.83)
Principal Paid on Capital Debt and Leases	(72,427.46)
Interest Paid on Capital Debt and Leases	(9,182.51)
Net Cash Provided (Used) by Capital and Related Financing Activities	(103,759.70)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,488,601.99
Investment Income	527,386.45
Purchase of Investments and Related Fees	(4,043,841.75)
Net Cash Provided (Used) by Investing Activities	(27,853.31)
Net Increase (Decrease) in Cash and Cash Equivalents	(410,706.97)
Cash and Cash Equivalents, July 1, 2011	2,862,668.94
Cash and Cash Equivalents, June 30, 2012	$ 2,451,961.97

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(25,993,437.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		1,627,967.29
Changes in Assets and Liabilities:		
Receivables, Net		162,069.69
Inventories		(54,167.68)
Accounts Payable and Accrued Liabilities		(29,339.21)
Due to Primary Government		(170.78)
Unearned Revenue		(68,469.86)
Funds Held for Others		(35,589.22)
Compensated Absences		6,583.54
Net Cash Used by Operating Activities	$	(24,384,553.95)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,552,420.75
Restricted Cash and Cash Equivalents		628,771.75
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		270,769.47
Total Cash and Cash Equivalents - June 30, 2012	$	2,451,961.97

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	5,902.25
Change in Fair Value of Investments		(437,854.31)
Increase in Receivables Related to Nonoperating Income		844,041.11
Capital Asset Write-Offs		102,221.92

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

Wilkes Community College Endowment Corporation
Statement of Financial Position
June 30, 2012 ***Exhibit B-1***

CURRENT ASSETS		
Cash and Cash Equivalents	$	2,144,168.00
Current Portion of Unconditional Promises to Give		
(Net of allowance for doubtful accounts of $7,000)		153,604.00
Other Receivables		41,763.00
Prepaid Expenses		4,491.00
Total Current Assets		2,344,026.00
FIXED ASSETS		
Building and land		610,000.00
Less: Accumulated Depreciation		(48,279.00)
Total Fixed Assets		561,721.00
OTHER ASSETS		
Cash Restricted for Long-Term Purposes		116,768.00
Unconditional Promises to Give (Net of current portion, present value discount, and allownace for doubtful accounts of $9,000)		182,922.00
Investments		311,588.00
Trademark		28,765.03
Total Other Assets		640,043.03
Total Assets		3,545,790.03
LIABILITIES		
Accounts Payable and Accrued Expenses		15,108.97
Due to Community College		5,902.25
Deferred Revenue		17,025.00
Total Liabilities		38,036.22
NET ASSETS		
Unrestricted		3,056,480.01
Temporarily Restricted		451,273.80
Permanently Restricted		0.00
Total Net Assets	$	3,507,753.81

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

Wilkes Community College Endowment Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2012 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	236,448.26
Fund-Raising Income		3,238,451.18
Other		37,773.29
Total Unrestricted Revenues and Gains		3,512,672.73
Expenses:		
Program Services		842,821.75
Management and General		311,244.24
Fund Raising		1,810,066.76
Total Expenses		2,964,132.75
Increase in Unrestricted Net Assets		548,539.98
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		703,886.98
Interest Income		529.51
Other		27,045.00
Loss on Bad Debts		(10,935.04)
Transfer to Wilkes Community College		(362,725.43)
Increase/(Decrease) in Temporarily Restricted Net Assets		357,801.02
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		10,740.00
Transfer to Wilkes Community College		(10,740.00)
Increase/(Decrease) in Permanently Restricted Net Assets		0.00
Increase in Net Assets		906,341.00
Net Assets at Beginning of Year		2,601,412.81
Net Assets at End of Year	$	3,507,753.81

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Wilkes Community College is a component unit of the state of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – The Wilkes Community College Endowment Corporation (Endowment Corporation) 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 Wilkes Community College Endowment Corporation is a legally separate, tax-exempt component unit of the College. The Endowment Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Endowment Corporation board consists of 30 members of which two positions were vacant at June 30, 2012. Although the College does not control the timing or amount of receipts from the Endowment Corporation, the majority of resources, or income thereon, that the Endowment Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Endowment Corporation can only be used by, or for the benefit of the College, the Endowment Corporation 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 Endowment Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Endowment Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2012, the Endowment Corporation distributed $1,216,287.18 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Wilkes Community College Endowment Corporation, Wilkes Community College, PO Box 120, Wilkesboro, NC 28697-0120.

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 petty cash and cash on deposit with private bank accounts.

E. **Investments** – This classification includes mutual funds, Hedge funds, real estate investment trust funds and money market mutual funds. Except for money market funds, 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. The net increase in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments 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 either first-in, first-out or last invoice cost method. Bookstore inventories consisting of merchandise for resale are valued at the last invoice cost method for supply and gift items and the average cost method for textbooks.

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 15 to 75 years for general infrastructure, 15 to 75 years for buildings and 5 to 45 years for equipment.

The art collection collection is capitalized at cost or fair value at the date of donation. This collection is depreciated over the life of the collection using the straight-line method. The estimated useful life for the collection is 15 years.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include capital lease obligations and 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.

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 on June 30 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, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

O. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore, the John A. Walker Events functions, hospitality services, food court café and the child development center (which closed in fall 2009; however, revenues are being collected on outstanding accounts). In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use 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 $5,870.00. The carrying amount of the College's deposits not with the State Treasurer was $2,446,091.97 and the bank balance was $2,603,059.93.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. **Investments** - 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.

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, the Wilkes Community College Endowment Corporation, 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 following table presents the fair value of investments (as determined by quoted market prices) by type and investments subject to interest rate risk at June 30, 2012, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Debt Mutual Funds	$ 1,172,055.30	$ -	$ 247,878.00	$ 672,098.30	$ 252,079.00
Money Market Mutual Funds	206,889.57	206,889.57	-	-	-
Total Debt Securities	1,378,944.87	$ 206,889.57	$ 247,878.00	$ 672,098.30	$ 252,079.00
Other Securities					
Mutual Funds	1,837,412.48				
Hedge Funds	687,668.58				
Real Estate Investment Trust	299,602.29				
Total Investments	$ 4,203,628.22				

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. As of June 30, 2012, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	$ 1,172,055.30	$ -	$ 589,686.40	$ -	$ -	$ 570,841.75	$ 11,527.15
Money Market Mutual Funds	206,889.57	206,889.57	-	-	-	-	-
Total	$ 1,378,944.87	$ 206,889.57	$ 589,686.40	$ -	$ -	$ 570,841.75	$ 11,527.15

Rating Agency: Standard & Poors

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were not exposed to custodial credit risk as there are no assets held by a counterparty and there are not assets held in trust that are not in the name of the College.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in Pimco Total Return Fund, Pimco Emerging Markets Bond Fund, Harbor Capital Appreciation Fund, T. Rowe Price Equity Income, Vanguard MSCI Emerging Markets, Hussman Strategic Growth Fund and Principal Investors Real Estate Securities Fund. These investments are 14%, 5.9%, 11%, 11.5%, 6.3%, 7.6% and 7.1%, respectively, of College's investments.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The College's exposure to foreign currency risk for their investments is as follows:

Investment	Fair Value (U.S. Dollars)
Pimco Emerging Markets Bond Fund - Instl 137	$ 250,054.05
Delaware Pooled Tr Intl Equity Portfolio #31	150,705.30
Oakmark Funds - The Oakmark International	147,999.02
Vanguard MSCI Emerging Markets ETF	266,732.40
Total	$ 815,490.77

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	$ 5,870.00
Carrying Amount of Deposits with Private Financial Institutions	2,446,091.97
Other Investments	4,203,628.22
Total Deposits and Investments	$ 6,655,590.19
Current:	
Cash and Cash Equivalents	$ 1,552,420.75
Restricted Cash and Cash Equivalents	628,771.75
Short-Term Investments	120,289.03
Restricted Short-Term Investments	1,184,417.97
Noncurrent:	
Restricted Cash and Cash Equivalents	270,769.47
Restricted Investments	2,898,921.22
Total	$ 6,655,590.19

Component Unit - Investments of the College's discretely presented component unit, the Wilkes Community College Endowment Corporation is 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 Wilkes Community College Endowment Corporation report under the FASB reporting model, disclosures of the various investment risks are not required.

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure of the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which specifies that assets will be invested in total return capacity with no distinction made between investment yields and capital appreciation. Generally, the Board will spend up to 4% of the total foundation assets based on an average 3-year market value. At June 30, 2012, net appreciation of $182,442.68 was available to be spent, of which $113,958.76 was classified in net assets as classification restricted: expendable: scholarships and fellowships and $68,483.92 was classified in net assets as classification restricted: expendable: restricted for specific programs as the entire amount is restricted for specific purposes.

NOTE 4 RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 648,465.69	$ 232,633.81	$ 415,831.88
Student Sponsors	86,037.36	1,977.33	84,060.03
Accounts	54,143.10	-	54,143.10
Intergovernmental	265,236.11	-	265,236.11
Other	48,393.41	-	48,393.41
Total Current Receivables	$ 1,102,275.67	$ 234,611.14	$ 867,664.53

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 and Permanent Easements	$ 1,290,927.20	$ -	$ -	$ 1,290,927.20
Construction in Progress	324,753.90	396,155.01	324,753.90	396,155.01
Total Capital Assets, Nondepreciable	1,615,681.10	396,155.01	324,753.90	1,687,082.21
Capital Assets, Depreciable:				
Buildings	30,336,268.00	430,908.59	-	30,767,176.59
Machinery and Equipment	6,908,513.79	490,143.62	133,249.49	7,265,407.92
Art, Literature, and Artifacts	45,500.00	-	-	45,500.00
General Infrastructure	4,074,845.10	162,213.76	-	4,237,058.86
Total Capital Assets, Depreciable	41,365,126.89	1,083,265.97	133,249.49	42,315,143.37
Less Accumulated Depreciation/Amortization for:				
Buildings	10,428,247.93	835,575.28	-	11,263,823.21
Machinery and Equipment	2,814,995.91	594,150.42	35,159.56	3,373,986.77
Art, Literature, and Artifacts	36,653.10	3,033.36	-	39,686.46
General Infrastructure	1,680,731.26	195,208.23	-	1,875,939.49
Total Accumulated Depreciation	14,960,628.20	1,627,967.29	35,159.56	16,553,435.93
Total Capital Assets, Depreciable, Net	26,404,498.69	(544,701.32)	98,089.93	25,761,707.44
Capital Assets, Net	$ 28,020,179.79	$ (148,546.31)	$ 422,843.83	$ 27,448,789.65

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 151,915.12
Accrued Payroll	360,237.65
Contract Retainage	5,902.25
Intergovernmental Payables	51,262.23
Other	3,264.42
Total Accounts Payable and Accrued Liabilities	$ 572,581.67

NOTE 7 - LONG-TERM LIABILITIES

Changes in 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
Capital Leases Payable	$ 149,309.18	$ -	$ 72,427.46	$ 76,881.72	$ 76,881.72
Compensated Absences	1,642,707.12	1,096,954.83	1,090,371.29	1,649,290.66	144,642.79
Total Long-Term Liabilities	$ 1,792,016.30	$ 1,096,954.83	$ 1,162,798.75	$ 1,726,172.38	$ 221,524.51

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to climate control energy conservation equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	$ 81,609.95
Total Minimum Lease Payments	81,609.95
Amount Representing Interest (6.15% Rate of Interest)	4,728.23
Present Value of Future Lease Payments	$ 76,881.72

Machinery and equipment acquired under capital lease amounted to $720,348.10 less accumulated depreciation of $309,749.64 for a net value of $410,598.46 at June 30, 2012.

Depreciation for the capital assets associated with capital leases is included in depreciation expense.

B. Operating Lease Obligations - The College entered into operating leases for printing/copying equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	$ 79,072.76
2014	36,733.08
2015	21,598.83
Total Minimum Lease Payments	$ 137,404.67

Rental expense for all operating leases during the year was $183,328.80.

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	$ 4,445,480.41	$ -	$ 2,492,218.15	$ 19,181.20	$ 1,934,081.06
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	$ 57,740.94	$ -	$ -	$ -	$ 57,740.94
John A. Walkier Events	219,247.50	-	-	-	219,247.50
Child Development Center	8,271.36	-	-	6,371.72	1,899.64
Bookstore	2,291,685.77	550.01	1,213,231.68	80,288.57	997,615.51
Food Court Café	87,926.31	20,966.54	-	-	66,959.77
Hospitality Services	342,012.98	29,952.44	-	-	312,060.54
Sales and Services of Education and Related Activities	156,738.43	-	-	618.18	156,120.25
Independent Operations	-	-	-	-	-
Total Sales and Services	$ 3,163,623.29	$ 51,468.99	$ 1,213,231.68	$ 87,278.47	$ 1,811,644.15

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/ Amortization	Total
Instruction	$ 10,443,009.48	$ 1,105,556.19	$ 1,027,747.20	$ -	$ 4,057.60	$ -	$ 12,580,370.47
Public Service	76,158.81	607.28	10,423.36	-	-	-	87,189.45
Academic Support	2,280,278.88	61,567.48	62,458.59	-	-	-	2,404,304.95
Student Services	1,230,429.27	59,848.19	143,684.07	-	-	-	1,433,961.53
Institutional Support	3,241,379.92	132,400.07	885,430.81	135,726.86	31,551.63	-	4,426,489.29
Operations and Maintenance of Plant	1,254,925.89	306,854.87	258,076.14	-	677,025.98	-	2,496,882.88
Student Financial Aid	-	-	13,863.24	3,765,266.47	-	-	3,779,129.71
Auxiliary Enterprises	573,592.55	1,585,756.14	481,685.27	-	-	-	2,641,033.96
Depreciation/ Amortization	-	-	-	-	-	1,627,967.29	1,627,967.29
Total Operating Expenses	$ 19,099,774.80	$ 3,252,590.22	$ 2,883,368.68	$ 3,900,993.33	$ 712,635.21	$ 1,627,967.29	$ 31,477,329.53

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 $15,159,970.78, of which $11,954,042.58 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $889,380.77 and $717,243.19, 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 required contributions for the years ended June 30, 2012, 2011, and 2010, which were $889,380.77, $593,808.53, and $422,428.76, 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 $25,752.96 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $159,111.70 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 are the responsibility of the Plan participants. The plan administrators are Oppenheimerfunds Services. No costs are incurred by the College. The voluntary contributions by employees amounted to $12,727.00 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 $597,702.13, $590,195.10, and $532,473.22, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "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. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $62,161.02, $62,632.95, and $61,530.24, 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 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. Losses from employee dishonesty for employees paid from county and institutional funds are covered with private insurance companies.

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.

The College retained the risks associated with employees who are involved in healthcare environments and the risk that results with the possibility of malpractice liability involved with a classroom laboratory environment as of June 30, 2012. The College is protected from such risks by the purchase of insurance through private insurance companies.

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $61,630.60 at June 30, 2012.

ASW ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

This audit required 283 audit hours at a cost of $22,500.