STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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FOR THE YEAR ENDED JUNE 30, 2005

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Wilkes Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

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

June 6, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wilkes Community College
Wilkesboro, North Carolina

We have audited the accompanying financial statements of Wilkes Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Wilkes Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Wilkes Community College Endowment Corporation, which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wilkes Community College Endowment Corporation were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Wilkes Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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 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.

Leslie W. Merritt, Jr.

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

April 24, 2006

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, 2005, and June 30, 2004. 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 and noncurrent 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.

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, general 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

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
Assets:				
Cash and Cash Equivalents	$ 809,964.04	$ 1,660,192.90	$ (850,228.86)	(51.21) %
Short-Term Investments	739,423.88	424,750.91	314,672.97	74.08 %
Receivables	809,525.79	554,813.72	254,712.07	45.91 %
Inventories	392,769.27	334,887.43	57,881.84	17.28 %
Prepaid Items	18,675.00	16,775.00	1,900.00	11.33 %
Total Current Assets	2,770,357.98	2,991,419.96	(221,061.98)	(7.39) %
Cash and Cash Equivalents	189,473.26	563,084.75	(373,611.49)	(66.35) %
Receivables	3,323,914.88	943,468.35	2,380,446.53	252.31 %
Investments	2,597,801.26	2,186,255.66	411,545.60	18.82 %
Capital Assets, Net	17,371,510.21	16,122,800.93	1,248,709.28	7.74 %
Total Noncurrent Assets	23,482,699.61	19,815,609.69	3,667,089.92	18.51 %
Total Assets	$ 26,253,057.59	$ 22,807,029.65	$ 3,446,027.94	15.11 %

Current assets at June 30, 2005, decreased primarily due to a decrease in cash. Institutional cash balances have been used to fund capital projects prior to reimbursement from State bond funds. Excess cash was also transferred to investment accounts.

Noncurrent assets increased due to increases in receivables and construction in progress associated with bond capital projects. Excess cash was also transferred to investments as noted above.

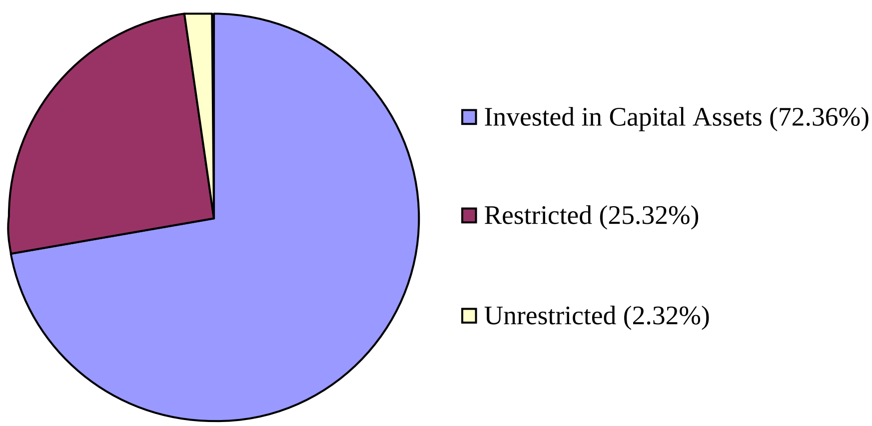
Liabilities

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
Current Liabilities	$ 1,455,648.66	$ 1,333,101.88	$ 122,546.78	9.19%
Noncurrent Liabilities	1,485,940.07	1,481,314.16	4,625.91	0.31%
Total Liabilities	$ 2,941,588.73	$ 2,814,416.04	$ 127,172.69	4.52%

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 related to capital projects. Noncurrent liabilities include compensated absences and capital lease obligations that will not be paid within the next fiscal year.

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 $3,318,855.25 for the fiscal year for a year-end total of $23,311,468.86. The total consists of net assets invested in capital assets of $16,867,724.05, restricted net assets of $5,902,771.06 and unrestricted net assets of $540,973.75.



Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees; federal, State and local operating grants; sales and services revenue; and other operating revenues. Sales and services revenue is primarily derived from bookstore operations, hospitality services, 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. Total revenues for fiscal year ended June 30, 2005, and June 30, 2004, respectively, were $28,616,022.01 and $25,391,632.17. The discussions below and in the other revenues section itemize the $3,224,389.84 change in revenues.

Operating Revenues

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
Student Tuition and Fees, Net	$ 1,558,706.10	$ 1,758,236.16	$ (199,530.06)	(11.35) %
Federal Grants and Contracts	4,373,917.82	4,644,274.77	(270,356.95)	(5.82) %
State and Local Grants and Contracts	340,393.42	380,289.48	(39,896.06)	(10.49) %
Sales and Services, Net	2,649,518.37	2,525,622.33	123,896.04	4.91 %
Other Operating Revenues	11,292.04	21,762.78	(10,470.74)	(48.11) %
Total Operating Revenues	$ 8,933,827.75	$ 9,330,185.52	$ (396,357.77)	(4.25) %

Student tuition and fees and federal grants and contracts decreased due to a decline in curriculum student enrollment. The administration had anticipated the enrollment decrease as training benefits for dislocated workers from area plant closings expired.

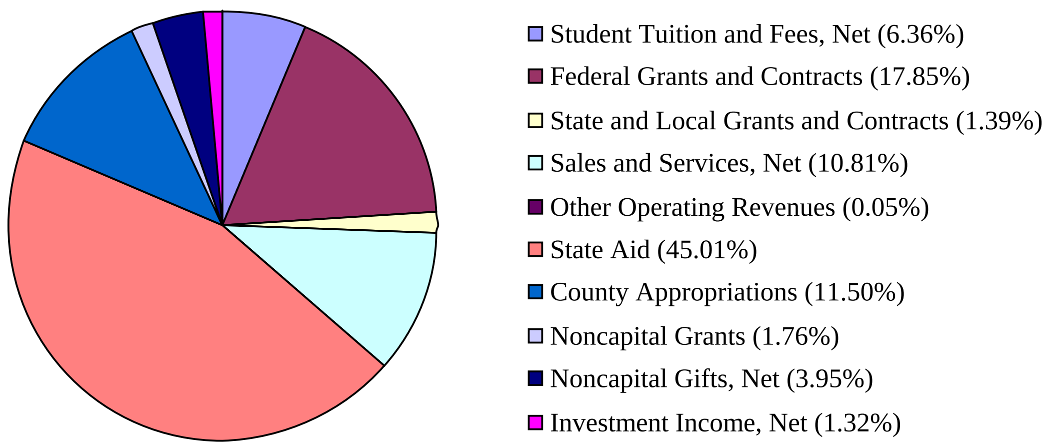
Nonoperating Revenues (Expenses)

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
State Aid	$ 11,024,659.15	$ 9,863,713.06	$ 1,160,946.09	11.77 %
County Appropriations	2,816,429.26	2,627,025.74	189,403.52	7.21 %
Noncapital Grants	430,353.80	446,893.98	(16,540.18)	(3.70) %
Noncapital Gifts	967,442.16	305,716.47	661,725.69	216.45 %
Investment Income, Net	322,957.84	142,989.50	179,968.34	125.86 %
Interest and Fees on Debt	(31,890.93)	(34,771.51)	2,880.58	(8.28) %
Other Nonoperating Expenses	(82,245.29)	(108,740.70)	26,495.41	(24.37) %
Total Nonoperating Revenues	$ 15,447,705.99	$ 13,242,826.54	$ 2,204,879.45	16.65 %

State aid increased due to increased funding from the General Assembly. County appropriation revenue increased due to increased financial support from Wilkes, Ashe, and Alleghany counties. Noncapital gifts increased due to noncash transfers from the Wilkes Community College (WCC) Endowment Corporation. Investment income increases occurred because of improving financial markets. 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.

Revenues by Source



Operating Expenses

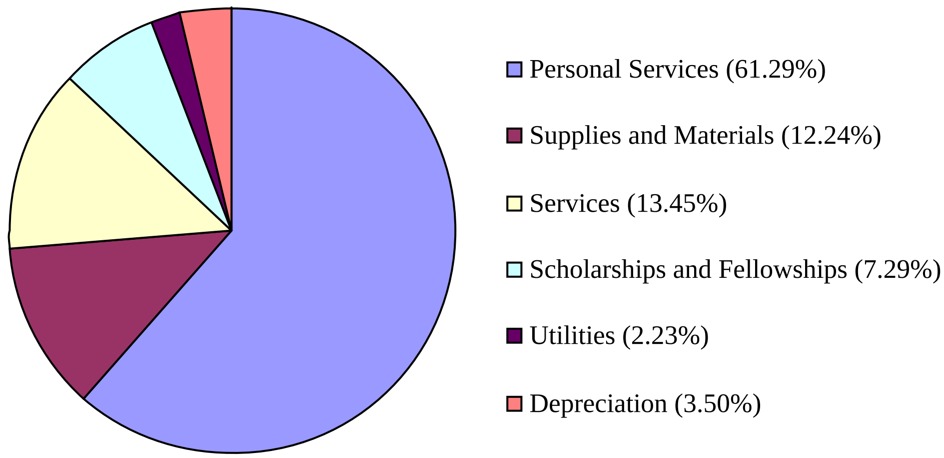
The majority of operating expenses are for direct personnel costs and fringe benefits. Other expenses are for the operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statements No. 34/35.

Operating Expenses

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
Personal Services	$ 15,505,340.82	$ 14,316,536.52	$ 1,188,804.30	8.30 %
Supplies and Materials	3,095,453.63	2,735,057.89	360,395.74	13.18 %
Services	3,401,434.02	3,490,119.19	(88,685.17)	(2.54) %
Scholarships and Fellowships	1,844,817.05	2,215,232.09	(370,415.04)	(16.72) %
Utilities	563,713.61	485,729.54	77,984.07	16.06 %
Depreciation	886,407.63	895,212.11	(8,804.48)	(0.98) %
Total Operating Expenses	$ 25,297,166.76	$ 24,137,887.34	$ 1,159,279.42	4.80 %

Operating expenses for fiscal year 2005 increased $1,159,279.42 over fiscal year 2004. Personal services increased due to the effects of contractual increases for faculty and staff salaries and benefits. Personnel were also added in selected areas to promote better service to students. Supplies and materials expenses increased primarily as a result of noncash transfers from the WCC Endowment Corporation. The decreased number of students receiving Pell awards is reflected in the decrease in scholarships and fellowships.

The following is a graphical representation of operating expenses.



Other Revenues

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

Other Revenues

	June 30, 2005	June 30, 2004	Increase/ (Decrease)	Percentage Change
State Capital Aid	$ 3,658,027.77	$ 898,339.95	$ 2,759,687.82	307.20 %
County Capital Appropriations	462,261.46	40,328.06	421,933.40	1,046.25 %
Capital Grants		1,172,081.80	(1,172,081.80)	(100.00) %
Capital Gifts	109,696.12	674,866.97	(565,170.85)	(83.75) %
Additions to Endowments	4,502.92	33,003.33	(28,500.41)	(86.36) %
Total Other Revenues	$ 4,234,488.27	$ 2,818,620.11	$ 1,415,868.16	50.23 %

State capital aid and capital grants showed significant changes as a result of the reclassification of revenues from State bond funds. As construction on two major capital projects progressed, there was also an increase in bond fund revenue over 2003-2004. County capital appropriations increased as a county-financed capital project was completed. Capital gifts decreased in fiscal year 2005 as the result of decreased construction financing from the WCC Endowment Corporation.

Capital Asset Activity

At the end of fiscal year 2005, capital assets, net of accumulated depreciation, amounted to $17,371,510.21 in a broad range of capital assets (see table below). Depreciation expense for the 2004-2005 fiscal year totaled $886,407.63. Capital asset events during the fiscal year included additions and disposals of machinery and equipment, completion of a new horticulture facility, and construction in progress associated with the new science and technology center, and additions and renovations to the Ashe Center.

Capital Assets

	June 30, 2005	June 30, 2004	Increase/ (Decrease)
Capital Assets, Nondepreciable:			
Land	$ 800,909.58	$ 800,909.58	$ 0.00
Construction in Progress	2,089,714.27	567,167.34	1,522,546.93
Total Capital Assets, Nondepreciable	2,890,623.85	1,368,076.92	1,522,546.93
Capital Assets, Depreciable:			
Buildings	18,370,207.96	17,922,520.56	447,687.40
General Infrastructure	2,647,667.50	2,550,394.33	97,273.17
Machinery and Equipment	3,115,263.53	3,176,009.47	(60,745.94)
Art, Literature, and Artifacts	45,500.00	45,500.00	
Total Capital Assets, Depreciable	24,178,638.99	23,694,424.36	484,214.63
Less Accumulated Depreciation	9,697,752.63	8,939,700.35	758,052.28
Total Capital Assets, Depreciable, Net	14,480,886.36	14,754,724.01	(273,837.65)
Capital Assets, Net	$ 17,371,510.21	$ 16,122,800.93	$ 1,248,709.28

Analysis of Financial Position

For the year ended June 30, 2005, the College had a net decrease in cash and cash equivalents of $1,223,840.35, representing a 55.05% decrease in cash and cash equivalents when compared to the July 1, 2004, balance. As discussed in the College Assets and Liabilities section, much of the decrease can be attributed to funding of capital projects with institutional cash in anticipation of reimbursement with State bond funds. Excess cash was also transferred to investment accounts during the year.

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

Factors Impacting Future Periods

The College is in a period of decreasing curriculum student enrollment as training benefits for workers dislocated due to area plant closings expire. The influx of these students, along with other enrollment increases typical during a recessionary economic period, resulted in record enrollment increases over the past four years. As these students complete their programs of study, the administration expects a "correction" in enrollment with growth returning to the historical average of approximately two percent. Although increased enrollments had resulted in increased funding, the College's 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. Because increases in personnel and other fixed costs have been held to a minimum, the College is in a position to manage the anticipated enrollment correction with a minimal impact on services, students and staff. Enrollment trends will continue to be monitored to determine the optimal mix of services offered to continue to provide expanded learning opportunities to students.

In recent years, increased enrollments have stressed the physical facilities of the College. As a result, the College has added additional parking and continues construction of capital projects that will allow for additional classroom space. A new horticulture building complex was completed in the fall of 2004. This complex includes greenhouses, classrooms and lab facilities. Expansion of the Ashe Center to add additional classroom and lab space is scheduled to be completed in November 2005. For the Wilkes Campus, construction of the science and technology center is continuing. This facility should be completed by late summer 2006, and 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 two years. This follows several 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, P.O. Box 120, 1328 South Collegiate Drive, Wilkesboro, North Carolina 28697.

Wilkes Community College
Statement of Net Assets
June 30, 2005 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	809,964.04
Short-Term Investments		148,600.76
Restricted Short-Term Investments		590,823.12
Receivables (Note 4)		809,525.79
Inventories		392,769.27
Prepaid Items		18,675.00
Total Current Assets		2,770,357.98
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		189,473.26
Restricted Due from Primary Government		3,323,914.88
Endowment Investments		2,597,801.26
Capital Assets - Nondepreciable (Note 5)		2,890,623.85
Capital Assets - Depreciable, Net (Note 5)		14,480,886.36
Total Noncurrent Assets		23,482,699.61
Total Assets		26,253,057.59
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		859,666.59
Deferred Revenue		290,776.08
Funds Held for Others		176,236.63
Long-Term Liabilities - Current Portion (Note 7)		128,969.36
Total Current Liabilities		1,455,648.66
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,485,940.07
Total Liabilities		2,941,588.73
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		16,867,724.05
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,206,009.02
Other		1,396,498.48
Expendable:		
Scholarships and Fellowships		613,990.09
Capital Projects		2,456,424.29
Other		229,849.18
Unrestricted		540,973.75
Total Net Assets	$	23,311,468.86

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, 2005 *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,558,706.10
Federal Grants and Contracts		4,373,917.82
State and Local Grants and Contracts		340,393.42
Sales and Services, Net (Note 9)		2,649,518.37
Other Operating Revenues		11,292.04
Total Operating Revenues		8,933,827.75
EXPENSES		
Operating Expenses:		
Personal Services		15,505,340.82
Supplies and Materials		3,095,453.63
Services		3,401,434.02
Scholarships and Fellowships		1,844,817.05
Utilities		563,713.61
Depreciation		886,407.63
Total Operating Expenses		25,297,166.76
Operating Loss		(16,363,339.01)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,024,659.15
County Appropriations		2,816,429.26
Noncapital Grants		430,353.80
Noncapital Gifts		967,442.16
Investment Income, Net		322,957.84
Interest and Fees on Debt		(31,890.93)
Other Nonoperating Expenses		(82,245.29)
Net Nonoperating Revenues		15,447,705.99
Loss Before Other Revenues		(915,633.02)
State Capital Aid		3,658,027.77
County Capital Appropriations		462,261.46
Capital Gifts		109,696.12
Additions to Endowments		4,502.92
Increase in Net Assets		3,318,855.25
NET ASSETS		
Net Assets, July 1, 2004		19,992,613.61
Net Assets, June 30, 2005	$	23,311,468.86

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, 2005 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,580,265.22
Payments to Employees and Fringe Benefits	(15,430,614.99)
Payments to Vendors and Suppliers	(7,038,752.22)
Payments for Scholarships and Fellowships	(1,852,774.44)
Other Payments	(235,433.35)
Net Cash Used by Operating Activities	(15,977,309.78)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,024,659.15
County Appropriations	2,816,429.26
Noncapital Grants Received	430,353.80
Noncapital Gifts and Endowments Received	971,945.08
Cash Provided by Noncapital Financing Activities	15,243,387.29
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,277,581.24
County Capital Appropriations	462,261.46
Capital Gifts Received	109,696.12
Acquisition and Construction of Capital Assets	(1,877,428.49)
Principal Paid on Capital Debt and Leases	(47,693.94)
Interest Paid on Capital Debt and Leases	(33,916.03)
Net Cash Used by Capital and Related Financing Activities	(109,499.64)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,553,505.70
Investment Income	128,088.44
Purchase of Investments and Related Fees	(5,062,012.36)
Net Cash Used by Investing Activities	(380,418.22)
Net Decrease in Cash and Cash Equivalents	(1,223,840.35)
Cash and Cash Equivalents, July 1, 2004	2,223,277.65
Cash and Cash Equivalents, June 30, 2005	$ 999,437.30
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (16,363,339.01)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	886,407.63
Changes in Assets and Liabilities:	
Receivables	(277,554.58)
Inventories	(57,881.84)
Prepaid Items	(1,900.00)
Accounts Payable and Accrued Liabilities	99,176.88
Deferred Revenue	(335,255.96)
Funds Held for Others	20,745.14
Compensated Absences	52,291.96
Net Cash Used by Operating Activities	$ (15,977,309.78)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	809,964.04
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		189,473.26
Total Cash and Cash Equivalents - June 30, 2005	$	999,437.30

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	339,933.71
Change in Fair Value of Investments		15,223.52
Increase in Receivables Related to Nonoperating Income		2,380,446.53

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

Wilkes Community College Endowment Corporation
Statement of Financial Position
June 30, 2005 ***Exhibit B-1***

ASSETS		
Current Assets:		
Cash	$	365,851
Investments		311,588
Current Portion of Unconditional Promises to Give (Net of Allowance for Doubtful Accounts of $6,209)		352,407
Other Receivables (Net of Allowance for Doubtful Accounts of $8,200)		58,779
Inventories		63,528
Prepaid Expenses		9,319
Total Current Assets		1,161,472
Other Assets:		
Cash Restricted for Long-Term Purposes		1,350,304
Unconditional Promises to Give (Net of Current Portion, Present Value Discount, and Allowance for Doubtful Accounts of $10,791)		521,980
Construction in Progress		70,728
Total Other Assets		1,943,012
Total Assets		3,104,484
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses		19,387
Deferred Revenue		11,100
Total Current Liabilities		30,487
NET ASSETS		
Unrestricted		843,937
Temporarily Restricted		2,230,060
Total Net Assets	$	3,073,997

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, 2005 — ***Exhibit B-2***

UNRESTRICTED NET ASSETS		
Support:		
Contributions	$	19,575
Fund Raising Income		2,852,236
Revenue:		
Interest Income		13,779
Miscellaneous		52,607
Total Unrestricted Support and Revenue		2,938,197
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		188,537
Total Unrestricted Support and Reclassifications		3,126,734
Expenses:		
Program Services		665,325
Supporting Services		
Management and General		3,132
Fund Raising		2,080,265
Total Expenses		2,748,722
Increase in Unrestricted Net Assets		378,012
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		1,644,589
Interest Income		17,844
Loss on Promises to Give		(1,247)
Transfer to Wilkes Community College		(139,286)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(188,537)
Increase in Temporarily Restricted Net Assets		1,333,363
PERMANENTLY RESTRICTED NET ASSETS		
Contributions		800
Transfer to Wilkes Community College		(800)
Increase in Net Assets		1,711,375
Net Assets, Beginning of Year		1,362,622
Net Assets, End of Year	$	3,073,997

See Note 1 in the Notes to the Financial Statements

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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 Unit – The Wilkes Community College Endowment Corporation is a legally separate not-for-profit, tax-exempt corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to 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, 2005, the board consisted of 29 members due to one vacancy 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.

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 Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2005, the Endowment Corporation distributed $805,410.08 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, P.O. Box 120, Wilkesboro, NC 28697-0120.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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 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 petty cash and cash on deposit with private bank accounts.

E. Investments - This classification includes mutual funds, mutual bond 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 in the fair value of investments is recognized as a component of investment income.

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

F. Receivables – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value with no provision for doubtful accounts.

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 25 years for general infrastructure, 15 to 40 years for buildings, and 5 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 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 1 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 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 cafe. 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $3,494.00, and deposits in private financial institutions with a carrying value of $995,943.30 and a bank balance of $1,536,187.92.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments – The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the

Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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 G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; 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 G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

Investment Maturities (in Years)

	Fair Value	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Money Market Funds	$ 16,727.35	$ 16,727.35	$ 0.00	$ 0.00
Mutual Bond Funds	1,247,133.97		1,055,140.31	191,993.66
		$ 16,727.35	$ 1,055,140.31	$ 191,993.66
Other Securities				
Other Mutual Funds	2,073,363.82			
Total Investments	$ 3,337,225.14			

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2005, the College's investments were rated as follows:

	Fair Value	AAA Aaa	B
Money Market Funds	$ 16,727.35	$ 16,727.35	$ 0.00
Mutual Bond Funds	1,247,133.97	1,055,140.31	191,993.66

Rating Agency: Standard and Poors

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Mutual Bond Funds	$ 1,247,133.97

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

Investment	Fair Value (U.S. Dollars)
Delaware Pooled Trust International Equity Portfolio	$ 417,685.94
Evergreen International Bond Fund	125,787.92
Total	$ 543,473.86

A reconciliation of deposits and investments for the College to the basic financial statements at June 30 2005, is as follows:

Cash on Hand	$ 3,494.00
Carrying Amount of Deposits with Private Financial Institutions	995,943.30
Other Investments	3,337,225.14
Total Deposits and Investments	$ 4,336,662.44
Current:	
Cash and Cash Equivalents	$ 809,964.04
Short-Term Investments	148,600.76
Restricted Short-Term Investments	590,823.12
Noncurrent:	
Restricted Cash and Cash Equivalents	189,473.26
Endowment Investments	2,597,801.26
Total	$ 4,336,662.44

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 donor(s) have specified designated amounts of principal to keep in perpetuity with no expenditures being incurred from the principal amount. At June 30, 2005, net appreciation of $98,038.75 was available to be spent, of which the entire amount was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Amount
Current Receivables:	
Students	$ 98,815.16
Accounts	36,182.92
Intergovernmental	397,504.08
Other	277,023.63
Total Current Receivables	$ 809,525.79

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 800,909.58	$ 0.00	$ 0.00	$ 0.00	$ 800,909.58
Construction in Progress	567,167.34	(408,258.40)	1,930,805.33		2,089,714.27
Total Capital Assets, Nondepreciable	1,368,076.92	(408,258.40)	1,930,805.33		2,890,623.85
Capital Assets, Depreciable:					
Buildings	17,922,520.56	408,258.40	39,429.00		18,370,207.96
Machinery and Equipment	3,176,009.47		149,854.70	210,600.64	3,115,263.53
Art, Literature, and Artifacts	45,500.00				45,500.00
General Infrastructure	2,550,394.33		97,273.17		2,647,667.50
Total Capital Assets, Depreciable	23,694,424.36	408,258.40	286,556.87	210,600.64	24,178,638.99
Less Accumulated Depreciation:					
Buildings	6,621,332.76		561,032.74		7,182,365.50
Machinery and Equipment	1,133,236.18		186,374.61	128,355.35	1,191,255.44
Art, Literature, and Artifacts	15,419.58		3,033.36		18,452.94
General Infrastructure	1,169,711.83		135,966.92		1,305,678.75
Total Accumulated Depreciation	8,939,700.35		886,407.63	128,355.35	9,697,752.63
Total Capital Assets, Depreciable, Net	14,754,724.01	408,258.40	(599,850.76)	82,245.29	14,480,886.36
Capital Assets, Net	$ 16,122,800.93	$ 0.00	$ 1,330,954.57	$ 82,245.29	$ 17,371,510.21

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 588,510.74
Accrued Payroll	129,061.06
Contract Retainage	80,779.60
Intergovernmental Payables	39,924.29
Other	21,390.90
Total Accounts Payable and Accrued Liabilities	$ 859,666.59

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Capital Leases Payable	$ 551,480.10	$ 0.00	$ 47,693.94	$ 503,786.16	$ 50,627.12
Compensated Absences	1,058,831.31	753,928.89	701,636.93	1,111,123.27	78,342.24
Total Long-Term Liabilities	$ 1,610,311.41	$ 753,928.89	$ 749,330.87	$ 1,614,909.43	$ 128,969.36

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

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, 2005:

Fiscal Year	Amount
2006	$ 81,609.97
2007	81,609.97
2008	81,609.97
2009	81,609.97
2010	81,609.97
2011-2013	244,829.92
Total Minimum Lease Payments	652,879.77
Amount Representing Interest (6.15% Rate of Interest)	149,093.61
Present Value of Future Lease Payments	$ 503,786.16

Machinery and equipment acquired under capital lease amounted to $612,295.90 at June 30, 2005.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 139,314.36
2007	139,314.36
2008	89,489.65
2009	42,038.28
2010	31,528.71
Total Minimum Lease Payments	$ 441,685.36

Rental expense for all operating leases during the year was $152,188.66.

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	$ 2,382,204.02	$ 0.00	$ 823,497.92	$ 1,558,706.10
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Hospitality Services	$ 291,698.33	$ 9,553.87	$ 0.00	$ 282,144.46
Bookstore	1,378,991.79	1,984.02	283,581.30	1,093,426.47
Food Court Café	91,888.07	3,230.25		88,657.82
Vending	56,691.43			56,691.43
John A. Walker Community Center	332,002.95			332,002.95
Child Development Center	683,205.81			683,205.81
Sales and Services of Education and Related Activities	113,389.43			113,389.43
Total Sales and Services	$ 2,947,867.81	$ 14,768.14	$ 283,581.30	$ 2,649,518.37

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	$ 9,132,074.92	$ 536,119.61	$ 1,346,835.77	$ 10,117.25	$ 3,619.76	$ 0.00	$ 11,028,767.31
Public Service	46,931.09	69,449.14	45,412.66				161,792.89
Academic Support	1,129,807.10	37,471.53	80,432.08				1,247,710.71
Student Services	894,504.78	55,475.39	175,759.62				1,125,739.79
Institutional Support	2,192,105.59	310,039.06	913,794.73	2,275.00	22,572.87		3,440,787.25
Operations and Maintenance of Plant	1,036,636.14	874,256.96	362,676.26		532,647.98		2,806,217.34
Student Financial Aid			9,676.38	1,832,424.80			1,842,101.18
Auxiliary Enterprises	1,073,281.20	1,212,641.94	466,846.52		4,873.00		2,757,642.66
Depreciation						886,407.63	886,407.63
Total Operating Expenses	$ 15,505,340.82	$ 3,095,453.63	$ 3,401,434.02	$ 1,844,817.05	$ 563,713.61	$ 886,407.63	$ 25,297,166.76

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.

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $13,258,691.54, of which $9,969,552.74 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $598,173.86 and $216,339.29, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $216,339.29, $20,511.50, and $0.00, 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.ncosc.net/ 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 $57,558.84 for the year ended June 30, 2005.

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 $184,684.79 for the year ended June 30, 2005.

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 $18,750.00 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was $319,025.69. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $44,364.51. 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, and can include 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 $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 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 $5,549,408.06 at June 30, 2005.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million 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 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 $511,969.00 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, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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

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, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 24, 2006. We did not audit the financial statements of the Wilkes Community College Endowment Corporation, which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wilkes Community College Endowment Corporation, is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 2005.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to the discretely presented component unit.

<u>Internal Control Over Financial Reporting</u>

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 an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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.

Leslie W. Merritt, Jr.

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

April 24, 2006

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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