



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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, 2003

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STATE OF NORTH CAROLINA
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2 S. Salisbury Street
20601 Mail Service Center
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Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 subjected 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 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 is:

- 1. Objective** – To express an opinion on the accompanying financial statements 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. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To 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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wilkes Community College
Wilkesboro, North Carolina

We have audited the accompanying basic financial statements of Wilkes Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 by us in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

April 27, 2004

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, 2003 and June 30, 2002. 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. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

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

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and county appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well-being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the Institution. Nonfinancial factors must also be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of nonfinancial factors that have an impact on the College's condition.

The Statement of 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 (CONTINUED)

College Assets and Liabilities

The assets of the College are divided between current and noncurrent assets. Current Assets include cash and cash equivalents, short-term investments, receivables and inventories. Noncurrent assets consist of cash and cash equivalents, receivables, investments and capital assets (land, buildings, infrastructure and equipment). The College's capital assets are stated at historical cost less depreciation. A purchase is recorded as a capital asset if the item costs \$5,000 or more and has a useful life of more than one year.

	Current and Noncurrent Assets		Increase/ (Decrease)	% Increase/ (Decrease)
	June 30, 2003	June 30, 2002		
Assets:				
Cash and Cash Equivalents	\$ 946,388.60	\$ 730,917.77	\$ 215,470.83	29.48%
Short-Term Investments	377,832.48	390,973.43	(13,140.95)	(3.36%)
Receivables	561,082.76	519,466.43	41,616.33	8.01%
Inventories	282,868.66	264,801.74	18,066.92	6.82%
Prepaid Items	795.00	54,750.00	(53,955.00)	(98.55%)
Total Current Assets	2,168,967.50	1,960,909.37	208,058.13	10.61%
Cash and Cash Equivalents	513,656.57	506,813.37	6,843.20	1.35%
Receivables	210,823.21	276,069.16	(65,245.95)	(23.63%)
Investments	2,186,255.66	2,115,245.66	71,010.00	3.36%
Capital Assets, Net	15,791,556.79	16,027,412.65	(235,855.86)	(1.47%)
Total Noncurrent Assets	18,702,292.23	18,925,540.84	(223,248.61)	(1.18%)
Total Net Assets	\$ 20,871,259.73	\$ 20,886,450.21	\$ (15,190.48)	(0.07%)

Current assets at June 30, 2003, increased primarily due to an increase in cash. Institutional cash balances had a significant increase due to a gift by the Wilkes Community College (WCC) Endowment Corporation near year-end. In addition, cash contributions from scholarship funds were not invested prior to year-end due to anticipated declines in investment trust funds.

Noncurrent assets decreased due to deficits in capital project cash accounts resulting from timing differences between expenditures and reimbursements for project costs and the recording of depreciation expense.

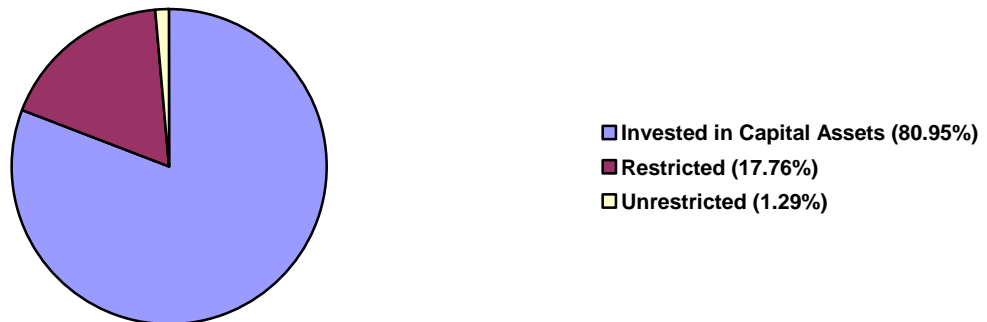
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Liabilities			
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current Liabilities	\$ 780,021.94	\$ 679,675.05	\$ 100,346.89	14.76%
Noncurrent Liabilities	<u>1,352,369.01</u>	<u>1,286,123.37</u>	<u>66,245.64</u>	5.15%
Total Liabilities	<u>\$ 2,132,390.95</u>	<u>\$ 1,965,798.42</u>	<u>\$ 166,592.53</u>	8.47%

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current liabilities increased due to an increase in accounts payable resulting from reduced State cash certifications near year-end and contract retainage on capital projects. Noncurrent liabilities include compensated absences that will not be paid within the next fiscal year and capital lease payable.

Net Assets

Net assets are a measure of the value of all of the College's assets less liabilities. The College's net assets decreased \$181,783.01 for the fiscal year for a year-end total of \$18,738,868.78. The total consists of net assets invested in capital assets of \$15,169,822.23, restricted net assets of \$3,327,740.49, and unrestricted net assets of \$241,306.06.



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, event ticket sales and day care fees. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

income. The largest amount, State aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations.

Operating Revenues				
	June 30, 2003	June 30, 2002	Increase/ (Decrease)	% Increase/ (Decrease)
Student Tuition and Fees, Net	1,106,010.00	1,171,103.68	(65,093.68)	(5.56%)
Federal Grants and Contracts	4,198,698.20	1,923,397.25	2,275,300.95	118.30%
State and Local Grants and Contracts	392,553.90	333,783.09	58,770.81	17.61%
Sales and Services, Net	2,990,843.32	2,702,785.18	288,058.14	10.66%
Other Operating Revenues	\$ 9,259.08	\$	\$ 9,259.08	100.00%
Total Operating Revenues	\$ 8,697,364.50	\$ 6,131,069.20	\$ 2,566,295.30	41.86%

Federal grants and contracts increased significantly due to a greater number of students participating in the Federal Pell grant program and the amount of awards received by students. The number of students receiving Pell awards increased by 15% over the 2001-02 fiscal year. The College also received additional grant funding associated with the services provided to dislocated workers in Wilkes, Ashe and Alleghany counties.

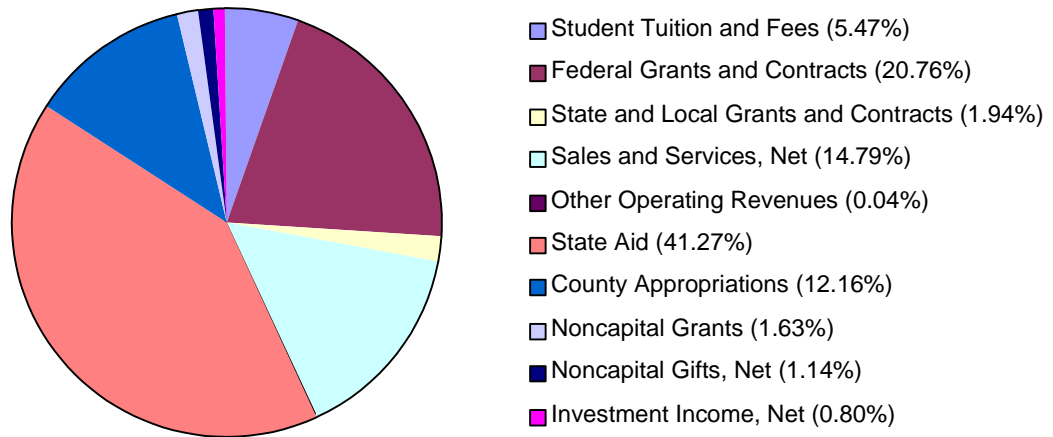
Nonoperating Revenues (Expenses)				
	June 30, 2003	June 30, 2002	Increase/ (Decrease)	% Increase/ (Decrease)
State Aid	\$ 8,348,881.44	\$ 8,356,999.47	\$ (8,118.03)	(0.10%)
County Appropriations	2,459,647.10	2,217,185.76	242,461.34	10.94%
Noncapital Grants	329,837.03	1,459,016.12	(1,129,179.09)	(77.39%)
Noncapital Gifts, Net	230,995.52	329,175.77	(98,180.25)	(29.83%)
Investment Income, Net	161,400.23	18,841.84	142,558.39	756.61%
Interest & Fees on Capital Asset Related Debt	(37,485.16)	(27,121.01)	(10,364.15)	38.21%
Other Nonoperating Expenses		(17,744.34)	17,744.34	100.00%
Total Nonoperating Revenues	\$ 11,493,276.16	\$ 12,336,353.61	\$ (843,077.45)	(6.83%)

County appropriation revenue increased due to increased financial support from Wilkes and Ashe counties. The WCC Endowment Corporation provided non-recurring funds in 2001-02 to assist with the renovation of the John A. Walker Community Center on the College campus. As a result, noncapital grants decreased significantly from 2001-02. Improvements in the financial markets during 2002-03 are reflected in the increase in investment income.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statements No. 34/35.

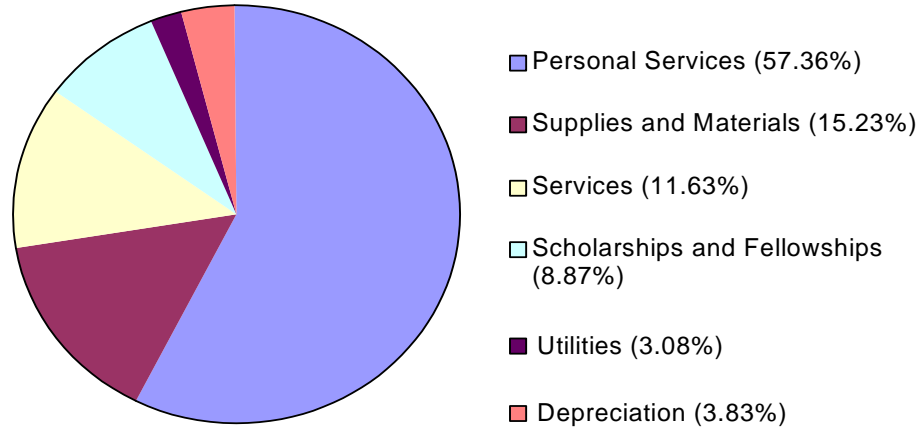
	Operating Expenses			
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Personal Services	\$ 12,655,235.73	\$ 11,995,848.05	\$ 659,387.68	5.50%
Supplies and Materials	3,360,178.86	2,326,222.13	1,033,956.73	44.45%
Services	2,566,578.34	2,256,529.62	310,048.72	13.74%
Scholarships and Fellowships	1,957,834.08	1,610,085.85	347,748.23	21.60%
Utilities	680,502.81	639,534.80	40,968.01	6.41%
Depreciation	843,800.03	807,295.63	36,504.40	4.52%
Total Operating Expenses	<u><u>\$ 22,064,129.85</u></u>	<u><u>\$ 19,635,516.08</u></u>	<u><u>\$ 2,428,613.77</u></u>	12.37%

Operating expenses for fiscal year 2003 increased \$2,428,613.77 over fiscal year 2002. Personal services increased due to the effects of contractual increases for faculty and staff salaries and benefits. Personnel were also added due to enrollment growth. Supplies and materials expenses increased as a result of expanded purchases of instructional supplies, facility repair supplies, and noncapitalized equipment. Services expenses increased by \$310,048.72 over fiscal year 2002 because of additional costs associated with facility repairs and maintenance and increased performance fees for Walker Center events. The increased

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

number of students receiving Pell awards is reflected in the increase in scholarships and fellowships.

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, 2003	June 30, 2002	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	\$ 1,113,571.70	\$ 609,673.42	\$ 503,898.28	82.65%
County Capital Appropriations	34,802.65	137,094.49	(102,291.84)	(74.61%)
Capital Grants	172,997.78	577,555.44	(404,557.66)	(70.05%)
Capital Gifts, Net	315,587.37	905,166.04	(589,578.67)	(65.13%)
Additions to Endowments	54,746.68	94,025.68	(39,279.00)	(41.77%)
Total Other Revenues, Expenses, Gains or Losses	<u>\$ 1,691,706.18</u>	<u>\$ 2,323,515.07</u>	<u>\$ (631,808.89)</u>	(27.19%)

State capital aid increased in fiscal year 2002-03 as a result of construction projects financed with State bond funds and State operating funds transferred to equipment allocations. County capital appropriations, capital grants and capital gifts decreased in fiscal year 2003 as the result of construction projects completed in 2002 financed, at least in part, with non-State funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset Activity

At the end of fiscal year 2003, capital assets, net of accumulated depreciation amounted to \$15,791,556.79 in a broad range of capital assets (see table below). Depreciation charges for the 2002-03 fiscal year totaled \$843,800.03. Capital asset events during the fiscal year included additions to machinery and equipment and construction in progress associated with a parking lot capital project and a minor building project.

	Capital Assets		Increase/ (Decrease)
	June 30, 2003	June 30, 2002	
Capital Assets, Nondepreciable:			
Land	\$ 800,909.58	\$ 800,909.58	\$ 0.00
Construction in Progress	346,265.56		346,265.56
Total Capital Assets, Nondepreciable	<u>1,147,175.14</u>	<u>800,909.58</u>	<u>346,265.56</u>
Capital Assets, Depreciable:			
Buildings	18,076,520.56	18,076,520.56	
Infrasctructure	1,610,866.14	1,610,866.14	
Machinery and Equipment	3,217,416.19	3,090,758.92	126,657.27
Art, Literature and Artifacts	45,500.00	45,500.00	
Total Capital Assets, Depreciable	<u>22,950,302.89</u>	<u>22,823,645.62</u>	<u>126,657.27</u>
Less Accumulated Depreciation	<u>8,305,921.24</u>	<u>7,597,142.55</u>	<u>708,778.69</u>
Total Capital Assets, Depreciable, Net	<u>14,644,381.65</u>	<u>15,226,503.07</u>	<u>(582,121.42)</u>
Capital Assets, Net	<u>\$ 15,791,556.79</u>	<u>\$ 16,027,412.65</u>	<u>\$ (235,855.86)</u>

Analysis of Financial Position

For the year ended June 30, 2003, the College had a net increase in cash and cash equivalents of \$222,314.03, representing a 17.96% increase in cash and cash equivalents when compared to the July 1, 2002 balance. As discussed in the College Assets and Liabilities section, much of the increase can be attributed to a gift by the WCC Endowment Corporation near the end of the fiscal year.

Management concludes that the College's financial position has remained strong during the past fiscal year.

Factors Impacting Future Periods

Although increased enrollments have resulted in increased funding, the College administration has elected to absorb much of the growth with existing faculty and staff by increasing class sizes and workloads. These measures allowed the College to serve the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

increased number of students without a significant increase in costs. Also, since the administration believes much of the growth is temporary, fixed personnel costs were avoided where possible.

Increased enrollments have stressed the physical facilities of the College. Plans are underway to add additional parking as well as additional classroom space. The Alleghany Center moved to a new facility, located within the new Blue Ridge Business Development Center, in the spring of 2003. The new facility doubled the available space in Alleghany. Plans are also being developed to expand the Ashe Center to add additional classroom and lab space. The Ashe addition is scheduled for completion in 2005. For the Wilkes Campus, a science and technology center is being planned. This facility will house computer labs and updated science labs, and is expected to be completed in late fall 2005.

The State of North Carolina has experienced revenue shortfalls during the past two years. College budgets could be impacted significantly if economic conditions within the State do not improve.

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, Business Manager, PO Box 120, 1328 South Collegiate Drive, Wilkesboro, North Carolina 28697.

Wilkes Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 717,344.99
Restricted Cash and Cash Equivalents	229,043.61
Short-Term Investments	135,250.75
Restricted Short-Term Investments	242,581.73
Receivables (Note 4)	561,082.76
Inventories	282,868.66
Prepaid Items	795.00
Total Current Assets	2,168,967.50

Noncurrent Assets:

Restricted Cash and Cash Equivalents	513,656.57
Restricted Due from Primary Government	210,823.21
Endowment Investments	2,186,255.66
Capital Assets - Nondepreciable (Note 5)	1,147,175.14
Capital Assets - Depreciable, Net (Note 5)	14,644,381.65
Total Noncurrent Assets	18,702,292.23
Total Assets	20,871,259.73

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	480,438.05
Deferred Revenue	208,321.90
Long-Term Liabilities - Current Portion (Note 7)	91,261.99
Total Current Liabilities	780,021.94

Noncurrent Liabilities:

Funds Held for Others	134,431.29
Long-Term Liabilities (Note 7)	1,217,937.72
Total Noncurrent Liabilities	1,352,369.01
Total Liabilities	2,132,390.95

NET ASSETS

Invested in Capital Assets, Net of Related Debt	15,169,822.23
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,144,287.31
Other	1,386,165.15
Expendable:	
Scholarships and Fellowships	526,711.60
Capital Projects	187,657.62
Other	82,918.81
Unrestricted	241,306.06
Total Net Assets	\$ 18,738,868.78

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

Wilkes Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,106,010.00
Federal Grants and Contracts		4,198,698.20
State and Local Grants and Contracts		392,553.90
Sales and Services, Net (Note 9)		2,990,843.32
Other Operating Revenues		9,259.08
Total Operating Revenues		8,697,364.50
EXPENSES		
Operating Expenses:		
Personal Services		12,655,235.73
Supplies and Materials		3,360,178.86
Services		2,566,578.34
Scholarships and Fellowships		1,957,834.08
Utilities		680,502.81
Depreciation		843,800.03
Total Operating Expenses		22,064,129.85
Operating Loss		(13,366,765.35)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,348,881.44
County Appropriations		2,459,647.10
Noncapital Grants		329,837.03
Noncapital Gifts		230,995.52
Investment Income, Net		161,400.23
Interest and Fees on Capital Asset-Related Debt		(37,485.16)
Net Nonoperating Revenues		11,493,276.16
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,873,489.19)
State Capital Aid		1,113,571.70
County Capital Appropriations		34,802.65
Capital Grants		172,997.78
Capital Gifts		315,587.37
Additions to Endowments		54,746.68
Decrease in Net Assets		(181,783.01)
NET ASSETS		
Net Assets, July 1, 2002		18,920,651.79
Net Assets, June 30, 2003	\$	18,738,868.78
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, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	8,810,014.41
Payments to Employees and Fringe Benefits		(12,547,104.70)
Payments to Vendors and Suppliers		(6,385,282.89)
Payments for Scholarships and Fellowships		(1,910,295.74)
Other Receipts		199,873.93
Net Cash Used by Operating Activities		(11,832,794.99)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		8,348,881.44
County Appropriations		2,459,647.10
Noncapital Grants Received		104,353.37
Noncapital Gifts and Endowments Received		78,242.20
Net Cash Provided by Noncapital Financing Activities		10,991,124.11
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,178,817.65
County Capital Appropriations		34,802.65
Capital Grants Received		123,759.06
Capital Gifts Received		308,087.37
Proceeds from Sale of Capital Assets		4,728.39
Acquisition and Construction of Capital Assets		(613,269.40)
Principal Paid on Capital Debt and Leases		(42,327.56)
Interest Paid on Capital Debt and Leases		(37,485.16)
Net Cash Provided by Capital and Related Financing Activities		957,113.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		470,489.66
Investment Income		112,927.84
Purchase of Investments and Related Fees		(476,545.59)
Net Cash Provided by Investing Activities		106,871.91
Net Increase in Cash and Cash Equivalents		222,314.03
Cash and Cash Equivalents, July 1, 2002		1,237,731.14
Cash and Cash Equivalents, June 30, 2003	\$	1,460,045.17
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(13,366,765.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		843,800.03
Changes in Assets and Liabilities:		
Receivables, Net		233,974.58
Inventories		(18,066.92)
Prepaid Items		53,955.00
Accounts Payable and Accrued Liabilities		215,229.26
Deferred Revenue		135,172.86
Funds Held for Others		(9,085.26)
Compensated Absences		78,990.81
Net Cash Used by Operating Activities	\$	(11,832,794.99)

<i>Wilkes Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	717,344.99
Restricted Cash and Cash Equivalents		229,043.61
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		513,656.57
Total Cash and Cash Equivalents - June 30, 2003	\$	1,460,045.17
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital Asset Write-offs	\$	40,544.26
Assets Acquired through a Gift		7,500.00
Change in Fair Value of Investments		51,813.12
Increase in Receivables Related to Nonoperating Income		275,881.34
The accompanying notes to the financial statements are an integral part of this statement.		

WILKES COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 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 nonprofit 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 as prescribed by the Governmental Accounting Standards Board (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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. Investments** - This classification includes mutual funds and money market funds. Except for money market funds, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) 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 charges 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 at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using either the first-in, first-out, or last invoice cost method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected 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, 10 to 50 years for buildings, and 3 to 25 years for equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- I. **Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.
- K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. 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 includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of November 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- L. **Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 child development center, John A. Walker Community Center functions, hospitality services, and the food court café. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$3,194.00. The carrying amount of cash on deposit was \$1,456,851.17 and the bank balance was \$1,455,606.76. 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 insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$111,505.96 of the bank balance was covered by federal depository insurance, and \$1,344,100.80 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 nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2003 met the reporting requirements of either of these categories.

A summary of the College's investments at June 30, 2003 is presented below:

	<u>Fair Value</u>
Investments Not Categorized:	
Mutual Funds	\$ 2,536,794.45
Money Market Funds	<u>27,293.69</u>
Total Investments	<u><u>\$ 2,564,088.14</u></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. The endowment funds of the College have the realized and unrealized gains journalized to the appropriate restricted fund account. The donor(s) have specified designated amounts of principal to keep in perpetuity with no expenditure being incurred from the principal amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	\$ 91,084.54
Accounts	34,219.43
Intergovernmental	226,609.72
Investment Earnings	25,115.59
Other	184,053.48
Total Current Receivables	\$ 561,082.76

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 800,909.58	\$ 0.00	\$ 0.00	\$ 800,909.58
Construction in Progress		346,265.56		346,265.56
Total Capital Assets, Nondepreciable	800,909.58	346,265.56		1,147,175.14
Capital Assets, Depreciable:				
Buildings	18,076,520.56			18,076,520.56
Machinery and Equipment	3,090,758.92	269,457.30	142,800.03	3,217,416.19
Art, Literature, and Artifacts	45,500.00			45,500.00
General Infrastructure	1,610,866.14			1,610,866.14
Total Capital Assets, Depreciable	22,823,645.62	269,457.30	142,800.03	22,950,302.89
Less Accumulated Depreciation:				
Buildings	5,404,041.22	557,299.06		5,961,340.28
Machinery and Equipment	1,252,307.47	181,767.49	135,021.34	1,299,053.62
Art, Literature, and Artifacts	10,616.66	3,033.33		13,649.99
General Infrastructure	930,177.20	101,700.15		1,031,877.35
Total Accumulated Depreciation	7,597,142.55	843,800.03	135,021.34	8,305,921.24
Total Capital Assets, Depreciable, Net	15,226,503.07	(574,342.73)	7,778.69	14,644,381.65
Capital Assets, Net	\$ 16,027,412.65	\$ (228,077.17)	\$ 7,778.69	\$ 15,791,556.79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 323,141.90
Accrued Payroll	94,366.92
Contract Retainage	22,074.47
Intergovernmental Payables	40,854.76
Total Accounts Payable and Accrued Liabilities	\$ 480,438.05

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Capital Leases Payable	\$ 638,738.36	\$ 0.00	\$ 42,327.56	\$ 596,410.80	\$ 44,930.70
Compensated Absences	633,798.10	661,443.79	582,452.98	712,788.91	46,331.29
Total Long-Term Liabilities	\$ 1,272,536.46	\$ 661,443.79	\$ 624,780.54	\$ 1,309,199.71	\$ 91,261.99

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to climate control and energy conservation equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 81,609.97
2005	81,609.97
2006	81,609.97
2007	81,609.97
2008	81,609.97
2009-2013	<u>408,049.85</u>
Total Minimum Lease Payments	816,099.70
Amount Representing Interest (6.15% Rate of Interest)	<u>219,688.90</u>
Present Value of Future Lease Payments	<u><u>\$ 596,410.80</u></u>

Machinery and equipment acquired under capital lease amounted to \$677,127.21 at June 30, 2003.

- B. Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 154,734.36
2005	84,692.55
2006	74,813.28
2007	71,603.54
2008	<u>30,132.18</u>
Total Minimum Lease Payments	<u><u>\$ 415,975.91</u></u>

Rental expense for all operating leases during the year was \$118,092.51.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,042,016.70	\$ 0.00	\$ 936,006.70	\$ 1,106,010.00
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Hospitality Services	\$ 320,635.51	\$ 25,946.53	\$ 0.00	\$ 294,688.98
Bookstore	1,345,149.25	1,065.00		1,344,084.25
Food Court Café	89,930.71	3,278.10		86,652.61
Vending	61,093.68			61,093.68
Johan A. Walker Community Center	339,682.70			339,682.70
Parking	21,493.00			21,493.00
Child Development Center	648,490.26			648,490.26
Sales and Services of Education and Related Activities	194,657.84			194,657.84
Total Sales and Services	\$ 3,021,132.95	\$ 30,289.63	\$ 0.00	\$ 2,990,843.32

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,955,010.65	\$ 1,599,240.15	\$ 1,162,268.35	\$ 16,693.00	\$ 5,939.28	\$ 0.00	\$ 10,739,151.43
Public Service	2,828.76	139,697.74	34,135.63		5,091.17		181,753.30
Academic Support	882,826.96	21,285.65	34,235.06				938,347.67
Student Services	771,925.42	26,245.45	138,507.37				936,678.24
Institutional Support	1,741,859.19	176,941.23	494,195.18		16,734.41		2,429,730.01
Operations and Maintenance of Plant	929,551.65	288,809.22	254,972.95		647,542.56		2,120,876.38
Student Financial Aid			8,029.09	1,941,141.08			1,949,170.17
Auxiliary Enterprises	371,233.10	1,107,959.42	440,234.71		5,195.39		1,924,622.62
Depreciation						843,800.03	843,800.03
Total Operating Expenses	\$ 12,655,235.73	\$ 3,360,178.86	\$ 2,566,578.34	\$ 1,957,834.08	\$ 680,502.81	\$ 843,800.03	\$ 22,064,129.85

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$11,171,104.20, of which \$8,365,422.24 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$501,925.88. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$160,380.03, and \$422,583.29, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 \$50,889.23 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$130,500.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$21,300.00 for the year ended June 30, 2003.

NOTE 12 - 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 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$196,587.42. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$43,500.20. 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.

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 public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. 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 (Plan), a component unit of the State. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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. This self-insured death benefit program is administered by the State Treasurer 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 14 - 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 \$557,651.35 at June 30, 2003.
- 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 were

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

authorized for issuance 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 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. The College's remaining authorization of \$4,581,705.00 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 15 - WILKES COMMUNITY COLLEGE ENDOWMENT CORPORATION

The Wilkes Community College Endowment Corporation is a separately incorporated nonprofit 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 \$739,783.56 for the year ended June 30, 2003.

**Wilkes Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003**

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Walker Center Renovations	Jun 2001	\$ 275,000.00	\$ 856,583.00	\$ 1,131,583.00	\$ 1,131,583.00	100.00%	Oct 2001
General Campus Renovations	May 2001	456,817.00		456,817.00	132,040.15	28.90%	Jun 2006
Science Lab, ADA, and Administrative Office Renovations	Dec 2003	250,000.00		250,000.00			Jun 2006
Energy Conservation Upgrades	Feb 2001	165,000.00		165,000.00	46,405.91	28.12%	Dec 2004
Greenhouse Renovations	Jul 2001	10,028.00		10,028.00	10,028.00	100.00%	Dec 2002
Sidewalk/Step/Street/Parking Lot Replacement/Paving	Apr 2001	206,972.00		206,972.00	51,581.13	24.92%	Jun 2006
Ashe Center Lab and Classroom Space	Oct 2002	671,077.00	539,471.00	1,210,548.00			Jun 2004
Alleghany Center Relocation and Renovation	Sep 2002	83,995.00	33,995.00	117,990.00	117,990.00	100.00%	Apr 2003
Projects Pending Approval by the State Board							
Technology Center	Sep 2003	2,686,596.00	2,513,404.00	5,200,000.00			Nov 2005
Roof Replacements - Beacon, Hayes and Lovette Halls	Feb 2005	235,000.00		235,000.00			Jun 2006
Roof Replacement - Thompson Hall	Oct 2004	350,000.00		350,000.00			Jun 2006
Total All Projects		\$ 5,390,485.00	\$ 3,943,453.00	\$ 9,333,938.00	\$ 1,489,628.19		

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

STATE OF NORTH CAROLINA
Office of the State Auditor

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

**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, 2003, and have issued our report thereon dated April 27, 2004.

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 would not necessarily disclose all matters in the internal control 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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
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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

April 27, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Gordon G. Burns	President, Wilkes Community College
Mr. D. Morgan Francis	Business Manager, Wilkes Community College
Ms. N. Susan Whittington	Chairman, Board of Trustees Wilkes Community College

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Mr. James D. Johnson	Director, Fiscal Research Division
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June 2, 2004

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Office of the State Auditor
State of North Carolina
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20601 Mail Service Center
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