STATE OF NORTH CAROLINA

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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

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, 2007, 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 disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

May 21, 2008

TABLE OF CONTENTS

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

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

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, 2007, 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 Wilkes Community College Endowment Corporation, the College's discretely presented component unit. Those financial statements were audited by another auditor 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 auditor.

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 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 the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2008, 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

May 13, 2008

WILKES COMMUNITY COLLEGE
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 year ended June 30, 2007. 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.

College Assets and Liabilities

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, short-term investments, receivables and inventories. Noncurrent assets consist of cash and cash equivalents, receivables, investments and capital assets (land, 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, 2007	6/30/2006 (as Restated)	Increase/ (Decrease)	% Increase/ (Decrease)
Assets:				
Cash and Cash Equivalents	$ 2,476,886.80	$ 1,066,549.69	$ 1,410,337.11	132.23 %
Short-Term Investments	1,222,169.04	858,648.56	363,520.48	42.34 %
Receivables	993,817.85	582,350.35	411,467.50	70.66 %
Inventories	294,497.42	401,722.10	(107,224.68)	(26.69) %
Prepaid Items	9,000.00	10,050.00	(1,050.00)	(10.45) %
Total Current Assets	4,996,371.11	2,919,320.70	2,077,050.41	71.15 %
Cash and Cash Equivalents	283,158.07	213,684.89	69,473.18	32.51 %
Receivables	1,359,839.79	62,338.55	1,297,501.24	208.38 %
Investments	2,598,059.43	2,597,948.65	110.78	%
Capital Assets, Net	24,098,154.42	22,222,201.39	1,875,953.03	8.44 %
Total Noncurrent Assets	28,339,211.71	25,096,173.48	3,243,038.23	12.92 %
Total Assets	$ 33,335,582.82	$ 28,015,494.18	$ 5,320,088.64	18.00 %

Current assets at June 30, 2007, increased primarily due to a net increase in cash, short-term investments and receivables. Cash and cash equivalents increased significantly as the result of a large grant from the Golden Leaf Foundation, cash distributions from investment earnings and increased donations. The increase in receivables is primarily related to the balance of funds due from Golden Leaf. Short-term investments increased due to a more favorable securities market throughout much of the fiscal year.

Noncurrent assets increased due to the net changes in receivables and capital asset accounts associated with capital projects. The receivables related to capital projects increased due to changes in the bond cash flow model and a capital grant from the North Carolina Community College System. Capital assets increased due to ongoing construction projects. A restatement of net assets was required as the result of changes in the depreciable lives of previously fully depreciated assets still in use.

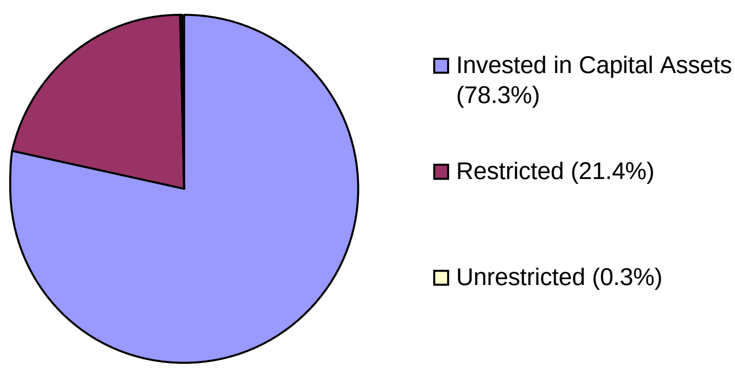
Liabilities

	June 30, 2007	June 30, 2006	Increase/ (Decrease)	% Increase/ (Decrease)
Current Liabilities	$ 1,322,309.23	$ 1,620,805.23	$ (298,496.00)	(18.42) %
Noncurrent Liabilities	1,743,827.05	1,762,345.58	(18,518.53)	(1.05) %
Total Liabilities	$ 3,066,136.28	$ 3,383,150.81	$ (317,014.53)	(9.37) %

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current Liabilities decreased due to a decrease in 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 $5,637,103.23 for the fiscal year for a year-end total of $30,269,446.54. The total consists of net assets invested in capital assets, net of related debt, of $23,698,736.07, restricted net assets of $6,475,560.53, and unrestricted net assets of $95,149.94.



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

	June 30, 2007	June 30, 2006	Increase/ (Decrease)	% Increase/ (Decrease)
Student Tuition and Fees, Net	$ 1,575,168.51	$ 1,667,339.01	$ (92,170.50)	(5.53) %
Federal Grants and Contracts	3,518,969.23	3,943,366.74	(424,397.51)	(10.76) %
State and Local Grants and Contracts	408,910.57	550,502.28	(141,591.71)	(25.72) %
Sales and Services, Net	2,541,595.58	2,753,239.58	(211,644.00)	(7.69) %
Other Operating Revenues	20,784.06	11,675.20	9,108.86	78.02 %
Total Operating Revenues	$ 8,065,427.95	$ 8,926,122.81	$ (860,694.86)	(9.64) %

Student tuition and fees decreased as a result of slightly lower student enrollment in curriculum programs. Federal grants and contracts decreased due to reduced funding for the Workforce Investment Act (WIA) programs and reduced Pell Grant awards associated with lower enrollments. Funding included in state and local grants and contracts in 2006 for services for dislocated workers were not duplicated in the 2007 year.

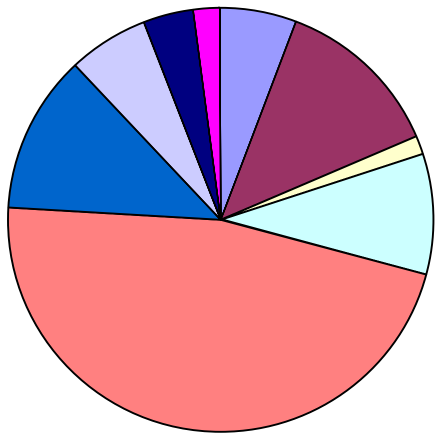
Nonoperating Revenues

	June 30, 2007	June 30, 2006	Increase/ (Decrease)	% Increase/ (Decrease)
State Aid	$ 12,862,407.79	$ 11,380,102.85	$ 1,482,304.94	13.03 %
County Appropriations	3,359,188.73	3,154,950.56	204,238.17	6.47 %
Noncapital Grants	1,668,793.91	442,130.66	1,226,663.25	277.44 %
Noncapital Gifts	1,047,672.04	849,496.70	198,175.34	23.33 %
Investment Income	567,356.27	248,181.27	319,175.00	128.61 %
Interest and Fees on Debt	(2,282.06)	(28,833.21)	26,551.15	(92.09) %
Other Nonoperating Revenues	239.14	(3,116.32)	3,355.46	(107.67) %
Total Nonoperating Revenues	$ 19,503,375.82	$ 16,042,912.51	$ 3,460,463.31	21.57 %

State Aid increased due to increased funding from the General Assembly. Noncapital grants increased due primarily to a grant of $1.2 million from the Golden Leaf Foundation. Noncapital gifts increased as a result of increased transfers from the Wilkes Community College (WCC) Endowment Corporation. Investment income increases occurred because of strengthened financial markets.

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

Revenue by Source



Operating Expenses

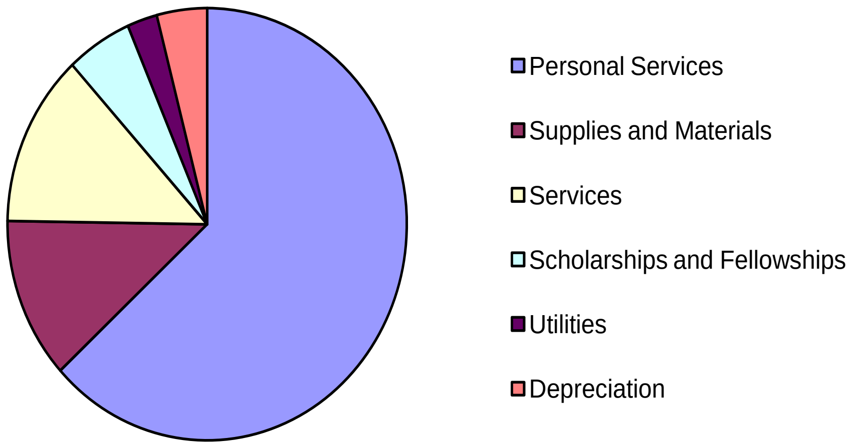
The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for the operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statements No. 34/35.

Operating Expenses

	June 30, 2007	June 30, 2006	Increase/ (Decrease)	% Increase/ (Decrease)
Personal Services	$ 17,515,859.71	$ 16,921,712.22	$ 594,147.49	3.51 %
Supplies and Materials	3,348,999.86	2,706,764.72	642,235.14	23.73 %
Services	3,589,608.48	3,282,509.30	307,099.18	9.36 %
Scholarships and Fellowships	1,474,747.37	1,775,404.75	(300,657.38)	(16.93) %
Utilities	675,379.47	622,955.44	52,424.03	8.42 %
Depreciation	1,125,956.58	1,103,407.98	22,548.60	2.04 %
Total Operating Expenses	$ 27,730,551.47	$ 26,412,754.41	$ 1,317,797.06	4.99 %

Operating expenses for fiscal year 2007 increased $1,317,797.06 over fiscal year 2006. Personal services increased due to the effects of contractual increases for faculty and staff salaries and benefits. Supplies and materials expenses increased primarily as a result of increased spending on minor equipment (below the capitalization threshold). Scholarships and fellowships decreased due to fewer Pell Grant awards because of lower student enrollment and the net effect of required refunds to the federal government for students whose class attendance did not meet the requirements of Pell Grants and subsidized loans.

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, 2007	June 30, 2006	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	$ 3,092,617.81	$ 364,329.49	$ 2,728,288.32	748.85 %
County Capital Appropriations	96,731.81	504,276.34	(407,544.53)	(80.82) %
Capital Grants	85,982.16	75,542.13	10,440.03	13.82 %
Capital Gifts, Net	2,482,429.36	1,128,738.18	1,353,691.18	119.93 %
Additions to Endowments	41,089.79	1,359.00	39,730.79	2,923.53 %
Total Other Revenues, Expenses, Gains or Losses	$ 5,798,850.93	$ 2,074,245.14	$ 3,724,605.79	179.56 %

State capital aid showed a significant increase as a result of revenues from State bond funds, changes in the bond cash flow model and a capital grant of $925,000 from the NC Community College System. County capital appropriations in fiscal year 2006 included funding from Ashe County for the construction of additions and renovations at the Ashe Center. These revenues did not repeat in fiscal year 2007. Capital gifts increased in fiscal year 2007 as the result of increased construction financing from the WCC Endowment Corporation.

Capital Asset Activity

At the end of fiscal year 2007, capital assets, net of accumulated depreciation amounted to $24,098,154.42 in a broad range of capital assets (see table below). Depreciation charges for the 2006-07 fiscal year totaled $1,125,956.58. Capital asset events during the fiscal year included additions and disposals of machinery and equipment, completion of the science and technology center (Lowe's Hall), and renovations to Hayes Hall. In addition, there was a required restatement of June 30, 2006, accumulated depreciation of $690,348.40 to reflect errors in estimated useful lives of assets that were fully depreciated but still in use.

Capital Assets

	June 30, 2007	6/30/2006 (as Restated)	Increase/ (Decrease)
Land	$ 800,909.58	$ 800,909.58	$ 0.00
Buildings	27,454,585.72	20,059,671.70	7,394,914.02
Infrastructure	2,927,273.40	2,737,719.58	189,553.82
Machinery and Equipment	3,756,024.50	3,311,878.80	444,145.70
Art, Literature and Artifacts	45,500.00	45,500.00	
Construction in Progress	96,196.25	5,251,263.30	(5,155,067.05)
Total	35,080,489.45	32,206,942.96	2,873,546.49
Less Accumulated Depreciation	10,982,335.03	9,984,741.57	997,593.46
Capital Assets, Net	$ 24,098,154.42	$ 22,222,201.39	$ 1,875,953.03

Analysis of Financial Position

For the year ended June 30, 2007, the College had a net increase in cash and cash equivalents of $1,479,810.29, representing a 115.59% increase in cash and cash equivalents when compared to the July 1, 2006, balance. As discussed in the College Assets and Liabilities section, much of the increase can be attributed to significant grants and higher investment returns. In addition, there were also significant increases in both total assets and net assets as compared to the June 30, 2006, balances.

Management concludes that the College's financial position has remained strong during the past fiscal year and that it is well positioned to serve the needs of its students and the community.

Factors Impacting Future Periods

The College remains in a period of decreasing curriculum student enrollment as training benefits for workers dislocated due to area plant closings expire. The administration expects a "correction" in enrollment with growth returning to the historical average of approximately two percent. Thorough planning and cost controls will allow the College to maintain its healthy financial position 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 an effort to increase enrollments, the College is continuing to place an emphasis on distance learning as well as partnerships with public school systems in its educational service area. These programs target populations that may be underserved and offer expanded opportunities for educational growth. Possible new educational programs are also being reviewed which will bring in new students and meet some pressing community needs. In addition, existing programs are being reviewed to ensure that they are viable.

Because of its continued growth, the College's Ashe Center was awarded multi-campus status by the NC General Assembly effective with the 2007-08 fiscal year. The effect of this designation is an annual increase in funding of approximately $350,000 to support the administrative and instructional support services of the Ashe Campus.

The State of North Carolina has experienced a significant positive economic turnaround during the past three 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, Vice-President for Finance and Administration, PO Box 120, 1328 South Collegiate Drive, Wilkesboro, North Carolina 28697.

Wilkes Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,392,141.73
Restricted Cash and Cash Equivalents		1,084,745.07
Short-Term Investments		170,166.67
Restricted Short-Term Investments		1,052,002.37
Receivables, Net (Note 4)		429,977.85
Due from State of North Carolina Component Units		563,840.00
Inventories		294,497.42
Prepaid Items		9,000.00
Total Current Assets		4,996,371.11
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		283,158.07
Restricted Due from Primary Government		1,359,839.79
Endowment Investments		2,598,059.43
Capital Assets - Nondepreciable (Note 5)		897,105.83
Capital Assets - Depreciable, Net (Note 5)		23,201,048.59
Total Noncurrent Assets		28,339,211.71
Total Assets		33,335,582.82
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		643,912.48
Unearned Revenue		233,872.56
Funds Held for Others		233,144.23
Long-Term Liabilities - Current Portion (Note 7)		211,379.96
Total Current Liabilities		1,322,309.23
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,743,827.05
Total Noncurrent Liabilities		1,743,827.05
Total Liabilities		3,066,136.28
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		23,698,736.07
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,235,715.98
Specific Programs		1,409,498.48
Expendable:		
Scholarships and Fellowships		873,459.93
Capital Projects		1,205,068.13
Specific Programs		1,751,818.01
Unrestricted		95,149.94
Total Net Assets	$	30,269,446.54

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, 2007

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,575,168.51
Federal Grants and Contracts		3,518,969.23
State and Local Grants and Contracts		408,910.57
Sales and Services, Net (Note 9)		2,541,595.58
Other Operating Revenues		20,784.06
Total Operating Revenues		8,065,427.95
EXPENSES		
Operating Expenses:		
Personal Services		17,515,859.71
Supplies and Materials		3,348,999.86
Services		3,589,608.48
Scholarships and Fellowships		1,474,747.37
Utilities		675,379.47
Depreciation		1,125,956.58
Total Operating Expenses		27,730,551.47
Operating Loss		(19,665,123.52)
NONOPERATING REVENUES (EXPENSES)		
State Aid		12,862,407.79
County Appropriations		3,359,188.73
Noncapital Grants		1,668,793.91
Noncapital Gifts		1,047,672.04
Investment Income		567,356.27
Interest and Fees on Debt		(2,282.06)
Other Nonoperating Revenues		239.14
Net Nonoperating Revenues		19,503,375.82
Loss Before Other Revenues		(161,747.70)
State Capital Aid		3,092,617.81
County Capital Aid		96,731.81
Capital Grants		85,982.16
Capital Gifts		2,482,429.36
Additions to Endowments		41,089.79
Increase in Net Assets		5,637,103.23
NET ASSETS		
Net Assets, July 1, 2006 as Restated (Note 15)		24,632,343.31
Net Assets, June 30, 2007	$	30,269,446.54

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, 2007 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,077,746.99
Payments to Employees and Fringe Benefits	(17,386,975.92)
Payments to Vendors and Suppliers	(7,569,305.10)
Payments for Scholarships and Fellowships	(1,429,005.75)
Other Receipts	123,308.33
Net Cash Used by Operating Activities	(18,184,231.45)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,862,407.79
County Appropriations	3,359,188.73
Noncapital Grants Received	1,149,196.23
Noncapital Gifts and Endowments Received	1,088,761.83
Cash Provided by Noncapital Financing Activities	18,459,554.58
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,795,116.57
County Capital Aid	96,731.81
Capital Grants Received	85,982.16
Capital Gifts Received	2,482,429.36
Acquisition and Construction of Capital Assets	(3,401,192.94)
Principal Paid on Capital Debt and Leases	(53,740.69)
Interest Paid on Capital Debt and Leases	(4,564.12)
Net Cash Provided by Capital and Related Financing Activities	1,000,762.15
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	322,966.66
Investment Income	145,457.14
Purchase of Investments and Related Fees	(264,698.79)
Net Cash Provided by Investing Activities	203,725.01
Net Increase in Cash and Cash Equivalents	1,479,810.29
Cash and Cash Equivalents, July 1, 2006	1,280,234.58
Cash and Cash Equivalents, June 30, 2007	$ 2,760,044.87

Wilkes Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2007 — *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(19,665,123.52)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,125,956.58
Miscellaneous Nonoperating Income		13,498.96
Changes in Assets and Liabilities:		
Receivables, Net		152,372.50
Inventories		107,224.68
Prepaid Items		1,050.00
Accounts Payable and Accrued Liabilities		(43,748.56)
Unearned Revenue		(9,777.87)
Funds Held for Others		27,752.27
Compensated Absences		106,563.51
Net Cash Used by Operating Activities	$	(18,184,231.45)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,392,141.73
Restricted Cash and Cash Equivalents		1,084,745.07
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		283,158.07
Total Cash and Cash Equivalents - June 30, 2007	$	2,760,044.87

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	282,842.13
Increase in Receivables Related to Nonoperating Income		1,861,341.24

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, 2007 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash	$	931,329
Current Portion of Unconditional Promise to Give		
(Net of allowance for doubtful accounts of $9,443)		253,250
Other Receivables		44,004
Inventory		11,485
Prepaid Expenses		27,970
Total Current Assets		1,268,038
Other Assets:		
Cash Restricted for Long-Term Purposes		15,231
Unconditional Promise to Give (Net of Current Portion, Present Value Discount,		
and Allowance for Doubtful Accounts of $7,557)		162,128
Investments		311,588
Deposits on Fixed Assets		10,000
Total Other Assets		498,947
Total Assets		1,766,985
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses		8,781
Deferred Revenue		5,000
Total Current Liabilities		13,781
NET ASSETS		
Unrestricted:		
Operating		1,534,183
Temporarily Restricted		219,021
Total Net Assets	$	1,753,204

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

Wilkes Community College Endowment Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2007 *Exhibit B-2*

UNRESTRICTED NET ASSETS		
Support:		
Contributions	$	525,376
Fund-Raising Income		3,259,120
Revenue:		
Interest Income		74,096
Miscellaneous		48,474
Gain on Sale of House		3,172
Total Unrestricted Support and Revenues		3,910,238
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		12
Total Unrestricted Support and Reclassifications		3,910,250
Expenses:		
Program Services		1,784,549
Supporting Services		
Fund Raising		2,173,980
Total Expenses		3,958,529
Decrease in Unrestricted Net Assets		(48,279)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		486,771
Interest Income		6,904
Loss on Promise to Give		(2,361)
Transfer to Wilkes Community College		(1,629,676)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(12)
Decrease in Temporarily Restricted Net Assets		(1,138,374)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions		6,200
Transfer to Wilkes Community College		(6,200)
Decrease in Net Assets		(1,186,653)
Net Assets at Beginning of Year		2,939,857
Net Assets at End of Year	$	1,753,204

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

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 their legal separateness.

Discretely Presented Component Unit - The Wilkes Community College Endowment Corporation (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 Endowment Corporation is a legally separate, tax-exempt component unit of the College. The Endowment Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Endowment Corporation board consists of 30 members. 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 (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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Endowment Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Endowment Corporation distributed $3,420,424.54 to the College for both restricted and unrestricted purposes. Complete financial statements for the Endowment Corporation can be obtained from the Vice President 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 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 net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using either the first-in, first-out or last invoice cost method. Bookstore inventories consisting of merchandise for resale are valued at the last invoice cost method for supply and gift items and the average cost method for textbooks.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 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.

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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 hospitality services and the food court café. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 $4,504.00, and deposits in private financial institutions with a carrying value of $2,755,540.87, and a bank balance of $2,859,170.25.

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, 2007, 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, 2007, 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

	Fair Value	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Money Market Funds	$ 122,844.95	$ 122,844.95	$ 0.00	$ 0.00
Mutual Bond Funds	1,403,294.48		1,185,733.33	217,561.15
		$ 122,844.95	$ 1,185,733.33	$ 217,561.15
Other Securities				
Other Mutual Funds	2,294,089.04			
Total Investments	$ 3,820,228.47			

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2007, the College's investments were rated as follows:

	Fair Value	AAA Aaa	B
Money Market Funds	$ 122,844.95	$ 122,844.95	$ 0.00
Mutual Bond Funds	1,403,294.48	1,185,733.33	217,561.15

Rating Agency: Standard and Poors

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	$ 434,650.66
Evergreen International Bond Fund	144,884.26
Total	$ 579,534.92

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	$ 4,504.00
Carrying Amount of Deposits with Private Financial Institutions	2,755,540.87
Other Investments	3,820,228.47
Total Deposits and Investments	$ 6,580,273.34
Current:	
Cash and Cash Equivalents	$ 1,392,141.73
Restricted Cash and Cash Equivalents	1,084,745.07
Short-Term Investments	170,166.67
Restricted Short-Term Investments	1,052,002.37
Noncurrent:	
Restricted Cash and Cash Equivalents	283,158.07
Endowment Investments	2,598,059.43
Total	$ 6,580,273.34

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.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which specifies that assets will be invested in a total return capacity with no distinction made between investment yields and capital appreciation. The board generally will spend up to 4% of the total foundation assets based on an average 3-year market value. The board reserves the right to spend outside these guidelines on a case-by-case basis. Spending amounts will be approved by the board annually in April. At June 30, 2007, net appreciation of $129,912.51 was available to be spent, of which the entire amount was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 309,734.72	$ 116,899.55	$ 192,835.17
Accounts	17,473.28		17,473.28
Intergovernmental	159,847.77		159,847.77
Other	59,821.63		59,821.63
Total Current Receivables	$ 546,877.40	$ 116,899.55	$ 429,977.85

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 800,909.58	$ 0.00	$ 0.00	$ 800,909.58
Construction in Progress	5,251,263.30		5,155,067.05	96,196.25
Total Capital Assets, Nondepreciable	6,052,172.88		5,155,067.05	897,105.83
Capital Assets, Depreciable:				
Buildings	20,059,671.70	7,394,914.02		27,454,585.72
Machinery and Equipment	3,311,878.80	585,768.70	141,623.00	3,756,024.50
Art, Literature, and Artifacts	45,500.00			45,500.00
General Infrastructure	2,737,719.58	189,553.82		2,927,273.40
Total Capital Assets, Depreciable	26,154,770.08	8,170,236.54	141,623.00	34,183,383.62
Less Accumulated Depreciation:				
Buildings	7,859,296.72	357,273.58		8,216,570.30
Machinery and Equipment	1,106,984.04	606,331.30	128,363.12	1,584,952.22
Art, Literature, and Artifacts	21,486.30	3,033.36		24,519.66
General Infrastructure	996,974.51	159,318.34		1,156,292.85
Total Accumulated Depreciation	9,984,741.57	1,125,956.58	128,363.12	10,982,335.03
Total Capital Assets, Depreciable, Net	16,170,028.51	7,044,279.96	13,259.88	23,201,048.59
Capital Assets, Net	$ 22,222,201.39	$ 7,044,279.96	$ 5,168,326.93	$ 24,098,154.42

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 407,458.64
Accrued Payroll	175,252.32
Intergovernmental Payables	44,242.32
Other	16,959.20
Total Accounts Payable and Accrued Liabilities	$ 643,912.48

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Capital Leases Payable	$ 453,159.04	$ 0.00	$ 53,740.69	$ 399,418.35	$ 57,045.74
Compensated Absences	1,449,225.15	949,286.30	842,722.79	1,555,788.66	154,334.22
Total Long-Term Liabilities	$ 1,902,384.19	$ 949,286.30	$ 896,463.48	$ 1,955,207.01	$ 211,379.96

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

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, 2007:

Fiscal Year	Amount
2008	$ 81,609.97
2009	81,609.97
2010	81,609.97
2011	81,609.97
2012	81,609.97
2013-2017	81,609.98
Total Minimum Lease Payments	489,659.83
Amount Representing Interest (6.15% Rate of Interest)	90,241.48
Present Value of Future Lease Payments	$ 399,418.35

Machinery and equipment acquired under capital lease amounted to $554,668.06 at June 30, 2007.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	$ 97,119.56
2009	46,563.79
2010	31,528.71
Total Minimum Lease Payments	$ 175,212.06

Rental expense for all operating leases during the year was 155,582.16.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,500,338.24	$ 0.00	$ 885,523.78	$ 39,645.95	$ 1,575,168.51
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Hospitality Services	$ 304,481.33	$ 7,499.45	$ 0.00	$ 0.00	$ 296,981.88
Bookstore	1,464,640.92		484,255.69	17,545.96	962,839.27
Food Court Café	100,852.92	2,760.62			98,092.30
Vending	39,487.57				39,487.57
John A. Walker Community Center	297,602.30				297,602.30
Child Development Center	721,029.67			14,162.99	706,866.68
Sales and Services of Education and Related Activities	139,813.59			88.01	139,725.58
Total Sales and Services	$ 3,067,908.30	$ 10,260.07	$ 484,255.69	$ 31,796.96	$ 2,541,595.58

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	$ 9,588,112.77	$ 1,369,682.53	$ 1,421,989.51	$ 0.00	$ 1,517.17	$ 0.00	$ 12,381,301.98
Public Service	34,556.79	30,721.60	26,024.31				91,302.70
Academic Support	1,666,332.50	103,534.37	86,014.88				1,855,881.75
Student Services	1,056,719.50	52,054.98	170,735.78				1,279,510.26
Institutional Support	2,753,873.36	267,389.23	974,592.01	3,000.00	28,014.87		4,026,869.47
Operations/Maintenance of Plant	1,143,964.33	241,608.60	392,579.61		640,798.03		2,418,950.57
Student Financial Aid			11,448.24	1,471,747.37	0.00		1,483,195.61
Auxiliary Enterprises	1,272,300.46	1,284,008.55	506,224.14		5,049.40		3,067,582.55
Depreciation						1,125,956.58	1,125,956.58
Total Operating Expenses	$ 17,515,859.71	$ 3,348,999.86	$ 3,589,608.48	$ 1,474,747.37	$ 675,379.47	$ 1,125,956.58	$ 27,730,551.47

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $14,616,943.45, of which $11,311,094.18 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $678,666.41 and $301,390.92, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $301,390.92, $244,605.58, and $216,339.29, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $69,615.01 for the year ended June 30, 2007.

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 $152,186.00 for the year ended June 30, 2007.

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 $6,500.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was

$430,453.19. 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. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $58,896.64. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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 $75,000 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $267,160.00 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows. Wilkes Community College had fully depreciated fixed asset items which were still in active use. To properly show the depreciation on these items, the useful life of these items was adjusted and the depreciation through fiscal year ended June 30, 2006, was subsequently adjusted, thus making it necessary for a restatement of net assets.

	Amount
July 1, 2006 Net Assets as Previously Reported	$ 23,941,994.91
Restatement :	
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	690,348.40
July 1, 2006 Net Assets as Restated	$ 24,632,343.31

[This Page Left Blank Intentionally]

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

INDEPENDENT AUDITOR'S REPORT ON 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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 13, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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*.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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

May 13, 2008

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

INADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over payroll, purchasing/accounts payable, and machinery and equipment. Inadequate segregation of duties increases the risk of errors and irregularities as well as the risk of such acts going undetected. The specific weaknesses and the areas impacted are as follows:

- Payroll: All Human Resource (HR) personnel had unlimited access to both the payroll and personnel systems and the ability to perform all payroll and personnel functions. For example, HR personnel had the ability to: add and delete employees in the payroll system; enter hours worked and salaries paid; enter payroll data changes; update employee information; maintain leave records; prepare payroll; and print and deliver signed paychecks. Also, management did not review any payroll exception reports that would have indicated any additions, deletions, or other changes made to payroll during our audit period.
- Purchasing/Accounts Payable: The Purchasing Agent set-up vendors, created purchase orders and approved invoices for payment. Also, the Accounts Payable Technician had access rights to set-up vendors, pay vouchers, and print checks.

  Good internal controls require that the ability to initiate, authorize and record transactions be performed by different personnel or adequate compensating controls be implemented to reduce the risk of errors being made and not detected.
- Machinery and Equipment: The Equipment Coordinator provided oversight of the annual inventory process while performing other incompatible duties. Specifically, the Equipment Coordinator entered assets into the accounting system, received, tagged, disposed of assets and performed the annual physical inventory.

  The Office of State Controllers' revised Capital and Fixed Asset Policies require that the capital asset responsibilities be distributed among several positions and that physical inventory be taken by someone who does not have custody of the assets, nor responsibility for receiving, checking in, tagging, and recording the assets. Also, prudent internal control principles require management to establish and maintain effective custodial accountability procedures, security over assets, and adequate segregation of duties.

Recommendation: The College should strengthen internal control by segregating the incompatible duties within its business processes. In the event where segregation of duties is not feasible, the College should implement effective compensating controls.

College's Response: The College agrees with the findings and recommendations. The College has taken steps to ensure adequate segregation of duties in the following areas:

Payroll: Access rights in the payroll and personnel systems have been reviewed for all human resources personnel with the goal of separating the payroll and personnel functions within the human resources office. The separation should occur no later than June 1, 2008. In addition, management has begun reviewing payroll exception reports on a monthly basis and has implemented other appropriate controls.

Purchasing/Accounts Payable: Access rights to the accounting system vendor file has been removed from employees that work in the purchasing and accounts payable areas. Management has also implemented additional controls that require documented approval of all invoices by appropriate personnel.

Machinery and Equipment: Management has made changes in job functions so that incompatible duties are now separated. In addition, a sample of assets in the annual physical inventory will be observed by the controller and the vice-president of finance and administration.

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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647