



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Wilkes Community College

This report presents the results of our financial statement audit of Wilkes Community College, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements and supplementary information that relate solely to Wilkes Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Wilkes Community College. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to Wilkes Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

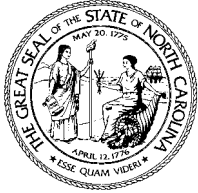
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Exhibits	
A Balance Sheet.....	3
B Statement of Changes in Fund Equity	5
C Statement of Current Funds Revenues, Expenditures, and Other Changes	6
Notes to the Financial Statements	7
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures.....	21
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23
DISTRIBUTION OF AUDIT REPORT.....	25



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wilkes Community College
Wilkesboro, North Carolina

We have audited the accompanying Balance Sheet of Wilkes Community College, a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wilkes Community College as of June 30, 2001, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the College implemented Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2002 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

June 21, 2002

Wilkes Community College
Balance Sheet
June 30, 2001

Exhibit A

	Current Funds			Fiduciary Funds		Plant Funds	
	Unrestricted						Investment in Plant
	General	Proprietary	Restricted	Endowment	Agency	Unexpended	
<i>ASSETS</i>							
Cash and Cash Equivalents	\$ 126,162.59	\$ 119,363.88	\$ 88,463.45	\$ 299,976.27	\$ 119,466.53	\$ 20,372.19	\$ 0.00
Investments		138,125.11	375,855.95	2,115,271.82			
Receivables:							
Accounts Receivable	43,013.58	84,996.99	32,292.92		69.00	144,651.00	
Intergovernmental Receivables			104,261.40				
Interest Receivable		1,342.38	9,536.76	7.01			
Due from Other Funds	64.51	40.84			108.00		
Due from Primary Government						72,756.01	
Inventories	36,490.21	211,938.07	125.66				
Fixed Assets (Note 4)							22,457,917.71
Total Assets	\$ 205,730.89	\$ 555,807.27	\$ 610,536.14	\$ 2,415,255.10	\$ 119,643.53	\$ 237,779.20	\$ 22,457,917.71

Wilkes Community College
Balance Sheet
June 30, 2001

Exhibit A
Page 2

	Current Funds			Fiduciary Funds		Plant Funds	
	Unrestricted						Investment in Plant
	General	Proprietary	Restricted	Endowment	Agency	Unexpended	
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts Payable and Accrued Liabilities:							
Accounts Payable	\$ 47,018.04	\$ 19,738.53	\$ 5,935.09	\$ 0.00	\$ 1,066.24	\$ 120,696.66	\$ 0.00
Accrued Payroll	65,871.71	19,256.03	2,149.44				
Due to Other Funds			172.51		40.84		
Accrued Vacation Leave	559,386.01	32,083.07	26,199.73				
Deferred Revenue		4,485.00					
Funds Held for Others	4,696.14				118,536.45		
Total Liabilities	676,971.90	75,562.63	34,456.77		119,643.53	120,696.66	
Fund Equity:							
Net Investment in Plant							22,457,917.71
Fund Balances:							
Restricted:							
Endowment				2,381,680.10			
Quasi-Endowment				33,575.00			
Other Restricted Funds			576,079.37			117,082.54	
Unrestricted Funds	(471,241.01)	480,244.64					
Total Fund Equity (Deficit)	(471,241.01)	480,244.64	576,079.37	2,415,255.10		117,082.54	22,457,917.71
Total Liabilities and Fund Equity	\$ 205,730.89	\$ 555,807.27	\$ 610,536.14	\$ 2,415,255.10	\$ 119,643.53	\$ 237,779.20	\$ 22,457,917.71

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

Wilkes Community College
Statement of Changes in Fund Equity
Year Ended June 30, 2001

Exhibit B

	Current Funds			Fiduciary	Plant Funds	
	Unrestricted			Funds		Investment
	General	Proprietary	Restricted	Endowment	Unexpended	in Plant
Revenues and Other Additions:						
Tuition and Fees	\$ 1,754,336.60	\$ 53,334.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
County Appropriations	1,997,831.20				207,392.80	
Federal Contracts and Grants	265,201.34		2,105,167.67		27,165.60	
State Contracts and Grants	8,740,970.81		340,036.18		681,483.94	
Local Contracts and Grants					100,000.00	
Gifts	1,055.00	125,502.34	37,383.89	42,220.36	489,916.76	
Investment Income	2,247.68	15,910.71	20,718.90	210.83	2,200.93	
Endowment Income			68,249.34			
Sales and Services	42,790.90	2,059,050.94				
Expended for Plant Facilities						1,961,922.28
Retirement of Indebtedness						16,412.46
Other Revenues and Additions	31,095.25	6,660.50	2,785.00			
Total Revenues and Other Additions	12,835,528.78	2,260,459.06	2,574,340.98	42,431.19	1,508,160.03	1,978,334.74
Expenditures and Other Deductions:						
Educational and General	12,999,703.19	67,679.86	2,642,051.33			
Auxiliary Enterprises		2,169,313.22				
Indirect Costs Recovered			22,257.04			
Expended for Plant Facilities					2,399,892.45	
Disposal of Plant Facilities						485,901.26
Total Expenditures and Other Deductions	12,999,703.19	2,236,993.08	2,664,308.37		2,399,892.45	485,901.26
Transfers:						
Non-Mandatory Transfers In (Out)	144,400.24	(180,216.09)	21,413.11		14,402.74	
Net Increase (Decrease) for the Year	(19,774.17)	(156,750.11)	(68,554.28)	42,431.19	(877,329.68)	1,492,433.48
Fund Equity (Deficit) July 1, 2000	(451,466.84)	636,994.75	644,633.65	2,372,823.91	994,412.22	20,965,484.23
Fund Equity (Deficit) June 30, 2001	\$ (471,241.01)	\$ 480,244.64	\$ 576,079.37	\$ 2,415,255.10	\$ 117,082.54	\$ 22,457,917.71

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

Wilkes Community College

Statement of Current Funds Revenues, Expenditures, and Other Changes

Year Ended June 30, 2001, with comparative totals for 2000

Exhibit C

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2001	2000
Revenues:						
Tuition and Fees	\$ 1,754,336.60	\$ 53,334.57	\$ 1,807,671.17	\$ 0.00	\$ 1,807,671.17	\$ 1,649,056.62
County Appropriations	1,997,831.20		1,997,831.20		1,997,831.20	2,008,981.11
Federal Contracts and Grants	265,201.34		265,201.34	2,082,910.63	2,348,111.97	2,189,938.82
State Contracts and Grants	8,740,970.81		8,740,970.81	340,036.18	9,081,006.99	8,621,569.33
Gifts	1,055.00	125,502.34	126,557.34	37,383.89	163,941.23	143,760.97
Investment Income	2,247.68	15,910.71	18,158.39	20,718.90	38,877.29	47,457.75
Endowment Income				68,249.34	68,249.34	119,137.71
Sales and Services	42,790.90	2,059,050.94	2,101,841.84		2,101,841.84	1,882,971.74
Other Sources	31,095.25	6,660.50	37,755.75	2,785.00	40,540.75	140,735.69
Total Revenues	12,835,528.78	2,260,459.06	15,095,987.84	2,552,083.94	17,648,071.78	16,803,609.74
Expenditures:						
Educational and General:						
Instruction	6,821,758.59		6,821,758.59	1,099,475.01	7,921,233.60	8,409,724.35
Public Service				81,438.32	81,438.32	79,874.84
Academic Support	1,055,348.17		1,055,348.17		1,055,348.17	259,821.78
Student Services	720,942.16	67,679.86	788,622.02		788,622.02	749,653.80
Institutional Support	2,252,239.82		2,252,239.82	33,007.50	2,285,247.32	1,876,019.13
Plant Maintenance and Operations	1,713,352.70		1,713,352.70		1,713,352.70	1,739,597.92
Student Financial Aid	436,061.75		436,061.75	1,428,130.50	1,864,192.25	1,601,486.90
Auxiliary Enterprises		2,169,313.22	2,169,313.22		2,169,313.22	2,124,235.32
Total Expenditures	12,999,703.19	2,236,993.08	15,236,696.27	2,642,051.33	17,878,747.60	16,840,414.04
Transfers:						
Non-Mandatory Transfers In (Out)	144,400.24	(180,216.09)	(35,815.85)	21,413.11	(14,402.74)	(52,563.12)
Net Decrease in Fund Equity	\$ (19,774.17)	\$ (156,750.11)	\$ (176,524.28)	\$ (68,554.28)	\$ (245,078.56)	\$ (89,367.42)

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

WILKES COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

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, 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 North Carolina Community College System which is a part of the primary government 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the College has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the operations of the bookstore, other auxiliary enterprises and student activity funds is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for additions to and deductions from fund equity of the Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the College as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions to and deductions from fund equity of the Unexpended Plant Fund and the Investment in Plant Fund.

- D. Basis of Accounting** - The financial statements of the College have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of physical plant assets, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the College receives value without directly giving equal value in exchange, include grants, state and county appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes money market checking accounts.
- F. Investments** - This classification includes mutual funds and money market funds. Except for money market funds, these investments are reported at fair value for year-end financial reporting purposes. Fair value

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

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

- G. Receivables and Allowance for Doubtful Accounts** – Accounts receivable are shown at book value with no provision for doubtful accounts considered necessary.
- H. Inventories** - Inventories held by the College are priced at cost using the last invoice costs. The inventories for the Unrestricted General Fund consist of expendable supplies. Inventories for the Unrestricted Proprietary Fund consist of textbooks, other merchandise for resale and expendable supplies. Inventories for the Restricted Fund consist of expendable supplies.
- I. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The College capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as expenditures, in the case of normal replacement of furniture and movable equipment, and transfers of a non-mandatory nature for all other cases.

Fixed assets, such as roads, parking lots, decks, sidewalks, and other non-building structures and improvements are capitalized as infrastructure.

- J. Vacation and Sick Leave** - 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at fiscal year-end is converted to sick leave.

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- K. Revenue Recognition** - Current Funds revenues, as reflected on Exhibit C, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

- L. Endowment Investment Return** – Investments of the College’s endowment funds are pooled, unless required to be separately invested by the donor. Investment return of the College’s endowment funds is predicated on the total return concept (yield plus appreciation). The annual payout from the College’s endowment is equal to the total return on investments for the current year less any donor stipulated allocation to principal.

Endowments are classified as either “true” or “quasi”. True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor.

- M. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function (county current fund) and to fund construction projects, motor vehicles and maintenance equipment (county plant fund and the John A. Walker Community Center construction account in institutional plant funds). Unexpended county current funds and county plant funds do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with G.S. § 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$3,144.00. The carrying amount of cash on deposit was \$770,660.91 and the bank balance was \$961,836.79. All of the cash was on deposit with private financial institutions.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Of the cash on deposit with private financial institutions at June 30, 2001, \$165,070.61 of the bank balance was covered by federal depository insurance, and \$796,766.18 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Cash Management Trust, an SEC registered mutual fund; repurchase agreements; 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 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; specified bills of exchange; asset-backed securities, corporate

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name. None of the College's investments at June 30, 2001 met the reporting requirements of any of these categories.

A summary of the College's investments at June 30, 2001 is presented below:

	<u>Fair Value</u>
Investments Not Categorized:	
Mutual Funds	\$ 2,603,012.75
Money Market Funds	<u>26,240.13</u>
Total Investments	<u>\$ 2,629,252.88</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

Due From/To Other Funds as of June 30, 2001 are summarized below:

Due From	Due To			Total Due From
	Unrestricted General	Unrestricted Proprietary	Agency Fund	
Restricted Fund	\$ 64.51	\$ 0.00	\$ 108.00	\$ 172.51
Agency Fund		40.84		40.84
Total Due To	\$ 64.51	\$ 40.84	\$ 108.00	\$ 213.35

These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest.

In addition, other inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the College, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTE 4 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 760,909.58	\$ 0.00	\$ 0.00	\$ 760,909.58
Buildings	14,134,968.56	2,078,482.66		16,213,451.22
Infrastructure	1,383,681.48	80,762.72		1,464,444.20
Furniture, Machinery and Equipment	2,445,603.64	227,324.86	440,501.47	2,232,427.03
Artwork, Artifacts and Literature	1,726,041.43	47,098.86	45,399.79	1,727,740.50
Construction in Progress	530,692.00	58,945.18	530,692.00	58,945.18
Total Fixed Assets	\$ 20,981,896.69	\$ 2,492,614.28	\$ 1,016,593.26	\$ 22,457,917.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2001:

Fiscal Year	Amount
2002	\$ 136,977.72
2003	106,818.72
2004	66,414.72
2005	7,217.19
Total Minimum Lease Payments	\$ 317,428.35

Rental expense for all operating leases during the year was \$170,610.25.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

- A. 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 \$68,642.00.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The College's remaining authorization of \$5,362,704.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 7 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and the 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 various state-administered risk pools, purchase of commercial insurance, and self-retention of certain risks.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess liability coverage up to \$11,000,000 for public officers and employees via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office to the State's Agent of Record.

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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles are 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from employee dishonesty for employees paid from county and institutional funds are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. The death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 8 - DEFICIT FUND BALANCE

The deficit fund balance in the Current Unrestricted General Fund is attributable to the College adjusting its cash basis records to the accrual basis of accounting as required by accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, receivables were not recognized for liabilities associated with future period appropriations or certifications.

As required by G.S. 115D-31 and 115D-32, the State Board of Community Colleges and the associated local tax-levying authority(s) are responsible for supporting the financial needs of the College. This support is authorized on a cash basis through an annual appropriation or certification process for a specified fiscal year period. While GAAP prohibits the College from recording receivables from future period authorizations, the College will continue to receive, as provided by law, sufficient support for its financial needs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - 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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 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, 2001, these rates were set at 5.33% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2001, the College had a total payroll of \$10,169,930.63 of which \$7,928,391.88 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$475,703.51 and \$422,583.29, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$422,583.29, \$596,262.80, and \$483,794.35, respectively.

In accordance with constitutional provisions requiring a balanced budget for the State of North Carolina, the Governor issued an executive order requiring the employers' share of retirement contributions for the months of February 2001 through June 2001 be transferred to a reserve account rather than paid to the Teachers' and State Employees' Retirement System. A portion of those funds was ultimately used by the State of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

North Carolina for general fund purposes and not released to the retirement system. The total amount of employer contributions paid by the College has been recognized as pension costs in the financial statements. The contributions which were not released to the Teachers' and State Employees' Retirement System are considered immaterial to the College's financial statements taken as a whole. The College has no liability for pension costs beyond the contributions already made.

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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$23,245.70 for the year ended June 30, 2001.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$143,530.00 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IRC Section 403(b) and 403(b)(7) Plans - All 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 non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$15,920.00 for the year ended June 30, 2001.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in state administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2001, the College's total contribution to the Plan was \$101,483.42. 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*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2001, the College's total contribution to the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

DIPNC was \$41,227.64. 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 11 - WILKES COMMUNITY COLLEGE ENDOWMENT CORPORATION

The Wilkes Community College Endowment Corporation is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$1,035,276.75 for the year ended June 30, 2001.

NOTE 12 - ACCOUNTING CHANGE

Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions* - Effective July 1, 2000, the College implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-exchange transactions and changes the College's standards for the recognition of revenues and the reporting of funds received but not earned in the College's restricted fund. In prior years, the College reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard, revenues are recognized when earned and when the resource provider's conditions have been satisfied.

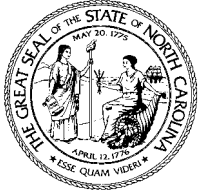
Wilkes Community College
Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures
For Project-to-Date as of June 30, 2001

Schedule 1

Capital Improvement Projects	Projected	General Obligation Bonds Authorized	Other Sources	Total	Amount Expended	Percent Completed	Expected
	Start Date			Project Budget			Completion Date
<i>Projects Approved by the State Board</i>							
Walker Center Renovations	Jun 2001	\$ 275,000.00	\$ 0.00	\$ 275,000.00	\$ 13,204.47	4.80%	Oct 2001
General Campus Renovations	May 2001	306,817.00		306,817.00			Jun 2004
Energy Conservation Upgrades	Feb 2001	165,000.00		165,000.00			Dec 2004
Sidewalk/Steps/Street/Parking Lot Replacement/Paving	Apr 2001	140,000.00		140,000.00	1,520.59	1.09%	Jun 2006
<i>Projects Pending Approval by the State Board</i>							
Alleghany Center Relocation and Renovation	Sep 2001	83,995.00	33,995.00	117,990.00			
Ashe Center Lab and Classroom Space	Jan 2002	671,077.00	539,471.00	1,210,548.00			
Technology Center	Sep 2003	2,686,596.00		2,686,596.00			
Science Lab, ADA and Administrative Office Renovations	Jun 2001	400,000.00		400,000.00			
Greenhouse Renovations	Jul 2001	77,000.00		77,000.00			
Roof Replacements - Beacon, Hays and Lovette Halls	Feb 2005	235,000.00		235,000.00			
Roof Replacement - Thompson Hall	Oct 2004	350,000.00		350,000.00			
Total All Projects		\$ 5,390,485.00	\$ 573,466.00	\$ 5,963,951.00	\$ 14,725.06		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Wilkes Community College
Wilkesboro, North Carolina

We have audited the financial statements of Wilkes Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 21, 2002.

As discussed in Note 12 to the financial statements, the College implemented Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting

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

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

June 21, 2002

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Minority Leader of the N.C. House of Representatives
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Director, Fiscal Research Division

July 18, 2002

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