

WILKES COMMUNITY COLLEGE
Wilkesboro, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2014

WILKES COMMUNITY COLLEGE
TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
College Exhibits:	
A-1 Statement of Net Position.....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Position	13
A-3 Statement of Cash Flows	14
Component Unit Exhibits:	
B-1 Statement of Financial Position	16
B-2 Statement of Activities	17
Notes to the Financial Statements.....	18
Independent Auditors' 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>	36



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 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.

Auditors' Responsibility

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 statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit is 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 Wilkes Community College Endowment Corporation 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 statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 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, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014, on our consideration of Wilkes Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Wilkes Community College's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

December 3, 2014
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, 2014 and June 30, 2013. 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 Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position includes all assets and liabilities. This statement combines current financial resources and capital assets.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and County appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net position (the difference between assets and liabilities) is one indicator of the financial well-being of the College. Over a period of time, increases or decreases in the College's net position 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, Inventories and Prepaid items. 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, 2014	June 30, 2013	Increase/ (Decrease)	% Increase/ (Decrease)
Assets:				
Cash and Cash Equivalents	2,001,702.94	1,746,877.75	254,825.19	14.59%
Short-term Investments	1,849,053.33	1,451,372.52	397,680.81	27.40%
Receivables	1,041,678.60	1,289,104.15	-247,425.55	-19.19%
Inventories	547,294.03	498,880.06	48,413.97	9.70%
Prepaid items	0.00	85,259.85	-85,259.85	
Total Current Assets	5,439,728.90	5,071,494.33	368,234.57	7.26%
Cash and Cash Equivalents	267,750.74	471,831.01	-204,080.27	-43.25%
Receivables	1,979,713.43	2,165,929.72	-186,216.29	-8.60%
Investments	3,140,106.76	2,899,036.95	241,069.81	8.32%
Capital Assets, Net	27,711,791.13	27,509,221.95	202,569.18	0.74%
Total Noncurrent Assets	33,099,362.06	33,046,019.63	53,342.43	0.16%
Total Assets	38,539,090.96	38,117,513.96	421,577.00	1.11%

Current assets at June 30, 2014 increased primarily due to the net effect of changes in cash and cash equivalents, investments and receivables. Cash and cash equivalents increased due to increased cash flows from net profits in bookstore and catering services and cash generated from an increase in parking/campus access fees. Investment balances increased due to an improved investment climate during much of the fiscal year and cash transfers to investment accounts. Receivables decreased due to capital project funding from the college foundation in 2013 that was billed, but not received until after the end of the 2013 fiscal year and reductions in receivables from restricted grants.

Noncurrent assets increased primarily due to the changes in receivables associated with capital projects funded through grants and state funds. Changes in non-current cash and cash equivalents and investments were the result of scholarship cash balances being transferred to investment accounts during the year.

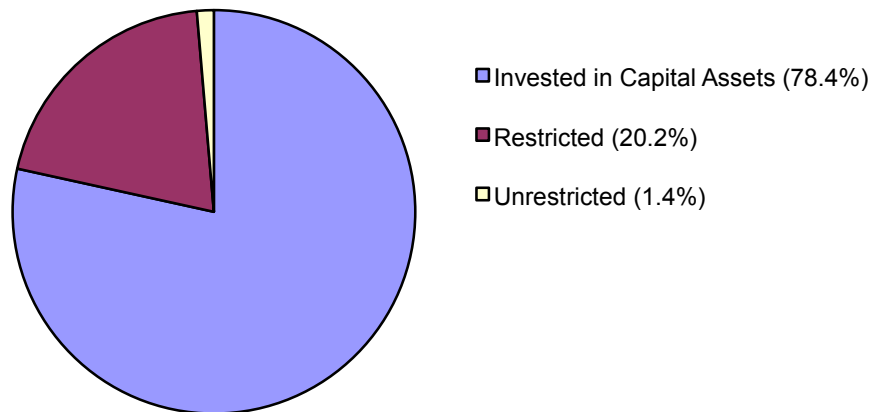
MANAGEMENT'S DISCUSSION AND ANALYSIS

	Liabilities		Increase/ (Decrease)	% Increase/ (Decrease)
	June 30, 2014	June 30, 2013		
Current Liabilities	1,671,947.21	1,494,294.22	177,652.99	11.89%
Noncurrent Liabilities	1,534,444.18	1,672,524.03	-138,079.85	-8.26%
Total Liabilities	3,206,391.39	3,166,818.25	39,573.14	1.25%

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.

Net Position

Net position is a measure of the value of all of the College's assets less liabilities. The College's net position increased \$382,003.85 for the fiscal year for a year-end total of \$35,332,699.57. The total consists of net investment in capital assets of \$27,711,791.13, restricted net position of \$7,141,790.33, and unrestricted net position of \$479,118.11.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

amounts allotted from the North Carolina State Board of Community Colleges to the College for operations.

	Operating Revenues			
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Student Tuition and Fees	1,912,844.10	1,918,062.37	(5,218.27)	-0.27%
Federal Grants and Contracts	1,390,798.45	1,344,253.96	46,544.49	3.46%
State and Local Grants and Contracts	641,982.29	553,728.38	88,253.91	15.94%
Sales and Services, Net	1,844,931.15	1,771,601.48	73,329.67	4.14%
Other Operating Revenues	<u>18,524.00</u>	<u>31,880.98</u>	<u>(13,356.98)</u>	<u>-41.90%</u>
Total Operating Revenues	<u>5,809,079.99</u>	<u>5,619,527.17</u>	<u>189,552.82</u>	<u>3.37%</u>

There was a minor overall change in operating revenues for the year. The change consists primarily of slight increases in various federal and state grants and contracts and increased sales through the college bookstore and catering operations.

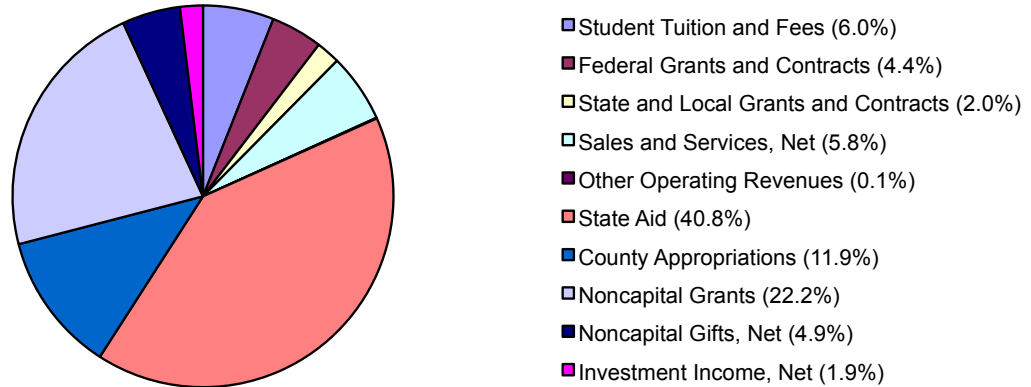
	Nonoperating Revenues			
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
State Aid	12,942,273.88	12,933,334.06	8,939.82	0.07%
County Appropriations	3,765,496.82	3,589,826.37	175,670.45	4.89%
Noncapital Grants	7,029,877.42	6,919,671.16	110,206.26	1.59%
Noncapital Gifts, Net	1,567,057.07	822,576.16	744,480.91	90.51%
Investment Income, Net	616,126.50	333,682.96	282,443.54	84.64%
Other Operating Revenues (Expenses)	<u>3,754.69</u>	<u>(26,862.59)</u>	<u>30,617.28</u>	<u>-113.98%</u>
Total Nonoperating Revenues	<u>25,924,586.38</u>	<u>24,572,228.12</u>	<u>1,352,358.26</u>	<u>5.50%</u>

County appropriations increase due to an increase in funding from Wilkes County in 2014. Noncapital grants increased due primarily to an increase in Pell grants awarded to students during the fiscal year. Noncapital gifts increases were the result of increased transfers from the WCC Endowment Corporation in the 2014 year, which included the in-kind lease value in excess of \$580,000 associated with the new health sciences center. Investment income increased because of improvements in financial markets during the fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue by Source



Operating Expenses

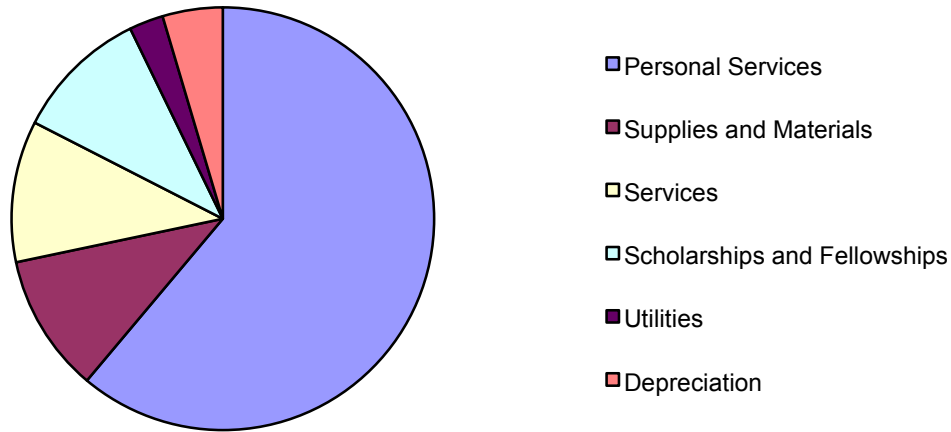
The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for the operating activities that are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statement No. 34/35.

Operating Expenses				
	June 30, 2014	June 30, 2013	Increase/ (Decrease)	% Increase/ (Decrease)
Personal Services	19,960,148.13	19,816,937.77	143,210.36	0.72%
Supplies and Materials	3,520,943.19	3,745,325.22	-224,382.03	-5.99%
Services	3,557,512.36	3,384,135.03	173,377.33	5.12%
Scholarships and Fellowships	3,370,403.38	3,364,100.63	6,302.75	0.19%
Utilities	856,627.76	774,772.00	81,855.76	10.57%
Depreciation	1,511,648.86	1,594,181.59	-82,532.73	-5.18%
Total Operating Expenses	32,777,283.68	32,679,452.24	97,831.44	0.30%

Total operating expenses for fiscal year 2014 increased \$97,831.44 from fiscal year 2013. Personal services increased due to salary increases, new positions and higher employee benefit costs. Supplies and materials expenses decreased primarily as a result of decreases in non-capital equipment purchases. Services increased due to the net effect of the in-kind lease value of the new health sciences center building noted in the non-operating revenue section above and a reduction in contracted services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014	June 30, 2013	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	671,751.74	1,380,779.11	-709,027.37	-51.35%
County Capital Appropriations	164,256.18	36,108.63	128,147.55	354.89%
Capital Grants	17,608.85	1,273,544.83	-1,255,935.98	-98.62%
Capital Gifts, Net	562,377.44	1,206,062.97	-643,685.53	-53.37%
Additions to Endowments	9,626.96	223,850.03	-214,223.07	-95.70%
Total Other Revenues, Expenses, Gains or Losses	1,425,621.17	4,120,345.57	-2,694,724.40	-65.40%

State capital aid decreased in fiscal year 2014 as a result of an overall reduction in revenues associated with state-funded capital projects. County capital appropriations increased as a result of county-funded renovation projects. Capital grants decreased primarily due to a renovation grant from the Golden LEAF Foundation of \$1,250,000.00 that was recognized in 2013. Capital gifts decreased due to the completion of the Automotive Complex capital project funded through donations from the WCC Endowment Corporation. Additions to endowments decreased as a result of an endowed scholarship gift in excess of \$200,000 that was recognized in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Activity

At the end of fiscal year 2014, capital assets, net of accumulated depreciation amounted to \$27,711,791.13 in a broad range of capital assets (see table below). Depreciation charges for the 2013-14 fiscal year totaled \$1,511,648.86. Capital asset events during the fiscal year included additions and disposals of machinery and equipment, minor building renovations, paving projects and completion of a new automotive technology complex.

	Capital Assets		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase/ (Decrease)</u>
Land	1,290,927.20	1,290,927.20	0.00
Buildings	32,969,473.63	30,841,717.86	2,127,755.77
Infrastructure	4,737,971.05	4,608,503.70	129,467.35
Machinery and Equipment	7,920,738.06	7,329,338.84	591,399.22
Art, Literature and Artifacts	45,500.00	45,500.00	0.00
Construction in Progress	207,947.00	1,445,677.33	(1,237,730.33)
Total	47,172,556.94	45,561,664.93	1,610,892.01
Less Accumulated Depreciation	19,460,765.81	18,052,442.98	1,408,322.83
Capital Assets, Net	27,711,791.13	27,509,221.95	202,569.18

Analysis of Financial Position

For the year ended June 30, 2013, the College had a net increase in cash and cash equivalents of \$50,74.92, representing a 2.29% increase in cash and cash equivalents when compared to the July 1, 2013 balance. As discussed in the College Assets and Liabilities section, the increase can be attributed to increases in net profits from bookstore and catering services and increase in campus access fees. Changes in total assets and net position as compared to the June 30, 2013 balances can be attributed to increased investment balances and capital asset activity.

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, followed by correcting enrollments in the previous two years, enrollments appear to be trending slightly upward again. The overall enrollment increase was in excess of 2% in 2013/14 and is expected to increase only slightly for fall semester 2014. While enrollments in continuing education programs have a lesser affect on the overall budget than curriculum programs, enrollments in these areas have continued on a downward trend since 2009/10.

MANAGEMENT'S DISCUSSION AND ANALYSIS

State and local funding to the college has been impacted due to budget fluctuations. For the 2013/14 fiscal year, state funding was increased slightly as the result of higher enrollments last year and funding for minimal salary increases. Local funding increased for 2013/14, but the funding is still below the local budgets levels of 2008-09. Thorough planning and cost controls will allow the College to maintain its healthy financial position 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 recently implemented in 2012 and is seeing significant increases in the number of students enrolled. 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.

In July 2013, the college's foundation (the WCC Endowment Corporation) purchased a former bank office building that will be renovated to provide space for the college's health science programs. Funding for the renovation will be provided through gifts from the foundation, Wilkes County financial support, and a grant of \$1,250,000 from the Golden LEAF Foundation. When completed in May 2015, the building will provide new and expanded space for health programs, expansion space for new programs and vacated space in existing buildings for use as needed for general classrooms.

General economic conditions appear to be slowly improving across the nation and the State of North Carolina. As economic conditions have improved, enrollments at community colleges have corrected, especially for those colleges in rural areas. With depressed income tax receipts, increasing funding requirements for Medicaid, public schools and other state programs and continuing political uncertainties, the potential exists that there will be less state revenues to support community college funding priorities. College budgets could be impacted significantly if economic conditions within the state decline or remain stagnant or if educational funding priorities change as the result of political decisions.

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 Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,271,451.81
Restricted Cash and Cash Equivalents	730,251.13
Short-Term Investments	134,820.64
Restricted Short-Term Investments	1,714,232.69
Receivables, Net (Note 4)	945,334.76
Due from Community College Component Units	96,343.84
Inventories	547,294.03
	<hr/>
Total Current Assets	5,439,728.90

Noncurrent Assets:

Restricted Cash and Cash Equivalents	267,750.74
Restricted Due from Primary Government	729,713.43
Restricted Due from State of North Carolina Component Units	1,250,000.00
Restricted Investments	3,140,106.76
Capital Assets - Nondepreciable (Note 5)	1,498,874.20
Capital Assets - Depreciable, Net (Note 5)	26,212,916.93
	<hr/>
Total Noncurrent Assets	33,099,362.06
	<hr/>
Total Assets	38,539,090.96

Wilkes Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	922,913.27
Due to Primary Government	2,137.16
Unearned Revenue	330,396.41
Funds Held for Others	261,400.14
Long-Term Liabilities - Current Portion (Note 7)	155,100.23

Total Current Liabilities	1,671,947.21
---------------------------	--------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,534,444.18
--------------------------------	--------------

Total Noncurrent Liabilities	1,534,444.18
------------------------------	--------------

Total Liabilities	3,206,391.39
-------------------	--------------

NET POSITION

Net Investment in Capital Assets	27,711,791.13
----------------------------------	---------------

Restricted for:

Nonexpendable:

Scholarships and Fellowships	1,705,289.20
Restricted for Specific Programs	1,435,020.15

Expendable:

Scholarships and Fellowships	1,751,857.52
Capital Projects	1,441,971.99
Restricted for Specific Programs	807,651.47

Unrestricted	479,118.11
--------------	------------

Total Net Position	\$ 35,332,699.57
--------------------	------------------

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

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,912,844.10
Federal Grants and Contracts	1,390,798.45
State and Local Grants and Contracts	641,982.29
Sales and Services, Net (Note 9)	1,844,931.15
Other Operating Revenues	18,524.00

Total Operating Revenues	<u>5,809,079.99</u>
--------------------------	---------------------

EXPENSES

Operating Expenses:

Salaries and Benefits	19,960,148.13
Supplies and Materials	3,520,943.19
Services	3,557,512.36
Scholarships and Fellowships	3,370,403.38
Utilities	856,627.76
Depreciation	1,511,648.86

Total Operating Expenses	<u>32,777,283.68</u>
--------------------------	----------------------

Operating Loss	<u>(26,968,203.69)</u>
----------------	------------------------

NONOPERATING REVENUES (EXPENSES)

State Aid	12,942,273.88
County Appropriations	3,765,496.82
Noncapital Grants - Student Financial Aid	6,368,698.16
Noncapital Grants	661,179.26
Noncapital Gifts, Net	1,567,057.07
Investment Income, Net	616,126.50
Interest and Fees on Debt	(1,132.96)
Other Nonoperating Revenues (Expenses)	4,887.65

Net Nonoperating Revenues (Expenses)	<u>25,924,586.38</u>
--------------------------------------	----------------------

Loss Before Other Revenues, Expenses, Gains, and Losses	(1,043,617.31)
---	----------------

State Capital Aid	671,751.74
County Capital Aid	164,256.18
Capital Grants	17,608.85
Capital Gifts, Net	562,377.44
Additions to Endowments	9,626.96

Increase (Decrease) in Net Position	382,003.86
-------------------------------------	------------

NET POSITION

Net Position, July 1, 2013	<u>34,950,695.71</u>
----------------------------	----------------------

Net Position, June 30, 2014	<u>\$ 35,332,699.57</u>
-----------------------------	-------------------------

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

Wilkes 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	\$ 5,765,956.86
Payments to Employees and Fringe Benefits	(19,968,598.21)
Payments to Vendors and Suppliers	(7,788,623.63)
Payments for Scholarships and Fellowships	(3,374,181.18)
Other Receipts (Payments)	27,371.43
	<hr/>
Net Cash Provided (Used) by Operating Activities	(25,338,074.73)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,942,273.88
County Appropriations	3,765,496.82
Noncapital Grants - Student Financial Aid	6,368,698.16
Noncapital Grants	801,548.79
Noncapital Gifts and Endowments	1,576,684.03
William D. Ford Direct Lending Receipts	2,110,518.15
William D. Ford Direct Lending Disbursements	(2,110,518.15)
	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	25,454,701.68

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

State Capital Aid Received	857,968.03
County Capital Aid	188,006.18
Capital Grants	17,608.85
Capital Gifts	520,530.99
Proceeds from Sale of Capital Assets	9,170.60
Acquisition and Construction of Capital Assets	(1,635,409.60)
Interest Paid on Capital Debt and Leases	(1,132.96)
	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	(43,257.91)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,870,099.17
Investment Income	87,655.47
Purchase of Investments and Related Fees	(1,980,378.76)
	<hr/>
Net Cash Provided (Used) by Investing Activities	(22,624.12)

Net Increase (Decrease) in Cash and Cash Equivalents	50,744.92
Cash and Cash Equivalents, July 1, 2013	2,218,708.76
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 2,269,453.68

Wilkes 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	\$ (26,968,203.69)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,511,648.86
Nonoperating Other Income (Expenses)	4,711.00
Changes in Assets and Liabilities:	
Receivables, Net	(49,196.92)
Inventories	(48,413.97)
Prepaid Items	85,259.85
Accounts Payable and Accrued Liabilities	171,054.20
Due to Primary Government	190.60
Unearned Revenue	2,295.99
Funds Held for Others	22,660.43
Compensated Absences	(70,081.08)
Net Cash Used by Operating Activities	<u><u>\$ (25,338,074.73)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,271,451.81
Restricted Cash and Cash Equivalents	730,251.13
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>267,750.74</u>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 2,269,453.68</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 120,814.14
Assets Acquired through a Gift	211,168.77
Change in Fair Value of Investments	304,064.83
Gain on Disposal of Capital Assets	176.65

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, 2014

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 1,094,516.52
Current Portion of Unconditional Promises to Give (Net of Allowance for Doubtful Accounts of \$10,300)	195,890.00
Other Receivables	36,460.37
Inventories	12,482.99
Prepaid Expenses	12,923.55
Total Current Assets	<u>1,352,273.43</u>

FIXED ASSETS

Building	387,963.08
Less: Accumulated Depreciation	<u>(72,187.00)</u>
Net Depreciable Assets	315,776.08
Land	<u>44,278.00</u>
Total Fixed Assets	<u>360,054.08</u>

OTHER ASSETS

Cash Restricted for Long-Term Purposes	196,041.00
Unconditional Promises to Give (Net of Current Portion, Present Value Discount, and Allowance for Doubtful Accounts of \$8,250)	142,102.00
Investments	226,803.00
Trademark (Net of Accumulated Amortization)	21,573.00
Construction in Progress	<u>2,018,386.00</u>
Total Other Assets	<u>2,604,905.00</u>
Total Assets	<u>4,317,232.51</u>

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	101,029.19
Deferred Revenue	<u>11,230.00</u>
Total Current Liabilities	<u>112,259.19</u>

LONG-TERM LIABILITIES

Note Payable	<u>50,000.00</u>
Total Liabilities	<u>162,259.19</u>

NET ASSETS

Unrestricted	3,706,804.02
Temporarily Restricted	<u>448,169.30</u>
Total Net Assets	<u>\$ 4,154,973.32</u>

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, 2014

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support	
Contributions	\$ 181,621.82
Fund-Raising Income	3,290,167.81
Revenue	
Interest Income	2,601.00
Rents	488,603.00
Other	41,631.00
	<hr/>
Total Unrestricted Support and Revenue	4,004,624.63
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	750,000.00
	<hr/>
Total Unrestricted Revenues, Gains, and Reclassifications	4,754,624.63
	<hr/>
Expenses:	
Program Services	1,455,690.00
Supporting Services:	
Management and General	13,754.00
Fund Raising	2,231,641.00
	<hr/>
Total Expenses	3,701,085.00
	<hr/>
Increase in Unrestricted Net Assets	1,053,539.63
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	1,454,965.85
Other	34,475.00
Interest Income	204.93
Change in Allowance for Doubtful Accounts	(11,550.00)
Loss on Promises to Give	(1,700.00)
Transfer to Wilkes Community College	(682,475.69)
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(750,000.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	43,920.09
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	8,676.96
Transfer to Wilkes Community College	(8,676.96)
	<hr/>
Change in Permanently Restricted Net Assets	0.00
	<hr/>
Increase/(Decrease) in Net Assets	1,097,459.72
Net Assets at Beginning of Year	3,057,513.60
	<hr/>
Net Assets at End of Year	\$ 4,154,973.32
	<hr/>

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

WILKES 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. 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 units 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 nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of their 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 one position was vacant at June 30, 2014. 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 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 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, 2014, the Endowment Corporation distributed \$2,136,894.19 to the College for both restricted and unrestricted purposes. Complete financial statements for the Endowment Corporation can be obtained from the Executive Director of the Wilkes Community College Endowment Corporation, Wilkes Community College, P.O. 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.

- 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 50 years for equipment.

The art 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 has been extended to 25 years.

In accordance with its policy, the College reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of certain machinery and equipment, art, and general infrastructure assets were longer than the estimated useful lives used for depreciation purposes in the College's financial statements. As a result, effective July 1, 2013, the College changed its estimates of the useful lives of this machinery and equipment, art and general infrastructure assets to better reflect the estimated periods during which these assets will remain in service. The effect of this change in estimate was to reduce depreciation expense by \$51,807.05 for the year ended June 30, 2014 and increase net position by \$51,807.05 as of June 30, 2014.

- 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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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 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 bookstore, the John A. Walker Events functions, hospitality services 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

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 \$5,820.00. The carrying amount of the College's deposits not with the State Treasurer was \$2,263,633.68, and the bank balance was \$2,422,534.93.

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, 2014, 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 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 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.

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, 2014, 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 Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Debt Mutual Funds	\$ 943,290.95	\$ 18,676.95	\$ 530,507.00	\$ 315,625.00	\$ 78,482.00
Money Market Mutual Funds	164,472.27	164,472.27			
Total Debt Securities	1,107,763.22	<u>\$ 183,149.22</u>	<u>\$ 530,507.00</u>	<u>\$ 315,625.00</u>	<u>\$ 78,482.00</u>
Other Securities					
Mutual Funds	2,556,369.75				
Real Estate Investment Trust	665,834.12				
Hedge Funds	659,193.00				
Total Investments	<u>\$ 4,989,160.09</u>				

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, 2014, 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	\$ 943,290.95	\$	\$	\$ 538,790.04	\$ 210,670.81	\$	\$ 193,830.10
Money Market Mutual Funds	164,472.27	164,472.27					
Totals	<u>\$ 1,107,763.22</u>	<u>\$ 164,472.27</u>	<u>\$ 0.00</u>	<u>\$ 538,790.04</u>	<u>\$ 210,670.81</u>	<u>\$ 0.00</u>	<u>\$ 193,830.10</u>

Rating Agency: Standard and Poor's

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 Pimco Total Return Fund, Harbor Capital Appreciation Fund, Ishares Russell Mid-Cap ETF, T. Rowe Price Equity Income #71, Delaware Pooled Trust International Equity, Dodge & Cox International Stock Fund, Vanguard FTSE Emerging

Markets ETF, Hussman Strategic Growth Fund #601 and Principal Investors Real Estate Fund. These investments are 5.9%, 11.8%, 6.5%, 7.5%, 6.5%, 6.4%, 8%, 5.3% and 7.2%, 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	\$ 210,670.81
Delaware Pooled Tr. Intl Equity Portfolio #31	322,074.14
Dodge & Cox International Stock Fund	317,790.82
Vanguard FTSE Emerging Markets ETF	400,462.05
Total	\$ 1,250,997.82

Component Units - Investments of the College's discretely presented component unit(s), 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.

- 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	\$ 5,820.00
Carrying Amount of Deposits with Private Financial Institutions	2,263,633.68
Other Investments	<u>4,989,160.09</u>
Total Deposits and Investments	<u>\$ 7,258,613.77</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 1,271,451.81
Restricted Cash and Cash Equivalents	730,251.13
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>267,750.74</u>
Total Deposits	<u>2,269,453.68</u>
Investments	
Current:	
Short-Term Investments	\$ 134,820.64
Restricted Short-Term Investments	1,714,232.69
Noncurrent:	
Endowment Investments	<u>3,140,106.76</u>
Total Investments	<u>4,989,160.09</u>
Total Deposits and Investments	<u>\$ 7,258,613.77</u>

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 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, 2014, net appreciation of \$232,921.44 was available to be spent, of which \$179,151.24 was classified in net position as restricted for scholarships and fellowships and \$53,770.20 was classified in net position as restricted

for specific programs as it is restricted for specific purposes. The entire amount of appreciation is restricted for specific purposes.

During the current year, the College recorded any realized or unrealized gains or losses on endowment fund investments to the corresponding restricted funds account. This maintains the endowment amount as the amount requested by the donor to remain in perpetuity.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 771,367.33	\$ 293,390.42	\$ 477,976.91
Student Sponsors	113,630.85	2,533.99	111,096.86
Accounts	100,294.46		100,294.46
Intergovernmental	221,600.32		221,600.32
Other	34,366.21		34,366.21
Total Current Receivables	\$ 1,241,259.17	\$ 295,924.41	\$ 945,334.76

NOTE 5 - CAPITAL ASSETS

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

	July 1, 2013	Increases	Decreases	June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,290,927.20	\$ -	\$ -	\$ 1,290,927.20
Construction in Progress	1,445,677.33	207,947.00	1,445,677.33	207,947.00
Total Capital Assets, Nondepreciable	2,736,604.53	207,947.00	1,445,677.33	1,498,874.20
Capital Assets, Depreciable:				
Buildings	30,841,717.86	2,127,755.77	-	32,969,473.63
Machinery and Equipment	7,329,338.84	703,719.20	112,319.98	7,920,738.06
Art, Literature, and Artifacts	45,500.00	-	-	45,500.00
General Infrastructure	4,608,503.70	129,467.35	-	4,737,971.05
Total Capital Assets, Depreciable	42,825,060.40	2,960,942.32	112,319.98	45,673,682.74
Less Accumulated Depreciation for:				
Buildings	12,089,902.51	860,297.19	-	12,950,199.70
Machinery and Equipment	3,836,865.10	444,292.55	103,326.03	4,177,831.62
Art, Literature, and Artifacts	42,719.82	277.92	-	42,997.74
General Infrastructure	2,082,955.55	206,781.20	-	2,289,736.75
Total Accumulated Depreciation	18,052,442.98	1,511,648.86	103,326.03	19,460,765.81
Total Capital Assets, Depreciable, Net	24,772,617.42	1,449,293.46	8,993.95	26,212,916.93
Capital Assets, Net	\$ 27,509,221.95	\$ 1,657,240.46	\$ 1,454,671.28	\$ 27,711,791.13

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 368,323.66
Accrued Payroll	452,782.43
Intergovernmental Payables	101,170.76
Other	<u>636.42</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 922,913.27</u></u>

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, 2014, is presented as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Compensated Absences	\$ 1,759,625.49	\$ 1,181,116.67	\$ 1,251,197.75	\$ 1,689,544.41	\$ 155,100.23
Total Long-Term Liabilities	<u><u>\$ 1,759,625.49</u></u>	<u><u>\$ 1,181,116.67</u></u>	<u><u>\$ 1,251,197.75</u></u>	<u><u>\$ 1,689,544.41</u></u>	<u><u>\$ 155,100.23</u></u>

NOTE 8 - LEASE OBLIGATIONS

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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 79,783.95
2016	58,185.12
2017	<u>53,336.36</u>
Total Minimum Lease Payments	<u><u>\$ 191,305.43</u></u>

Rental expense for all operating leases during the year was \$643,104.34.

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	<u>\$ 4,650,806.42</u>	<u>\$ 4,016.00</u>	<u>\$ 2,718,708.27</u>	<u>\$ 15,238.05</u>	<u>\$ 1,912,844.10</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	\$ 53,562.98	\$ -	\$ -	\$ -	\$ 53,562.98
John A. Walker Events	229,645.50	-	-	-	229,645.50
Child Development Center	4,737.98	-	-	4,695.65	42.33
Bookstore	2,477,714.07	52,317.05	1,267,838.40	111,032.80	1,046,525.82
Hospitality Services	364,893.48	25,207.90	-	-	339,685.58
Sales and Services of Education and Related Activities	<u>176,060.14</u>	<u>-</u>	<u>-</u>	<u>591.20</u>	<u>175,468.94</u>
Total Sales and Services	<u>\$ 3,306,614.15</u>	<u>\$ 77,524.95</u>	<u>\$ 1,267,838.40</u>	<u>\$ 116,319.65</u>	<u>\$ 1,844,931.15</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,990,099.90	\$ 1,267,307.62	\$ 1,160,298.58	\$ -	\$ 4,481.02	\$ -	\$ 13,422,187.12
Public Service	61,038.82	420.08	12,463.60	-	-	-	73,922.50
Academic Support	2,360,246.95	51,246.17	90,827.01	-	-	-	2,502,320.13
Student Services	1,303,831.11	14,464.73	92,993.89	-	-	-	1,411,289.73
Institutional Support	3,385,639.77	128,128.74	1,459,748.62	201,196.71	35,154.88	-	5,209,868.72
Operations and Maintenance of Plant	1,379,026.90	354,363.57	288,691.97	-	816,991.86	-	2,839,074.30
Student Financial Aid	-	-	17,642.31	3,169,206.67	-	-	3,186,848.98
Auxiliary Enterprises	480,264.68	1,705,012.28	434,846.38	-	-	-	2,620,123.34
Depreciation	-	-	-	-	-	1,511,648.86	1,511,648.86
Total Operating Expenses	<u>\$ 19,960,148.13</u>	<u>\$ 3,520,943.19</u>	<u>\$ 3,557,512.36</u>	<u>\$ 3,370,403.38</u>	<u>\$ 856,627.76</u>	<u>\$ 1,511,648.86</u>	<u>\$ 32,777,283.68</u>

NOTE 11 - PENSION PLANS

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 (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 \$15,528,907.87, of which \$12,650,278.72 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,099,309.22 and \$759,017.49, 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 \$1,099,309.22, \$1,021,297.07, and \$889,380.77, respectively.

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 \$683,115.05, \$649,804.86, and \$597,702.13, 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, 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 \$55,661.23, \$53,946.06, and \$62,161.02, 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 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 following risks as of June 30, 2014 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. 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

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 \$3,541,993.00 at June 30, 2014.



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

***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***

INDEPENDENT AUDITORS' REPORT

To the Wilkes Community College Board of Trustees
Wilkesboro, 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 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, 2014, and the related notes to the financial statements, which collectively comprise Wilkes Community College's basic financial statements, and have issued our report thereon dated December 3, 2014. Our report includes a reference to other auditors who audited the financial statements of Wilkes Community College Endowment Corporation, as described in our report on Wilkes Community College's financial statements. The financial statements of Wilkes Community College Endowment Corporation 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 this entity.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wilkes Community 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wilkes Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Wilkes Community 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 entity's financial statements will not be 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 Wilkes Community 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson Smith & Wike PLLC

December 3, 2014
Statesville, North Carolina
(704) 562-5039