



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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Leslie W. Merritt, Jr., CPA, CFP
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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>

REVIEWER'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 review of Wilkes Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Wilkes Community College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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Leslie W. Merritt, Jr., CPA, CFP
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Wilkes Community College
Wilkesboro, North Carolina

We have reviewed the accompanying financial statements of Wilkes Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Wilkes Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of the Wilkes Community College Endowment Corporation, which represents 100% of the College's discretely presented component units. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other accountants.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

January 31, 2005

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, 2004 and June 30, 2003. Since management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

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

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

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

The 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, inventories, and prepaids. Noncurrent assets consist of cash and cash equivalents, receivables, investments, and capital assets (land, construction in progress, buildings, infrastructure, art 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			
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Assets:				
Cash and Cash Equivalents	\$ 1,660,192.90	\$ 946,388.60	\$ 713,804.30	75.42%
Short-Term Investments	424,750.91	377,832.48	46,918.43	12.42%
Receivables	554,813.72	561,082.76	(6,269.04)	(1.12%)
Inventories	334,887.43	282,868.66	52,018.77	18.39%
Prepaid Items	<u>16,775.00</u>	<u>795.00</u>	<u>15,980.00</u>	2,010.06%
Total Current Assets	<u>2,991,419.96</u>	<u>2,168,967.50</u>	<u>822,452.46</u>	37.92%
Cash and Cash Equivalents	563,084.75	513,656.57	49,428.18	9.62%
Receivables	943,468.35	210,823.21	732,645.14	347.52%
Investments	2,186,255.66	2,186,255.66		
Capital Assets, Net	<u>16,122,800.93</u>	<u>15,791,556.79</u>	<u>331,244.14</u>	2.10%
Total Noncurrent Assets	<u>19,815,609.69</u>	<u>18,702,292.23</u>	<u>1,113,317.46</u>	5.95%
Total Assets	<u>\$ 22,807,029.65</u>	<u>\$ 20,871,259.73</u>	<u>\$ 1,935,769.92</u>	9.27%

Current assets at June 30, 2004, 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 and increases in bookstore and other auxiliary funds cash accounts.

Noncurrent assets increased due to an increase in capital project cash accounts resulting from a contribution by the WCC Endowment Corporation for capital construction and increases in receivables associated with bond projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

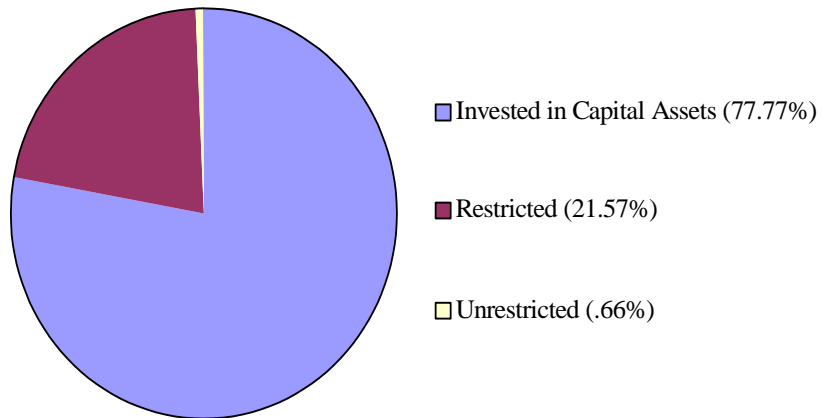
Liabilities

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current Liabilities	\$ 1,331,101.88	\$ 780,021.94	\$ 551,079.94	70.65%
Noncurrent Liabilities	<u>1,481,314.16</u>	<u>1,352,369.01</u>	<u>128,945.15</u>	9.53%
Total Liabilities	<u>\$ 2,812,416.04</u>	<u>\$ 2,132,390.95</u>	<u>\$ 680,025.09</u>	31.89%

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 deferred revenue associated with ticket sales for the John A. Walker Community Center and year-end transfers by the WCC Endowment Corporation, as well as increased accounts payable related to 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 increased \$1,253,744.83 for the fiscal year for a year-end total of \$19,992,613.61. The total consists of net assets invested in capital assets of \$15,547,904.83, restricted net assets of \$4,311,609.91, and unrestricted net assets of \$133,098.87.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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			
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Student Tuition and Fees, Net	\$ 1,758,236.16	\$ 1,106,010.00	\$ 652,226.16	58.97%
Federal Grants and Contracts	4,644,274.77	4,198,698.20	445,576.57	10.61%
State and Local Grants and Contracts	380,289.48	392,553.90	(12,264.42)	(3.12%)
Sales and Services, Net	2,525,622.33	2,990,843.32	(465,220.99)	(15.55%)
Other Operating Revenues	<u>21,762.78</u>	<u>9,259.08</u>	<u>12,503.70</u>	135.04%
 Total Operating Revenues	 <u>\$ 9,330,185.52</u>	 <u>\$ 8,697,364.50</u>	 <u>\$ 632,821.02</u>	 7.28%

Student tuition and fees increased significantly due to an increase in the tuition rate and increases in fees charged to students. Enrollment increases also had a positive effect on this amount. Student tuition and fees and sales and services amounts also reflect changes in reclassification of the tuition discounting computations. Federal grants and contracts increased due to greater number of students participating in the Federal Pell grant program and the amount of awards received by students.

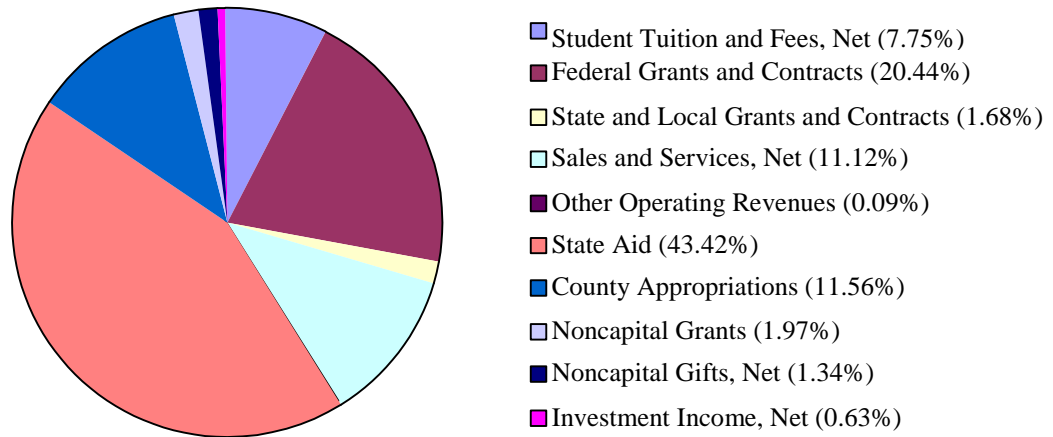
	Nonoperating Revenues (Expenses)			
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
State Aid	\$ 9,863,713.06	\$ 8,348,881.44	\$ 1,514,831.62	18.14%
County Appropriations	2,627,025.74	2,459,647.10	167,378.64	6.80%
Noncapital Grants	446,893.98	329,837.03	117,056.95	35.49%
Noncapital Gifts	305,716.47	230,995.52	74,720.95	32.35%
Investment Income, Net	142,989.50	161,400.23	(18,410.73)	(11.41%)
Interest and Fees on Debt	(34,771.51)	(37,485.16)	2,713.65	(7.24%)
Other Nonoperating Expenses	<u>(108,740.70)</u>	<u></u>	<u>(108,740.70)</u>	100.00%
 Total Nonoperating Revenues	 <u>\$ 13,242,826.54</u>	 <u>\$ 11,493,276.16</u>	 <u>\$ 1,749,550.38</u>	 15.22%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State Aid increased due to increased funding from the General Assembly and additional income related to enrollment increases. County appropriation revenue increased due to increased financial support from Wilkes and Ashe counties. Other nonoperating expenses are the result of disposals of fixed assets that were not fully depreciated.

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

Revenue by Source



Operating Expenses

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

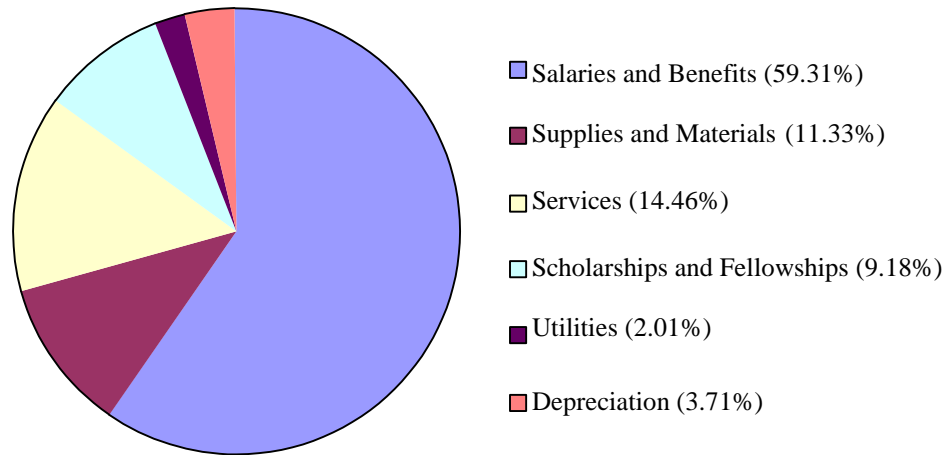
Operating Expenses

	June 30, 2004	June 30, 2003	Increase/ (Decrease)	% Increase/ (Decrease)
Salaries and Benefits	\$ 14,316,536.52	\$ 12,655,235.73	\$ 1,661,300.79	13.13%
Supplies and Materials	2,735,057.89	3,360,178.86	(625,120.97)	(18.60%)
Services	3,490,119.19	2,566,578.34	923,540.85	35.98%
Scholarships and Fellowships	2,215,232.09	1,957,834.08	257,398.01	13.15%
Utilities	485,729.54	680,502.81	(194,773.27)	(28.62%)
Depreciation	895,212.11	843,800.03	51,412.08	6.09%
Total Operating Expenses	\$ 24,137,887.34	\$ 22,064,129.85	\$ 2,073,757.49	9.40%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses for fiscal year 2004 increased \$2,073,757.49 over fiscal year 2003. Salaries and benefits 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 decreased as a result of fewer costs associated with noncapital facility repair supplies. Services expenses increased by \$923,540.85 over fiscal year 2003 because of additional costs associated with facility repairs and maintenance, increased performance fees for Walker Center events and increased services provided to recipients of federal grant programs. The increased 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, 2004	June 30, 2003	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	\$ 898,339.95	\$ 1,113,571.70	\$ (215,231.75)	(19.33%)
County Capital Appropriations	40,328.06	34,802.65	5,525.41	15.88%
Capital Grants	1,172,081.80	172,997.78	999,084.02	577.51%
Capital Gifts	674,866.97	315,587.37	359,279.60	113.84%
Additions to Endowments	33,003.33	54,746.68	(21,743.35)	(39.72%)
Total Other Revenues, Expenses, Gains or Losses	\$ 2,818,620.11	\$ 1,691,706.18	\$ 1,126,913.93	66.61%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State capital aid decreased in fiscal year 2003-04 as a result of decreased equipment expenditures. Capital grants and capital gifts increased in fiscal year 2004 as the result of construction projects financed, at least in part, with non-State funds.

Capital Asset Activity

At the end of fiscal year 2004, capital assets, net of accumulated depreciation amounted to \$16,122,800.93 in a broad range of capital assets (see table below). Depreciation charges for the 2003-04 fiscal year totaled \$895,212.11. Capital asset events during the fiscal year included additions to machinery and equipment, completion of a new parking lot, construction in progress associated with several building projects and demolition of the Pearson Library building to make room for the new science and technology center.

	Capital Assets		
	June 30, 2004	June 30, 2003	Increase/ (Decrease)
Capital Assets, Nondepreciable:			
Land	\$ 800,909.58	\$ 800,909.58	\$ 0.00
Construction in Progress	567,167.34	346,265.56	220,901.78
Total Capital Assets, Nondepreciable	<u>1,368,076.92</u>	<u>1,147,175.14</u>	<u>220,901.78</u>
Capital Assets, Depreciable:			
Buildings	17,922,520.56	18,076,520.56	(154,000.00)
Infrastructure	2,550,394.33	1,610,866.14	939,528.19
Machinery and Equipment	3,176,009.47	3,217,416.19	(41,406.72)
Art, Literature and Artifacts	45,500.00	45,500.00	
Total Capital Assets, Depreciable	<u>23,694,424.36</u>	<u>22,950,302.89</u>	<u>744,121.47</u>
Less Accumulated Depreciation	<u>8,939,700.35</u>	<u>8,305,921.24</u>	<u>633,779.11</u>
Total Capital Asses, Depreciable, Net	<u>14,754,724.01</u>	<u>14,644,381.65</u>	<u>110,342.36</u>
Capital Assets, Net	<u>\$ 16,122,800.93</u>	<u>\$ 15,791,556.79</u>	<u>\$ 331,244.14</u>

Analysis of Financial Position

For the year ended June 30, 2004, the College had a net increase in cash and cash equivalents of \$763,232.48, representing a 52.27% increase in cash and cash equivalents when compared to the July 1, 2003 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 and increases in bookstore and other institutional funds cash balances.

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 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. With the expiration of unemployment benefits for dislocated workers in the College's service area, the administration believes that enrollment may have peaked in 2003-04. Expectations are the enrollment will gradually decline to historical trends within the next few years.

In recent years, increased enrollments have stressed the physical facilities of the College. As a result, the College has added additional parking and continues planning for additional classroom space. Plans are also being developed to expand the Ashe Center to add additional classroom and lab space. Construction of the Ashe addition should begin in the fall of 2004 with completion scheduled for late spring 2005. For the Wilkes Campus, planning for the science and technology center is continuing. Construction of this facility should begin in the fall of 2004 as well, and should be completed by late fall 2005. The facility will house computer labs, updated science labs, and the James Larkin Pearson Library Collection.

The State of North Carolina has experienced somewhat of a positive economic turnaround during the past year. This follows three years of budget shortfalls. College budgets could be impacted significantly if economic conditions within the State decline.

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, 2004****Exhibit A-1****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	1,268,516.11
Restricted Cash and Cash Equivalents		391,676.79
Short-Term Investments		137,996.64
Restricted Short-Term Investments		286,754.27
Receivables (Note 4)		554,813.72
Inventories		334,887.43
Prepaid Items		16,775.00
Total Current Assets		2,991,419.96

Noncurrent Assets:

Restricted Cash and Cash Equivalents		563,084.75
Restricted Due from Primary Government		943,468.35
Endowment Investments		2,186,255.66
Capital Assets - Nondepreciable (Note 5)		1,368,076.92
Capital Assets - Depreciable, Net (Note 5)		14,754,724.01
Total Noncurrent Assets		19,815,609.69

Total Assets**22,807,029.65****LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		422,581.10
Deferred Revenue		626,032.04
Funds Held for Others		155,491.49
Long-Term Liabilities - Current Portion (Note 7)		128,997.25
Total Current Liabilities		1,333,101.88

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		1,481,314.16
Total Liabilities		2,814,416.04

NET ASSETS

Invested in Capital Assets, Net of Related Debt

15,547,904.83

Restricted for:

Nonexpendable:

Scholarships and Fellowships		1,200,659.58
Other		1,396,498.48

Expendable:

Scholarships and Fellowships		536,147.70
Capital Projects		1,003,928.51
Other		174,375.64

Unrestricted

133,098.87

Total Net Assets**\$ 19,992,613.61**

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, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,758,236.16
Federal Grants and Contracts		4,644,274.77
State and Local Grants and Contracts		380,289.48
Sales and Services, Net (Note 9)		2,525,622.33
Other Operating Revenues		21,762.78
Total Operating Revenues		9,330,185.52
EXPENSES		
Operating Expenses:		
Salaries and Benefits		14,316,536.52
Supplies and Materials		2,735,057.89
Services		3,490,119.19
Scholarships and Fellowships		2,215,232.09
Utilities		485,729.54
Depreciation		895,212.11
Total Operating Expenses		24,137,887.34
Operating Loss		(14,807,701.82)
NONOPERATING REVENUES (EXPENSES)		
State Aid		9,863,713.06
County Appropriations		2,627,025.74
Noncapital Grants		446,893.98
Noncapital Gifts		305,716.47
Investment Income, Net		142,989.50
Interest and Fees on Debt		(34,771.51)
Other Nonoperating Expenses		(108,740.70)
Net Nonoperating Revenues		13,242,826.54
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,564,875.28)
State Capital Aid		898,339.95
County Capital Appropriations		40,328.06
Capital Grants		1,172,081.80
Capital Gifts		674,866.97
Additions to Endowments		33,003.33
Increase in Net Assets		1,253,744.83
NET ASSETS		
Net Assets, July 1, 2003		18,738,868.78
Net Assets, June 30, 2004	\$	19,992,613.61
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Wilkes Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 9,744,466.18
Payments to Employees and Fringe Benefits		(13,958,233.85)
Payments to Vendors and Suppliers		(6,918,355.69)
Payments for Scholarships and Fellowships		(2,238,784.65)
Other Payments		(1,556.26)
Net Cash Used by Operating Activities		(13,372,464.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		9,863,713.06
County Appropriations		2,627,025.74
Noncapital Grants Received		446,926.88
Noncapital Gifts and Endowments Received		338,719.80
Net Cash Provided by Noncapital Financing Activities		13,276,385.48
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		165,694.81
County Capital Appropriations		40,328.06
Capital Grants Received		1,221,320.52
Capital Gifts Received		674,866.97
Proceeds from Insurance on Capital Assets		3,253.65
Acquisition and Construction of Capital Assets		(1,262,886.92)
Principal Paid on Capital Debt and Leases		(44,930.70)
Interest Paid on Capital Debt and Leases		(36,679.27)
Net Cash Provided by Capital and Related Financing Activities		760,967.12
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		36,333.05
Investment Income		98,344.15
Purchase of Investments and Related Fees		(36,333.05)
Net Cash Provided by Investing Activities		98,344.15
Net Increase in Cash and Cash Equivalents		763,232.48
Cash and Cash Equivalents, July 1, 2003		1,460,045.17
Cash and Cash Equivalents, June 30, 2004		\$ 2,223,277.65

<i>Wilkes Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (14,807,701.82)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		895,212.11
Changes in Assets and Liabilities:		
Receivables		(45,275.66)
Inventories		(52,018.77)
Prepaid Items		(15,980.00)
Accounts Payable and Accrued Liabilities		(131,512.87)
Deferred Revenue		417,710.14
Funds Held for Others		21,060.20
Compensated Absences		346,042.40
Net Cash Used by Operating Activities		\$ (13,372,464.27)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 1,268,516.11
Restricted Cash and Cash Equivalents		391,676.79
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		563,084.75
Total Cash and Cash Equivalents - June 30, 2004		\$ 2,223,277.65
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability		\$ 75,563.68
Change in Fair Value of Investments		10,585.38
Increase in Receivables Related to Nonoperating Income		732,645.14
Capital Asset Write-Offs		154,000.00
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Wilkes Community College Endowment Corporation</i>		
<i>Statement of Financial Position</i>		
<i>June 30, 2004</i>		<i>Exhibit B-1</i>
CURRENT ASSETS		
Cash and Cash Equivalents		\$ 184,181
Investments		311,589
Current Portion of Unconditional Promises to Give (Net of allowance for doubtful accounts of \$4,875)		285,880
Other Receivables (Net of allowance for doubtful accounts of \$12,100)		129,057
Inventories		97,269
Prepaid Expenses		28,644
Total Current Assets		1,036,620
OTHER ASSETS		
Unconditional Promises to Give (Net of current portion, present value discount, and allowance for doubtful accounts of \$12,125)		597,530
Total Assets		\$ 1,634,150
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses		\$ 37,496
Deferred Revenue		17,950
Notes Payable		35,092
Total Current Liabilities		90,538
LONG-TERM LIABILITIES		
Notes Payable		175,463
Total Liabilities		266,001
NET ASSETS		
Unrestricted		471,452
Temporarily Restricted Net Assets		896,697
Total Net Assets		1,368,149
Total Liabilities and Net Assets		\$ 1,634,150
See Note 1 in the Notes to the Financial Statements		

Wilkes Community College Endowment Corporation		
Statement of Activities		
For the Fiscal Year Ended June 30, 2004		Exhibit B-2
UNRESTRICTED NET ASSETS		
Support:		
Contributions	\$	131,229
Fund Raising Income		2,810,399
Revenue:		
Interest Income		9,992
Miscellaneous		40,108
Total Unrestricted Support and Revenue		2,991,728
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		9,964
Total Unrestricted Support and Reclassifications		3,001,692
Expenses:		
Program Services		1,162,907
Supporting Services		
Management and General		15,955
Fund Raising		2,092,849
Total Expenses		3,271,711
Decrease in Unrestricted Net Assets		(270,019)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		1,321,186
Interest Income		647
Loss on Promises to Give		(13,483)
Transfer to Wilkes Community College		(441,809)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(9,964)
Increase in Temporarily Restricted Net Assets		856,577
PERMANENTLY RESTRICTED NET ASSETS		
Contributions		11,450
Lifetime Patron Income		5,000
Recovery of Promises to Give		416
Transfer to Wilkes Community College		(21,783)
Decrease in Permanently Restricted Net Assets		(4,917)
Increase in Net Assets		581,641
Net Assets at Beginning of Year		786,508
Net Assets at End of Year	\$	1,368,149
See Note 1 in the Notes to the Financial Statements		

WILKES COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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

Discretely Presented Component Units – The Wilkes Community College Endowment Corporation is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Wilkes Community College Endowment Corporation is a legally separate, tax-exempt component unit of the College. The Endowment Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Endowment Corporation board consists of typically 30 members. At June 30, 2004, the board consisted of 28 members due to two vacancies that existed. Although the College does not control the timing or amount of receipts from the Endowment Corporation, the majority of resources, or income thereon, that the Endowment Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Endowment Corporation can only be used by, or for the benefit of the College, the Endowment Corporation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Wilkes Community College Endowment Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Endowment Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Endowment Corporation distributed \$927,864.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Endowment Corporation can be obtained from the Dean of Development, Wilkes Community College, PO Box 120, Wilkesboro, NC 28697-0120.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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.

- 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 and cash on deposit with private bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

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 collections 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of November 30, 2002 and as of July 1, 2003. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding is transactional based within the departmental management system in place at the College.

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

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

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

O. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore, the 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,344.00. The carrying amount of cash on deposit was \$2,219,933.65 and the bank balance was \$1,616,310.67. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2004, \$120,335.50 of the bank balance was covered by federal depository insurance and \$1,495,975.17 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.

Investments of the College's component unit, the Wilkes Community College Endowment Corporation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

A summary of the College's investments at June 30, 2004 is presented below:

	<u>Fair Value</u>
Investments Not Categorized:	
Mutual Funds	\$ 2,579,453.35
Money Market Funds	<u>31,553.22</u>
Total Investments	<u><u>\$ 2,611,006.57</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 not expenditures being incurred from the principal amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	Amount
Current Receivables:	
Students	\$ 77,937.60
Accounts	46,521.36
Intergovernmental	248,887.59
Investment Earnings	22,842.51
Other	158,624.66
	\$ 554,813.72
Total Current Receivables	\$ 554,813.72

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 800,909.58	\$ 0.00	\$ 0.00	\$ 0.00	\$ 800,909.58
Construction in Progress	346,265.56	(284,748.27)	505,650.05		567,167.34
Total Capital Assets, Nondepreciable	1,147,175.14	(284,748.27)	505,650.05		1,368,076.92
Capital Assets, Depreciable:					
Buildings	18,076,520.56			154,000.00	17,922,520.56
Machinery and Equipment	3,217,416.19		178,020.63	219,427.35	3,176,009.47
Art, Literature, and Artifacts	45,500.00				45,500.00
General Infrastructure	1,610,866.14	284,748.27	654,779.92		2,550,394.33
Total Capital Assets, Depreciable	22,950,302.89	284,748.27	832,800.55	373,427.35	23,694,424.36
Less Accumulated Depreciation:					
Buildings	5,961,340.28		744,691.60	84,699.12	6,621,332.76
Machinery and Equipment	1,299,053.62		10,916.44	176,733.88	1,133,236.18
Art, Literature, and Artifacts	13,649.99		1,769.59		15,419.58
General Infrastructure	1,031,877.35		137,834.48		1,169,711.83
Total Accumulated Depreciation	8,305,921.24		895,212.11	261,433.00	8,939,700.35
Total Capital Assets, Depreciable, Net	14,644,381.65	284,748.27	(62,411.56)	111,994.35	14,754,724.01
Capital Assets, Net	\$ 15,791,556.79	\$ 0.00	\$ 443,238.49	\$ 111,994.35	\$ 16,122,800.93

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 252,013.45
Accrued Payroll	106,627.19
Intergovernmental Payables	40,524.46
Other	23,416.00
Total Accounts Payable and Accrued Liabilities	\$ 422,581.10

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Capital Leases Payable	\$ 596,410.80	\$ 0.00	\$ 44,930.70	\$ 551,480.10	\$ 47,693.94
Compensated Absences	712,788.91	1,034,879.30	688,836.90	1,058,831.31	81,303.31
Total Long-Term Liabilities	\$ 1,309,199.71	\$ 1,034,879.30	\$ 733,767.60	\$ 1,610,311.41	\$ 128,997.25

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

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, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 81,609.97
2006	81,609.97
2007	81,609.97
2008	81,609.97
2009	81,609.97
2010-2013	<u>326,439.88</u>
Total Minimum Lease Payments	734,489.73
Amount Representing Interest (6.15% Rate of Interest)	<u>183,009.63</u>
Present Value of Future Lease Payments	<u><u>\$ 551,480.10</u></u>

Machinery and equipment acquired under capital lease amounted to \$641,109.82 at June 30, 2004.

- B. Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 103,802.43
2006	93,923.16
2007	90,713.42
2008	<u>36,937.52</u>
Total Minimum Lease Payments	<u><u>\$ 325,376.53</u></u>

Rental expense for all operating leases during the year was \$141,731.58.

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	\$ 2,432,382.48	\$ 0.00	\$ 674,146.32	\$ 1,758,236.16
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Hospitality Services	\$ 282,749.52	\$ 21,435.77	\$ 0.00	\$ 261,313.75
Bookstore	1,420,207.82	311.50	379,947.26	1,039,949.06
Food Court Café	98,517.15	4,996.30		93,520.85
Vending	59,590.69			59,590.69
John A. Walker Community Center	325,853.84			325,853.84
Child Development Center	633,975.78			633,975.78
Sales and Services of Education and Related Activities	111,418.36			111,418.36
Total Sales and Services	\$ 2,932,313.16	\$ 26,743.57	\$ 379,947.26	\$ 2,525,622.33

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,013,855.60	\$ 968,832.81	\$ 1,421,855.82	\$ 16,616.00	\$ 0.00	\$ 0.00	\$ 10,421,160.23
Public Service	48,227.45	29,833.18	28,172.68				106,233.31
Academic Support	1,364,872.71	114,762.13	55,938.00				1,535,572.84
Student Services	834,110.75	41,441.74	143,515.69				1,019,068.18
Institutional Support	2,026,322.94	182,967.18	799,370.51		16,547.33		3,025,207.96
Operations and Maintenance of Plant	989,794.18	214,412.45	513,988.33		464,420.00		2,182,614.96
Student Financial Aid			8,825.17	2,198,616.09			2,207,441.26
Auxiliary Enterprises	1,039,352.89	1,182,808.40	518,452.99		4,762.21		2,745,376.49
Depreciation						895,212.11	895,212.11
Total Operating Expenses	\$ 14,316,536.52	\$ 2,735,057.89	\$ 3,490,119.19	\$ 2,215,232.09	\$ 485,729.54	\$ 895,212.11	\$ 24,137,887.34

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$12,128,681.62, of which \$9,323,407.68 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$559,405.05 and \$20,511.50, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$20,511.50, \$0.00, and \$160,380.03, 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 \$57,948.13 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$165,667.52 for the year ended June 30, 2004.

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 \$21,100.00 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$298,349.25. 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-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

paid from county and institutional funds are covered 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 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. There were no employer contributions required for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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 \$159,025.00 at June 30, 2004.

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 \$3,438,003.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

**Wilkes Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004**

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Projects Approved by the State Board									
Walker Center Renovations	Jun 2001	Jun 2001	\$ 275,000.00	\$ 856,583.00	\$ 1,131,583.00	\$ 1,131,583.00	100.00%	Oct 2001	Oct 2001
General Campus Renovations	May 2001	May 2001	456,817.00		456,817.00	171,187.22	37.47%	Jun 2004	Jun 2006
Alleghany Center Relocation and Renovation	Sep 2001	Sep 2002	83,995.00	33,995.00	117,990.00	117,990.00	100.00%	Apr 2003	Apr 2003
Energy Conservation Upgrades	Feb 2001	Feb 2001	190,000.00		190,000.00	131,442.91	69.18%	Dec 2004	Dec 2004
Greenhouse Renovations	Jul 2001	Jul 2001	10,028.00		10,028.00	10,028.00	100.00%	Jun 2005	Dec 2002
Sidewalk/Steps/Street/Parking Lot Replacement/Paving	Apr 2001	Apr 2001	306,972.00		306,972.00	187,184.96	60.98%	Jun 2006	Jun 2006
Ashe Center Lab and Classroom Space	Jan 2002	Oct 2002	671,077.00	539,471.00	1,210,548.00	71,525.00	5.91%	Mar 2004	Jun 2005
Science Lab, ADA and Administrative Office Renovations	Jun 2001	Nov 2005	125,000.00		125,000.00			Jun 2005	Sep 2006
Technology Center	Sep 2003	Oct 2003	2,686,596.00	2,000,000.00	4,686,596.00	226,413.39	4.83%	Nov 2005	Dec 2005
Projects Pending Approval by the State Board									
Roof Replacements - Beacon, Hayes and Lovette Halls	Feb 2005	Feb 2005	235,000.00		235,000.00				
Roof Replacement - Thompson Hall	Oct 2004	Oct 2004	350,000.00		350,000.00				
Total All Projects			\$ 5,390,485.00	\$ 3,430,049.00	\$ 8,820,534.00	\$ 2,047,354.48			

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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February 22, 2005

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