STATE OF NORTH CAROLINA

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

WILKES COMMUNITY COLLEGE

WILKESBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0601
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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 an instance of noncompliance 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, are 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 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, 2010, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood, CPA
State Auditor

May 24, 2011

This section of Wilkes Community College's Financial Statements Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2010. 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 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, buildings, infrastructure, and equipment). The College's capital assets are stated at historical cost less depreciation. A purchase is recorded as a capital asset if the item costs $5,000 or more and has a useful life of more than one year.

Current and Noncurrent Assets

	June 30, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
Assets:				
Cash and Cash Equivalents	$ 2,103,368.58	$ 1,971,255.91	$ 132,112.67	6.70 %
Short-Term Investments	756,793.48	301,007.91	455,785.57	151.42 %
Receivables	1,291,996.38	1,313,624.76	(21,628.38)	(1.65) %
Inventories	441,531.44	393,776.56	47,754.88	12.13 %
Total Current Assets	4,593,689.88	3,979,665.14	614,024.74	15.43 %
Cash and Cash Equivalents	340,887.51	482,022.33	(141,134.82)	(29.28) %
Receivables	10,403.95	231,272.45	(220,868.50)	(95.50) %
Investments	2,799,183.66	2,598,408.58	200,775.08	7.73 %
Capital Assets, Net	27,259,430.92	26,993,065.75	266,365.17	0.99 %
Total Noncurrent Assets	30,409,906.04	30,304,769.11	105,136.93	0.35 %
Total Assets	$ 35,003,595.92	$ 34,284,434.25	$ 719,161.67	2.10 %

Current assets at June 30, 2010 increased primarily due to a net increase in cash and short-term investments. Cash and cash equivalents increased due to quarterly receivables for local funding from Ashe and Alleghany counties that were received prior to June 30, 2010. Investment balances increased significantly due to an improving investment climate much of the fiscal year.

Noncurrent assets increased due to the net changes in cash and cash equivalents, receivables, and capital asset accounts associated with capital projects. Cash and cash equivalents decreased due to the transfer of scholarship funds to investments before year end. The receivables related to capital projects decreased due to the completion of a construction and renovation projects funded with state bonds. Capital assets increased due to ongoing construction projects and equipment purchases.

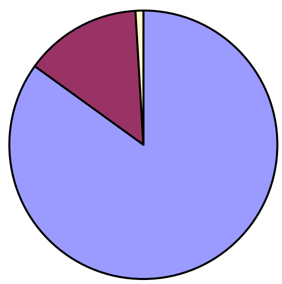
Liabilities

	June 30, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
Current Liabilities	$ 1,644,577.04	$ 1,254,752.50	$ 389,824.54	31.07 %
Noncurrent Liabilities	1,587,750.39	1,842,873.78	(255,123.39)	(13.84) %
Total Liabilities	$ 3,232,327.43	$ 3,097,626.28	$ 134,701.15	4.35 %

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 the net change in accounts payable for construction work that had not been paid at year-end. 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 $584,460.52 for the fiscal year for a year-end total of $31,771,268.49. The total consists of net assets invested in capital assets, net of related debt, of $27,041,890.51, restricted net assets of $4,442,327.50, and unrestricted net assets of $287,050.48.



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, and event ticket sales. Nonoperating revenues comprise the major portion of the College's income and include appropriations from State and local governments, noncapital gifts, noncapital grants - federal student financial aid, 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, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
Student Tuition and Fees	$ 2,080,917.75	$ 1,520,744.22	$ 560,173.53	36.84 %
Federal Grants and Contracts	1,310,408.96	1,269,119.53	41,289.43	3.25 %
State and Local Grants and Contracts	1,396,688.25	1,356,903.82	39,784.43	2.93 %
Sales and Services, Net	2,192,812.66	2,424,531.43	(231,718.77)	(9.56) %
Other Operating Revenues	33,566.88	35,385.24	(1,818.36)	(5.14) %
Total Operating Revenues	$ 7,014,394.50	$ 6,606,684.24	$ 407,710.26	6.17 %

Student tuition and fees increased due to increases in both the curriculum tuition rate and continuing education fees coupled with a significant increase in enrollment. Sales and services decreased primarily due to the closing of the College's Child Care Center.

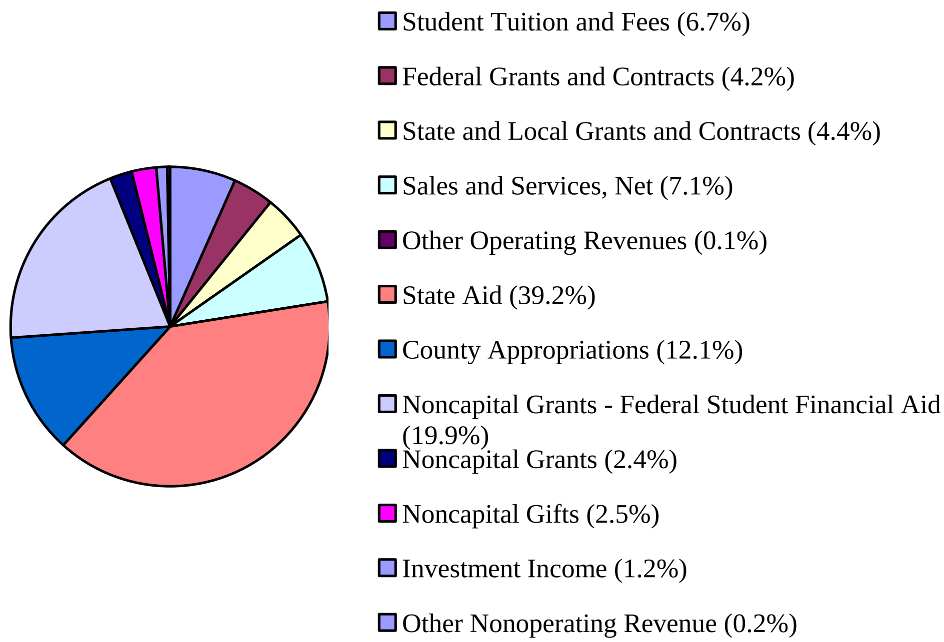
Nonoperating Revenues

	June 30, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
State Aid	$ 12,183,551.51	$ 12,832,669.70	$ (649,118.19)	(5.06) %
County Appropriations	3,754,258.97	4,064,831.85	(310,572.88)	(7.64) %
Noncapital Grants - Federal Student Financial Aid	6,200,940.46	3,761,087.32	2,439,853.14	64.87 %
Noncapital Grants	738,066.67	836,622.41	(98,555.74)	(11.78) %
Noncapital Gifts	764,537.64	667,211.72	97,325.92	14.59 %
Investment Income	375,231.92	(426,283.22)	801,515.14	188.02 %
Other Nonoperating Revenues/Expenses	55,846.29	(22,594.63)	78,440.92	347.17 %
Total Nonoperating Revenues	$ 24,072,433.46	$ 21,713,545.15	$ 2,358,888.31	10.86 %

The North Carolina Community College System provides state aid to the College to assist with operational cost. State aid sent to the College is comprised of state appropriations, federal funds, and the College's student tuition and fees receipts. County appropriations decreased due to decreased funding from local county governments. Noncapital grants - federal student financial aid increased due primarily to an increase in Pell grants awarded and other student financial aid and additional grants awarded during the fiscal year. Investment income increases occurred because of significant improvement in financial markets throughout much of the year.

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

Revenue by Source



Operating Expenses

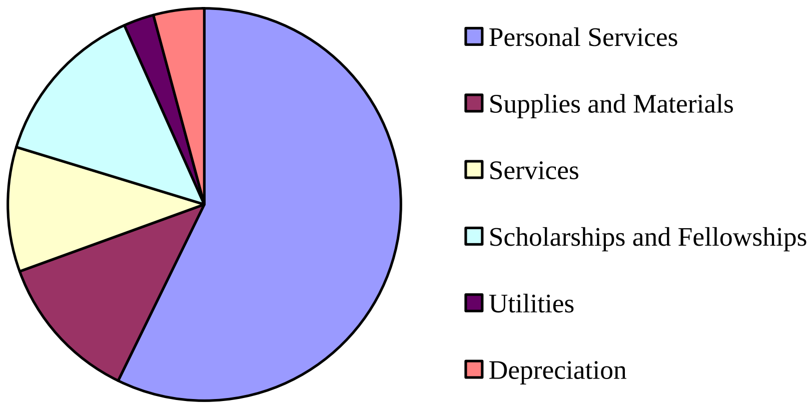
The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for the operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statements No. 34/35.

Operating Expenses

	June 30, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
Salaries and Benefits	$ 18,535,718.53	$ 18,902,198.34	$ (366,479.81)	(1.94) %
Supplies and Materials	3,958,991.43	3,457,278.98	501,712.45	14.51 %
Services	3,315,472.73	3,033,024.19	282,448.54	9.31 %
Scholarships and Fellowships	4,383,747.28	2,698,986.87	1,684,760.41	62.42 %
Utilities	780,852.61	737,169.22	43,683.39	5.93 %
Depreciation	1,399,450.90	1,301,426.18	98,024.72	7.53 %
Total Operating Expenses	$ 32,374,233.48	$ 30,130,083.78	$ 2,244,149.70	7.45 %

Operating expenses for fiscal year 2010 increased $2,244,149.70 over fiscal year 2009. Salaries and benefits decreased due to the closing of the child care center and efforts to reduce part-time instructional costs. Supplies and materials expenses increased primarily as a result of increased spending on minor equipment (below the capitalization threshold). Services increased due to a greater number of professional services agreements with private companies for instruction and training. Scholarships and fellowships increased due to a greater number of Pell Grant awards and other scholarships/financial aid awarded to students.

The following is a graphical representation of operating expenses.



Other Revenues

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

Other Revenues

	June 30, 2010	June 30, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
State Capital Aid	$ 1,248,649.05	$ 1,023,768.69	$ 224,880.36	21.97 %
County Capital Appropriations	237,196.03	60,275.15	176,920.88	293.52 %
Capital Grants	37,336.00	24,494.97	12,841.03	52.42 %
Capital Gifts	306,367.71	302,279.50	4,088.21	1.35 %
Additions to Endowments	42,317.25	155,209.48	(112,892.23)	(72.74) %
Total Other Revenues	$ 1,871,866.04	$ 1,566,027.79	$ 305,838.25	19.53 %

State capital aid increased in fiscal year 2010 as a result of revenues from the completion of capital projects funded with state revenues. County capital appropriations increased due to the completion of a building addition that was funded with county funds. Additions to endowments decreased due to fewer scholarship funds transferred from the WCC Endowment Corporation than in the prior year.

Capital Asset Activity

At the end of fiscal year 2010, capital assets, net of accumulated depreciation, amounted to $27,259,430.92 in a broad range of capital assets (see table below). Depreciation charges for the 2009-10 fiscal year totaled $1,399,450.90. Capital asset events during the fiscal year included additions and disposals of machinery and equipment, minor building renovations, completion of the Applied Technology Center and Building 7 addition, and construction/renovation of parking lots and campus entrance streets.

Capital Assets

	June 30, 2010	June 30, 2009	Increase/ (Decrease)
Land	$ 1,290,927.20	$ 1,290,927.20	$ 0.00
Buildings	29,678,747.72	27,843,289.85	1,835,457.87
Infrastructure	3,394,736.50	3,394,736.50	
Machinery and Equipment	5,756,823.80	5,048,243.31	708,580.49
Art, Literature, and Artifacts	45,500.00	45,500.00	
Construction in Progress	612,652.01	1,615,303.83	(1,002,651.82)
Total	40,779,387.23	39,238,000.69	1,541,386.54
Less Accumulated Depreciation	13,519,956.31	12,244,934.94	1,275,021.37
Capital Assets, Net	$ 27,259,430.92	$ 26,993,065.75	$ 266,365.17

Analysis of Financial Position

For the year ended June 30, 2010, the College had a net decrease in cash and cash equivalents of $9,022.15, representing a 0.37% decrease in cash and cash equivalents when compared to the July 1, 2009 balance. As discussed in the College Assets and Liabilities section, the decrease can be attributed to transfers of scholarship fund to investments prior to year end. In addition, there were also increases in total assets and net assets as compared to the June 30, 2009 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

College curriculum student enrollments have increased significantly during the fiscal year as the result of the nationwide economic slowdown. As is typical during recessionary times, those unemployed return to school for re-training. The administration expects growth to continue until the economic climate improves. At the same time, state and local funding to the College has been impacted due to budget reductions and cash reductions. Thorough planning and cost controls will allow the College to maintain its healthy financial position through the current economic downturn with 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. This includes the Wilkes Early College High School that opened in August 2009 and continues to expand. 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.

The nation and the State of North Carolina have experienced a significant economic downturn during the past two years. If historical trends hold true, this will continue to result in increased student enrollments at community colleges. With the expiration of federal stimulus funds, there are also likely to be less state revenues to support these higher enrollments. College budgets could be impacted significantly if economic conditions within the state continue to 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, Senior Vice-President of Administration, PO Box 120, 1328 South Collegiate Drive, Wilkesboro, North Carolina 28697.

Wilkes Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,383,161.55
Restricted Cash and Cash Equivalents		720,207.03
Short-Term Investments		144,931.59
Restricted Short-Term Investments		611,861.89
Receivables, Net (Note 4)		752,441.55
Due from State of North Carolina Component Units		233,187.12
Due from Community College Component Units		306,367.71
Inventories		441,531.44
Total Current Assets		4,593,689.88
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		340,887.51
Restricted Due from Primary Government		10,403.95
Restricted Investments		2,799,183.66
Capital Assets - Nondepreciable (Note 5)		1,903,579.21
Capital Assets - Depreciable, Net (Note 5)		25,355,851.71
Total Noncurrent Assets		30,409,906.04
Total Assets		35,003,595.92
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		802,309.49
Due to Primary Government		3,877.05
Unearned Revenue		311,719.30
Funds Held for Others		288,965.68
Long-Term Liabilities - Current Portion (Note 7)		237,705.52
Total Current Liabilities		1,644,577.04
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,587,750.39
Total Noncurrent Liabilities		1,587,750.39
Total Liabilities		3,232,327.43
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		27,041,890.51
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,444,852.43
Restricted for Specific Programs		1,414,498.48
Expendable:		
Scholarships and Fellowships		733,892.07
Capital Projects		39,144.81
Restricted for Specific Programs		809,939.71
Unrestricted		287,050.48
Total Net Assets	$	31,771,268.49

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, 2010 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 2,080,917.75
Federal Grants and Contracts	1,310,408.96
State and Local Grants and Contracts	1,396,688.25
Sales and Services, Net (Note 9)	2,192,812.66
Other Operating Revenues	33,566.88
Total Operating Revenues	7,014,394.50
EXPENSES	
Operating Expenses:	
Salaries and Benefits	18,535,718.53
Supplies and Materials	3,958,991.43
Services	3,315,472.73
Scholarships and Fellowships	4,383,747.28
Utilities	780,852.61
Depreciation	1,399,450.90
Total Operating Expenses	32,374,233.48
Operating Loss	(25,359,838.98)
NONOPERATING REVENUES (EXPENSES)	
State Aid	12,183,551.51
County Appropriations	3,754,258.97
Noncapital Grants - Federal Student Financial Aid	6,200,940.46
Noncapital Grants	738,066.67
Noncapital Gifts	764,537.64
Investment Income	375,231.92
Interest and Fees on Debt	(14,645.04)
Other Nonoperating Revenues	70,491.33
Net Nonoperating Revenues	24,072,433.46
Loss Before Other Revenues	(1,287,405.52)
State Capital Aid	1,248,649.05
County Capital Aid	237,196.03
Capital Grants	37,336.00
Capital Gifts	306,367.71
Additions to Endowments	42,317.25
Increase in Net Assets	584,460.52
NET ASSETS	
Net Assets, July 1, 2009	31,186,807.97
Net Assets, June 30, 2010	$ 31,771,268.49

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, 2010 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 6,918,789.98
Payments to Employees and Fringe Benefits	(18,492,520.43)
Payments to Vendors and Suppliers	(8,003,317.08)
Payments for Scholarships and Fellowships	(4,401,986.24)
Other Receipts	506,374.58
Net Cash Used by Operating Activities	(23,472,659.19)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,183,551.51
County Appropriations	3,754,258.97
Noncapital Grants - Federal Student Financial Aid	6,192,118.86
Noncapital Grants Received	741,066.67
Noncapital Gifts and Endowments Received	806,854.89
Cash Provided by Noncapital Financing Activities	23,677,850.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,469,517.55
County Capital Aid	237,196.03
Capital Grants Received	37,336.00
Proceeds from Sale of Capital Assets	99,110.51
Proceeds from Insurance on Capital Assets	137,276.16
Acquisition and Construction of Capital Assets	(1,831,711.41)
Principal Paid on Capital Leases	(64,278.13)
Interest Paid on Capital Leases	(17,331.84)
Net Cash Provided by Capital and Related Financing Activities	67,114.87
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	(5,564.37)
Investment Income	93,275.63
Purchase of Investments and Related Fees	(369,039.99)
Net Cash Used by Investing Activities	(281,328.73)
Net Decrease in Cash and Cash Equivalents	(9,022.15)
Cash and Cash Equivalents, July 1, 2009	2,453,278.24
Cash and Cash Equivalents, June 30, 2010	$ 2,444,256.09

Wilkes Community College
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2010 *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(25,359,838.98)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,399,450.90
Changes in Assets and Liabilities:		
Receivables, Net		332,364.44
Inventories		(47,754.88)
Accounts Payable and Accrued Liabilities		212,869.53
Due to Primary Government		3,877.05
Unearned Revenue		49,713.81
Funds Held for Others		13,375.88
Compensated Absences		(76,716.94)
Net Cash Used by Operating Activities	$	(23,472,659.19)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,383,161.55
Restricted Cash and Cash Equivalents		720,207.03
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		340,887.51
Total Cash and Cash Equivalents - June 30, 2010	$	2,444,256.09

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	13,845.77
Change in Fair Value of Investments		280,010.32
Increase in Receivables Related to Nonoperating Income		4,368.35

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, 2010 ***Exhibit B-1***

ASSETS		
Cash	$	1,559,295
Certificates of Deposits		500,000
Current Portion of Unconditional Promise to Give (Net of allowance for doubtful accounts of $1,750)		11,500
Other Receivables		39,206
Inventory		16,234
Prepaid Expenses		38,462
Total Current Assets		2,164,697
FIXED ASSETS		
Building & Land		610,000
Less: Accumulated Depreciation		(20,359)
Total Fixed Assets		589,641
Other Assets:		
Cash Restricted for Long-Term Purposes		34,642
Cash Permanently Restricted		2,500
Unconditional Promise to Give (Net of Current Portion, Present Value Discount, and Allowance for Doubtful Accounts of $5,000)		19,370
Investments		311,588
Total Other Assets		368,100
Total Assets		3,122,438
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses		309,590
Deferred Revenue		16,725
Total Current Liabilities		326,315
NET ASSETS		
Unrestricted:		
Operating		2,727,768
Temporarily Restricted		65,855
Permanently Restricted		2,500
Total Net Assets	$	2,796,123

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, 2010 — *Exhibit B-2*

UNRESTRICTED NET ASSETS		
Support:		
Contributions	$	142,114
Fund-Raising Income		3,252,111
Revenue:		
Interest Income		26,490
Rents		21,875
Miscellaneous		31,882
Total Unrestricted Support and Revenues		3,474,472
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		52,245
Total Unrestricted Support and Reclassifications		3,526,717
Expenses:		
Program Services		1,025,759
Supporting Services		
Fund Raising		2,073,567
Total Expenses		3,099,326
Increase in Unrestricted Net Assets		427,391
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		141,094
Interest Income		330
Loss on Promise to Give		(14,819)
Transfer to Wilkes Community College		(144,682)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(52,245)
Decrease in Temporarily Restricted Net Assets		(70,322)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions		36,252
Transfer to Wilkes Community College		(33,752)
Increase in Permanently Restricted Net Assets		2,500
Increase in Net Assets		359,569
Net Assets at Beginning of Year		2,436,554
Net Assets at End of Year	$	2,796,123

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 (GAAP), 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's 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 (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 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 with two of those positions being vacant at June 30, 2010. 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 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 the 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, 2010, the Endowment Corporation distributed $1,190,233.95 to the College for both restricted and unrestricted purposes. Complete financial statements for the Endowment Corporation can be obtained from the Executive Director of the Wilkes Community College Endowment Corporation, 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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 generally 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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

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 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated 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 75 years for buildings, and 2 to 35 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 \$5,470.00, and deposits in private financial institutions with a carrying value of \$2,438,786.09, and a bank balance of \$2,774,067.36.

The North Carolina Administrative Code (20 NCAC7) 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, 2010, 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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the Wilkes Community College Endowment Corporation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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, 2010, 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				
Mutual Bond Funds	$ 1,251,858.18	$ 0.00	$ 1,111,299.44	$ 140,558.74
Money Market Mutual Funds	279,141.21	279,141.21		
		$ 279,141.21	$ 1,111,299.44	$ 140,558.74
Other Securities				
Other Mutual Funds	2,024,977.75			
Total Investments	$ 3,555,977.14			

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2010, the College's investments were rated as follows:

	Fair Value	AAA Aaa	B
Mutual Bond Funds	$ 1,251,858.18	$ 1,111,299.44	$ 140,558.74
Money Market Mutual Funds	279,141.21	279,141.21	

Rating Agency: Standard and Poors

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	$	5,470.00
Carrying Amount of Deposits with Private Financial Institutions		2,438,786.09
Other Investments		3,555,977.14
Total Deposits and Investments	$	6,000,233.23
Current:		
Cash and Cash Equivalents	$	1,383,161.55
Restricted Cash and Cash Equivalents		720,207.03
Short-Term Investments		144,931.59
Restricted Short-Term Investments		611,861.89
Noncurrent:		
Restricted Cash and Cash Equivalents		340,887.51
Endowment Investments		2,799,183.66
Total	$	6,000,233.23

Component Unit - Investments of the College's discretely presented component unit, the Wilkes Community College Endowment Corporation is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Endowment Corporation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Breakdown of Component Unit Investments:

Certificate of Deposit	$	500,000.00

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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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 total return capacity with no distinction made between investment yields and capital appreciation. Generally, the board will spend up to 4% of the total foundation assets based on an average 3-year market value. For the audit year, the April 2009 Board suspended the 4% distribution due to the economic climate throughout the 2009-10 fiscal year. At June 30, 2010, endowment net assets of $167,478.94 were available to be spent, of which the entire amount was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 506,984.90	$ 176,743.03	$ 330,241.87
Accounts	38,512.51		38,512.51
Intergovernmental	267,458.48		267,458.48
Other	116,228.69		116,228.69
Total Current Receivables	$ 929,184.58	$ 176,743.03	$ 752,441.55

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 1,290,927.20	$ 0.00	$ 0.00	$ 1,290,927.20
Construction in Progress	1,615,303.83	612,652.01	1,615,303.83	612,652.01
Total Capital Assets, Nondepreciable	2,906,231.03	612,652.01	1,615,303.83	1,903,579.21
Capital Assets, Depreciable:				
Buildings	27,843,289.85	1,835,457.87		29,678,747.72
Machinery and Equipment	5,048,243.31	998,905.36	290,324.87	5,756,823.80
Art, Literature, and Artifacts	45,500.00			45,500.00
General Infrastructure	3,394,736.50			3,394,736.50
Total Capital Assets, Depreciable	36,331,769.66	2,834,363.23	290,324.87	38,875,808.02
Less Accumulated Depreciation/Amortization for:				
Buildings	8,811,756.41	794,705.53		9,606,461.94
Machinery and Equipment	2,065,740.99	439,412.97	124,429.53	2,380,724.43
Art, Literature, and Artifacts	30,586.38	3,033.36		33,619.74
General Infrastructure	1,336,851.16	162,299.04		1,499,150.20
Total Accumulated Depreciation	12,244,934.94	1,399,450.90	124,429.53	13,519,956.31
Total Capital Assets, Depreciable, Net	24,086,834.72	1,434,912.33	165,895.34	25,355,851.71
Capital Assets, Net	$ 26,993,065.75	$ 2,047,564.34	$ 1,781,199.17	$ 27,259,430.92

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	$ 390,981.80
Accrued Payroll	334,499.57
Contract Retainage	12,939.06
Intergovernmental Payables	50,006.31
Other	13,882.75
Total Accounts Payable and Accrued Liabilities	$ 802,309.49

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Capital Leases Payable	$ 281,818.54	$ 0.00	$ 64,278.13	$ 217,540.41	$ 68,231.23
Compensated Absences	1,684,632.44	1,019,804.28	1,096,521.22	1,607,915.50	169,474.29
Total Long-Term Liabilities	$ 1,966,450.98	$ 1,019,804.28	$ 1,160,799.35	$ 1,825,455.91	$ 237,705.52

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, 2010:

Fiscal Year	Amount
2011	$ 81,609.97
2012	81,609.97
2013	81,609.95
Total Minimum Lease Payments	244,829.89
Amount Representing Interest (6.15% Rate of Interest)	27,289.48
Present Value of Future Lease Payments	$ 217,540.41

Machinery and equipment acquired under capital lease amounted to $468,226.30 at June 30, 2010.

B. Operating Lease Obligations - The College entered into operating leases for printing/copying equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 39,930.24
2012	27,803.64
2013	26,389.88
2014	23,562.36
2015	21,598.83
Total Minimum Lease Payments	$ 139,284.95

Rental expense for all operating leases during the year was $163,013.13.

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	$ 4,130,639.16	$ 0.00	$ 2,026,852.54	$ 22,868.87	$ 2,080,917.75
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Hospitality Services	$ 282,264.24	$ 33,221.48	$ 0.00	$ 0.00	$ 249,042.76
Bookstore	2,414,184.33	411.39	1,189,083.20	49,995.83	1,174,693.91
Food Court Café	99,617.74	13,635.87			85,981.87
Vending	84,500.63				84,500.63
John A. Walker Community Center	254,981.69				254,981.69
Child Development Center	63,992.22			10,221.47	53,770.75
Sales and Services of Education and Related Activities	290,394.00			552.95	289,841.05
Total Sales and Services	$ 3,489,934.85	$ 47,268.74	$ 1,189,083.20	$ 60,770.25	$ 2,192,812.66

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 10,449,933.90	$ 1,537,042.08	$ 1,226,479.47	$ 0.00	$ 0.00	$ 0.00	$ 13,213,455.45
Public Service	31,388.18	55,003.97	48,758.79				135,150.94
Academic Support	1,826,648.30	80,646.16	74,769.66				1,982,064.12
Student Services	1,162,793.10	47,418.09	140,440.47				1,350,651.66
Institutional Support	3,284,298.56	188,282.11	958,417.67	67,527.75	34,112.10		4,532,638.19
Operations and Maintenance of Plant	1,256,946.81	305,682.91	330,140.35		746,740.51		2,639,510.58
Student Financial Aid			12,009.13	4,316,219.53			4,328,228.66
Auxiliary Enterprises	523,709.68	1,744,916.11	524,457.19				2,793,082.98
Depreciation						1,399,450.90	1,399,450.90
Total Operating Expenses	$ 18,535,718.53	$ 3,958,991.43	$ 3,315,472.73	$ 4,383,747.28	$ 780,852.61	$ 1,399,450.90	$ 32,374,233.48

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $15,373,137.81, of which $11,832,738.30 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $422,428.76 and $709,964.30, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $422,428.76, $416,104.94, and $361,867.73, 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.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 $81,799.53 for the year ended June 30, 2010.

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 $176,599.18 for the year ended June 30, 2010.

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 $9,288.00 for the year ended June 30, 2010.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year, the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $532,473.22, $507,263.54, and $486,200.51 respectively. 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*. 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.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $61,530.24, $64,335.87, and $61,622.94, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Losses from employee dishonesty for employees paid from county and institutional funds are covered with private insurance companies.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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.

The College retained the risks associated with employees who are involved in healthcare environments and the risk that results with the possibility of malpractice liability involved with a classroom laboratory environment as of June 30, 2010. The College is protected from such risks by the purchase of insurance through private insurance companies.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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 $493,827.72 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 24, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards,* and which is described in the Audit Findings and Responses section of this report.

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, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 24, 2011

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents noncompliance with laws and regulations.

NONCOMPLIANCE WITH STATUTORY INVESTMENT REQUIREMENTS

The College made investments that may not qualify as allowable investment options under *North Carolina General Statute* 159-30(c) and other statutes referenced therein. College staff concluded that the investments met the statutory requirements; however, we concluded based on our reading of the law that this is not the case. At June 30, 2010, the fair value of the questioned investments was approximately $3.56 million, which represented 100% of the College's investments. The College invested in mutual bond funds, money market mutual funds, and other mutual funds.

General Counsel for the North Carolina Community College System Office has requested an opinion from the North Carolina Department of Justice on this manner. This opinion may differ from our interpretation.

Recommendation: If the legal opinion received from the Department of Justice indicates that the investment is not allowable, the College may have to divest its funds from the unauthorized investments. However, we believe that this should only occur when those responsible for the College's investment decisions feel it is economically prudent to do so.

College's Response: The College disagrees with the North Carolina State Auditor's interpretation that the referenced investments are not allowable investment options under *North Carolina General Statutes*. General Counsel for The North Carolina Community College System Office agrees that the College's interpretation is reasonable. Further, given the potential ambiguity of the statutes, General Counsel has requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion received from the Department of Justice does indicate that the investment is not allowable, the College will follow the recommendation made by the State Auditor and divest itself from these investments as soon as it is economically prudent to do so.

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