STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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FLAT ROCK, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Blue Ridge Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes.*

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report,* the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Blue Ridge Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Blue Ridge Community College. A summary of our reporting objectives and audit results is:

1. **Objective –** To express an opinion on the accompanying financial statements that relate solely to Blue Ridge Community College.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following significant deficiencies in internal control over financial reporting were noted as a result of our audit:

   Finding

   1. Financial Statement Presentation
   2. Deficit Net Assets Fund Balance and Cash Overdraft
   3. Segregation of Duties for Cash Receipting

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Blue Ridge Community College
Flat Rock, North Carolina

We have audited the accompanying basic financial statements of Blue Ridge Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2004 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

May 20, 2004

This section of the Blue Ridge Community College (BRCC) annual financial statements presents an overview of BRCC's financial activities during the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements. For more information, please contact the Business Office at 828-694-1717.

Overview of the Financial Statements

The annual financial statement report consists of three parts: Management's Discussion and Analysis, financial statements, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of BRCC report information about BRCC using the economic resources measurement focus and the accrual basis of accounting. These statements offer short and long-term financial information about its activities. The balance sheet includes all of BRCC's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BRCC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of BRCC, and assessing the liquidity and financial flexibility of BRCC. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This Statement measures the success of BRCC's operations over the past year and can be used to determine whether BRCC has successfully recovered all its costs through its tuitions, grants and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this Statement is to provide information about BRCC's cash receipts and cash payments during the reporting period. This Statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of Blue Ridge Community College

Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash, receivables, inventories, and notes receivable.

	2003	2002	Increase/ (Decrease)
Current Assets			
Cash	$ 613,432.38	$ 436,075.26	$ 177,357.12
Receivables	262,622.90	198,707.65	63,915.25
Inventories	41,993.34	48,034.99	(6,041.65)
Notes Receivable	60,854.53	21,767.70	39,086.83
Total Current Assets	$ 978,903.15	$ 704,585.60	$ 274,317.55

Noncurrent assets include cash, receivables and capital assets (land, construction in progress, buildings, general infrastructure, and equipment).

	2003	2002	Increase/ (Decrease)
Noncurrent Assets			
Cash	$ 58,608.51	$ 190,741.71	$ (132,133.20)
Receivables	242,456.26	98,816.08	143,640.18
Capital Assets	16,353,668.80	16,811,204.11	(457,535.31)
Total Noncurrent Assets	$ 16,654,733.57	$ 17,100,761.90	$ (446,028.33)

Capital Assets

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased items cost more that $5,000 at the date of purchase and have a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure is depreciated over a 15 year period, buildings are depreciated over a 15 to 40 year period and equipment is depreciated in 3 to 15 years, depending on the expected useful life of the infrastructure, equipment, or building. The decrease of capital assets was attributable to the College having more accumulated depreciation for the fiscal year than capital asset additions.

Liabilities

The College's liabilities are divided between current liabilities which are payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies.

	2003	2002	Increase/ (Decrease)
Liabilities			
Current	$ 221,026.38	$ 106,419.28	$ 114,607.10
Long-Term	1,032,261.26	205,871.22	826,390.04
Total Liabilities	$ 1,253,287.64	$ 312,290.50	$ 940,997.14

Total liabilities of the College increased by $947,676.44 for the year. This increase was primarily attributable to the notes payable of $699,187.00 for Energy Conservation Equipment.

Net Assets

Net assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. The combination of the decrease in total assets of $171,710.78 and the increase in total liabilities of $940,997.14 produces an overall decrease of $1,112,707.92. Net assets invested in capital assets were $15,672,514.17. Restricted net assets were $532,396.51. Unrestricted net assets were $175,438.40.

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of commission received from the bookstore and vending. Student tuition, though identified as revenue, is remitted back to the State Treasurer and not netted against the College's State aid identified as nonoperating revenue. The largest operating revenue accrues from the College's participation in Federal Title IV financial aid programs. Operating revenues decreased a total of $7,573.25. The decrease in sales and services of $690,541.04 was attributable to the bookstore being contracted out to College Bookstores of America. This decrease was offset by an increase in student tuition and fees, net, ($450,139.01) and an increase of ($156,590.25) in federal grants and contracts. The increase in student tuition and fees, net, is attributable to an increase in student enrollment and an increase in tuition rates. The increase in federal grants and contracts is attributable to Federal Pell Grant.

	2003	2002	Increase/ (Decrease)
Operating Revenues			
Tuition and Fees	$ 1,895,095.55	$ 1,444,956.54	$ 450,139.01
Federal Grants and Contracts	915,616.94	759,026.69	156,590.25
Sales and Services	198,538.79	889,079.83	(690,541.04)
Other Operating Revenues	76,238.53		76,238.53
Total Operating Revenues	$ 3,085,489.81	$ 3,093,063.06	$ (7,573.25)

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements; funds appropriated from the Henderson and Transylvania Counties Board of Commissioners, and various other revenues deposited into institutional funds. The largest decrease in nonoperating revenues was in State aid of $555,575 attributable to the State of North Carolina encountering a budget crisis FYE 06/30/2003 and decreases in revenue.

	2003	**2002**	**Increase/ (Decrease)**
Nonoperating Revenues			
State Aid	$ 7,089,120.78	$ 7,644,696.09	$ (555,575.31)
County Appropriations	1,740,019.96	1,535,448.20	204,571.76
Noncapital Grants	1,019,866.21	826,077.48	193,788.73
Noncapital Gifts	232,162.35	282,662.41	(50,500.06)
Investment Income	13,491.74	11,003.23	2,488.51
Other Nonoperating Revenues	473.70	101,240.54	(100,766.84)
Total Nonoperating Revenues	$ 10,095,134.74	$ 10,401,127.95	$ (305,993.21)

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as "personal services". Depreciation expense and accumulated depreciation were identified consistent with the requirements for GASB 34/35. Total operating expenses increased a total of $724,235.48. The increase in operating expenses is primarily due to a $399,889.96 increase in personal services-operating and a $274,001.47 increase in services-operating.

	2003	2002	Increase/ (Decrease)
Operating Expenses			
Personal Services	$ 9,848,648.50	$ 9,448,758.54	$ 399,889.96
Supplies and Materials	1,965,878.77	2,161,569.95	(195,691.18)
Services	1,596,985.58	1,322,984.11	274,001.47
Scholarships and Fellowships	833,991.84	606,185.69	227,806.15
Utilities	412,161.38	465,326.70	(53,165.32)
Depreciation	742,786.86	671,392.46	71,394.40
Total Expenses	$ 15,400,452.93	$ 14,676,217.45	$ 724,235.48

Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provides construction funds as part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations and repairs. Other capital contributions are received from funds appropriated from the Henderson and Transylvania Counties Board of Commissioners, and contributions received in the form of gifts. Contributions decreased a total of $782,335.18. This increase is primarily due to the decrease of State capital aid ($446,092.23) and the decrease of county capital appropriations ($315,726.95). The State capital aid decrease was attributable to the State of North Carolina encountering a budget crisis FYE 06/30/2003 and decreases in revenue. The decrease in county capital appropriations is the result of Henderson and Transylvania counties not providing any capital appropriations FYE 06/30/2003.

	2003	2002	Increase/ (Decrease)
Capital Contributions			
State Capital Aid	$ 399,700.54	$ 850,446.28	$ (450,745.74)
County Capital Appropriations		121,106.80	(121,106.80)
Capital Gifts	8,659.00	29,175.00	(20,516.00)
Total Capital Contributions	$ 408,359.54	$ 1,000,728.08	$ (592,368.54)

Significant Capital Asset Activity

The College has received $1,012,764.00 from the 2000 North Carolina Higher Education Bond Referendum, which provides for the renovation and repair of facilities. Funds are allocated according to a cash flow schedule established by the North Carolina State Board of Community Colleges with final distribution of funds ending June 2007. During the year, the College had three repair and renovation projects in process – Project 1304 (General

Renovations Phase II – Flat Rock Campus), Project 1276 (Campus Wide Wiring/Infrastructure/Distance Learning), and Project 1227 (General Renovations – Flat Rock Campus).

Significant Effects on Financial Position

1. As a result of actions taken by the North Carolina General Assembly, tuition for curriculum students for 2003-2004 was increased from $34.25 to $35.50 a credit hour with a maximum of $568.00 for 16 or more hours. This represents a 3.6% increase in the direct cost to students attending the College.

2. At fiscal year ended June 30, 2003, the College had not received any official information on the 2003-2004 budget. However, the State of North Carolina is encountering a budget crisis and the possibility of reductions to State allocations by actions of the Governor to meet continuing State budget shortfalls should be acknowledged.

Blue Ridge Community College
Statement of Net Assets
June 30, 2003 **Exhibit A**

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	528,894.07
Restricted Cash and Cash Equivalents		84,538.31
Receivables, Net (Note 3)		249,869.69
Due from State of North Carolina Component Units		12,753.21
Inventories		41,993.34
Notes Receivable, Net (Note 3)		60,854.53
Total Current Assets		978,903.15
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		58,608.51
Restricted Due from Primary Government		242,456.26
Capital Assets - Nondepreciable, Net (Note 4)		1,630,640.00
Capital Assets - Depreciable, Net (Note 4)		14,723,028.80
Total Noncurrent Assets		16,654,733.57
Total Assets		17,633,636.72
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		116,535.18
Deferred Revenue		1,404.00
Funds Held for Others		9,824.91
Long-Term Liabilities - Current Portion (Note 6)		93,262.29
Total Current Liabilities		221,026.38
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,032,261.26
Total Noncurrent Liabilities		1,032,261.26
Total Liabilities		1,253,287.64
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		15,672,514.17
Restricted for:		
Nonexpendable:		
Other		51,500.00
Expendable:		
Scholarships and Fellowships		72.75
Loans		114,981.65
Capital Projects		328,383.64
Other		37,458.47
Unrestricted		175,438.40
Total Net Assets	$	16,380,349.08

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

Blue Ridge Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003 — **Exhibit B**

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,895,095.55
Federal Grants and Contracts		915,616.94
Sales and Services, Net (Note 8)		198,538.79
Other Operating Revenues		76,238.53
Total Operating Revenues		3,085,489.81
EXPENSES		
Operating Expenses:		
Personal Services		9,848,648.50
Supplies and Materials		1,965,878.77
Services		1,596,985.58
Scholarships and Fellowships		833,991.84
Utilities		412,161.38
Depreciation		742,786.86
Total Operating Expenses		15,400,452.93
Operating Loss		(12,314,963.12)
NONOPERATING REVENUES		
State Aid		7,089,120.78
County Appropriations		1,740,019.96
Noncapital Grants		1,019,866.21
Noncapital Gifts, Net (Note 8)		232,162.35
Investment Income, Net		13,491.74
Other Nonoperating Revenues		473.70
Net Nonoperating Revenues		10,095,134.74
Loss Before Other Revenues, Expenses, Gains, and Losses		(2,219,828.38)
State Capital Aid		399,700.54
Capital Grants		698,760.92
Capital Gifts, Net (Note 8)		8,659.00
Decrease in Net Assets		(1,112,707.92)
NET ASSETS		
Net Assets, July 1, 2002 as Restated (Note 15)		17,493,057.00
Net Assets, June 30, 2003	$	16,380,349.08

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

Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003 — **Exhibit C**

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	3,071,359.49
Payments to Employees and Fringe Benefits		(9,635,046.13)
Payments to Vendors and Suppliers		(3,915,740.46)
Payments for Scholarships and Fellowships		(833,991.84)
Loans Issued to Students		(39,086.83)
Other Receipts		2,047.50
Net Cash Used by Operating Activities		(11,350,458.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,089,120.78
County Appropriations		1,740,019.96
Noncapital Grants Received		977,553.55
Noncapital Gifts and Endowments Received		232,162.35
Net Cash Provided by Noncapital Financing Activities		10,038,856.64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		256,060.36
Capital Grants Received		698,760.92
Capital Gifts Received		8,659.00
Proceeds from Capital Debt		699,187.00
Acquisition and Construction of Capital Assets		(301,033.80)
Principal Paid on Capital Debt and Leases		(18,032.37)
Net Cash Provided by Capital and Related Financing Activities		1,343,601.11
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		13,224.44
Net Cash Provided by Investing Activities		13,224.44
Net Increase in Cash and Cash Equivalents		45,223.92
Cash and Cash Equivalents, July 1, 2002		626,816.97
Cash and Cash Equivalents, June 30, 2003	$	672,040.89
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(12,314,963.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		742,786.86
Miscellaneous Nonoperating Income		473.70
Changes in Assets and Liabilities:		
Receivables, Net		(15,534.32)
Inventories		6,041.65
Notes Receivable, Net		(39,086.83)
Accounts Payable and Accrued Liabilities		73,190.63
Deferred Revenue		1,404.00
Funds Held for Others		1,573.80
Compensated Absences		193,655.36
Net Cash Used by Operating Activities	$	(11,350,458.27)

Blue Ridge Community College

Statement of Cash Flows — ***Exhibit C***

For the Fiscal Year Ended June 30, 2003 — ***Page 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	528,894.07
Restricted Cash and Cash Equivalents		84,538.31
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		58,608.51
Total Cash and Cash Equivalents - June 30, 2003	$	672,040.89
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	699,187.00
Increase in Receivables Related to Nonoperating Income		266,084.97

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. Blue Ridge Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. **Cash and Cash Equivalents –** This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables –** Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.

F. **Inventories –** Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 15 to 40 years for buildings, and 3 to 15 years for equipment.

H. **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.

I. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

K. 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.

L. **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.

M. **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.

N. **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 copy center. 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. Effective May 1, 2002, College Bookstores of America began the operations of the bookstore.

O. **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

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $900.00. The carrying amount of cash on deposit was $671,140.89 and the bank balance was $741,280.68.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 318,517.26	$ 318,517.26
Cash on Deposit with Private Financial Institutions	352,623.63	422,763.42
	$ 671,140.89	$ 741,280.68

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

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

Of the cash on deposit with private financial institutions at June 30, 2003, $172,805.23 of the bank balance was covered by federal depository insurance and $568,475.45 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 139,007.92	$ 0.00	$ 139,007.92
Accounts	109,424.28		109,424.28
Interest on Loans	1,062.49		1,062.49
Other	375.00		375.00
Total Current Receivables	$ 249,869.69	$ 0.00	$ 249,869.69
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 68,189.22	$ 7,334.69	$ 60,854.53

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2002	Adjustments	Increases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	$ 1,630,640.00	$ 0.00	$ 0.00	$ 1,630,640.00
Construction in Progress	1,946,767.87	(1,975,317.08)	28,549.21	
Total Capital Assets, Nondepreciable	3,577,407.87	(1,975,317.08)	28,549.21	1,630,640.00
Capital Assets, Depreciable:				
Buildings	18,688,196.96	1,975,317.08		20,663,514.04
Machinery and Equipment	2,321,216.83		217,714.64	2,538,931.47
General Infrastructure	872,225.20		38,987.70	911,212.90
Total Capital Assets, Depreciable	21,881,638.99	1,975,317.08	256,702.34	24,113,658.41
Less Accumulated Depreciation:				
Buildings	6,596,371.38		498,590.54	7,094,961.92
Machinery and Equipment	1,301,221.37		232,815.76	1,534,037.13
General Infrastructure	750,250.00		11,380.56	761,630.56
Total Accumulated Depreciation	8,647,842.75		742,786.86	9,390,629.61
Total Capital Assets, Depreciable, Net	13,233,796.24	1,975,317.08	(486,084.52)	14,723,028.80
Capital Assets, Net	$ 16,811,204.11	$ 0.00	$ (457,535.31)	$ 16,353,668.80

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 52,276.96
Accrued Payroll	37,758.36
Contracts Payable	5,750.00
Intergovernmental Payables	17,443.71
Other	3,306.15
Total Accounts Payable and Accrued Liabilities	$ 116,535.18

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	$ 0.00	$ 699,187.00	$ 18,032.37	$ 681,154.63	$ 53,224.65
Compensated Absences	250,713.56	444,368.92	250,713.56	444,368.92	40,037.64
Total Long-Term Liabilities	$ 250,713.56	$ 1,143,555.92	$ 268,745.93	$ 1,125,523.55	$ 93,262.29

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Energy Conservation Equipment	Branch Banking and Trust Company	4.97%	12/12/2012	$ 699,187.00	$ 18,032.37	$ 681,154.63

The annual requirements to pay principal and interest on the notes payable at June 30, 2003 are as follows:

Fiscal Year	Annual Requirements Notes Payable Principal	Interest
2004	$ 53,224.65	$ 41,265.51
2005	60,890.69	29,833.51
2006	63,986.85	26,737.35
2007	67,240.44	23,483.76
2008-2012	435,812.00	63,171.10
Total Requirements	$ 681,154.63	$ 184,491.23

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	$ 67,961.00
2005	49,410.00
2006	8,700.00
Total Minimum Lease Payments	$ 126,071.00

Rental expense for all operating leases during the year was $154,162.25.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,337,932.61	$ 0.00	$ 442,837.06	$ 1,895,095.55
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Print Shop	$ 96,159.38	$ 90,847.13	$ 0.00	$ 5,312.25
Central Supply	13,908.06	13,453.63		454.43
Other	93,982.33			93,982.33
Sales and Services of Education and Related Activities	98,789.78			98,789.78
Total Sales and Services	$ 302,839.55	$ 104,300.76	$ 0.00	$ 198,538.79
Nonoperating - Noncapital Gifts	$ 232,162.35	$ 0.00	$ 0.00	$ 232,162.35
Capital Gifts	$ 8,659.00	$ 0.00	$ 0.00	$ 8,659.00

NOTE 9 - 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	$ 6,046,293.54	$ 302,527.88	$ 645,123.76	$ 168,022.87	$ 0.00	$ 0.00	$ 7,161,968.05
Academic Support	650,549.58	85,452.90	91,098.49				827,100.97
Student Services	439,386.65	14,409.66	25,210.35	26,945.05			505,951.71
Institutional Support	2,165,372.25	45,773.06	380,565.48				2,591,710.79
Operations and Maintenance of Plant	536,600.32	1,503,385.62	269,648.55		412,161.38		2,721,795.87
Student Financial Aid			1,094.59	639,023.92			640,118.51
Auxiliary Enterprises	10,446.16	14,329.65	184,244.36				209,020.17
Depreciation						742,786.86	742,786.86
Total Operating Expenses	$ 9,848,648.50	$ 1,965,878.77	$ 1,596,985.58	$ 833,991.84	$ 412,161.38	$ 742,786.86	$ 15,400,452.93

NOTE 10 - 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, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of $8,378,805.47, of which $6,396,490.12 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $383,789.41. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were $0.00, $125,178.44, and $322,364.48, 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 $2,058.74 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental 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 $109,732.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $62,499.00 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was $150,317.52. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State

Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was $33,261.75. 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 12 - RISK MANAGEMENT

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

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. Employee dishonesty insurance for employees paid from non-state funds is purchased from Montgomery Insurance Company with coverage of $50,000 per occurrence with a $500 deductible.

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.

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 13 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $187,036.91 at June 30, 2003.

B. **Community College General Obligation Bonds –** The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $2,400,728.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - BLUE RIDGE COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

The Blue Ridge Community College Educational Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $259,087.73 for the year ended June 30, 2003.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2002, net assets as previously reported was restated as follows:

	Amount
July 1, 2002 Net Assets as Previously Reported	$ 17,697,731.48
General Infrastructure Accumulated Depreciation Overstated	121,975.20
Repairs and Renovations in Beginning Balance of Construction in Progress	(326,649.68)
July 1, 2002 Net Assets as Restated	$ 17,493,057.00

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Modifications to Thomas Auditorium	Nov 2002	$ 125,928.00	$ 0.00	$ 125,928.00	$ 95,205.13	75.60%	Jul 2003
Campus Wide Wiring/Infrastructure/Classroom	Aug 2002	350,314.00		350,314.00	171,482.53	48.95%	Jun 2004
General Renovations - Flat Rock Campus	Mar 2001	536,522.00		536,522.00	536,522.00	100.00%	Dec 2002
Projects Pending Approval by the State Board							
Renovation of Student Center/Driveways	Oct 2003	402,969.00		402,969.00			
General Renovations - Bathrooms/Handicap Access	Apr 2004	250,224.00		250,224.00			
Renovations to Two Classroom Buildings	Jul 2003	546,458.00		546,458.00			
New Vocational Training Building	Jul 2004	1,201,077.00	900,000.00	2,101,077.00			
Total All Projects		$ 3,413,492.00	$ 900,000.00	$ 4,313,492.00	$ 803,209.66		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System.
The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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

Board of Trustees
Blue Ridge Community College
Flat Rock, North Carolina

We have audited the financial statements of Blue Ridge Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 20, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

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

Finding

1. Financial Statement Presentation

2. Deficit Net Assets Fund Balance and Cash Overdraft

3. Segregation of Duties for Cash Receipting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

May 20, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. FINANCIAL STATEMENT PRESENTATION

   The June 30, 2003 financial statement balances for cash, operating expenses, long-term liabilities, and related notes to the financial statements were misstated. The College did not record $699,187.00 representing a notes payable for purchase of energy conservation equipment. The College also omitted expenses in the amount of $699,187.00 for repairs and renovations of equipment relating to a Guaranteed Energy Savings Contract. The College did not properly record $52,922.45 in payments on the notes payable and did not record $3,621.82 representing interest earned on the notes payable proceeds. In addition, the College did not record the current portion of the notes payable in the amount of $53,224.65.

   Recommendation: We recommend that the College review financial statements and notes at year-end to determine that misstatements and reporting errors are detected prior to submission of the financial statements to the Office of the State Controller.

   College's Response: Issue: The Energy Savings loan was not properly recorded. The College will review its financial statements and notes before submitting them to the Office of the State Controller to ensure that all transactions are properly recorded.

2. DEFICIT NET ASSETS FUND BALANCE AND CASH OVERDRAFT

   At June 30, 2003, the College's Print Shop had a deficit net asset balance of $110,822.19 and a cash overdraft of $115,956.44. A continuing deficit in this fund will hinder the efficiency of other funds from which this fund is borrowing.

   Recommendation: We recommend that the College implement their written plan and monitor the results of operations in order to eliminate the deficit net asset balance in this fund.

   College's Response: Issue: An institutional fund (Print Shop) has a deficit net asset balance. The College has already implemented procedures to remedy this position. Internal billing rates have been raised and lease payments to the vendors have been adjusted which will reduce and then eliminate this deficit position.

3. SEGREGATION OF DUTIES FOR CASH RECEIPTING

Segregation of duties for cash receipting is not adequate. Several individuals involved in the receipting process were observed by auditors using the same change fund. An unauthorized individual performed the duties of a cashier. This individual was not authorized because he is not an employee of the College. The individual has been inappropriately given user rights and access to the College's cash receipting system and cash funds. The College is responsible for establishing adequate internal control procedures to safeguard assets. Controls should provide for proper segregation of duties among employees involved in the cash receipting function. Only authorized employees of the Business Office and Continuing Education Department should perform the cash receipting function. For adequate accountability of receipts, each cashier should receipt into a separate cash drawer and have individual change funds.

Recommendation: We recommend that the College implement procedures to segregate cash receipting duties to ensure that only authorized employees of the College perform cash receipting duties. In addition, we recommend that each person receipting cash have a separate change fund and all other employees receipt only checks and/or credit cards.

College's Response: Issue: Unauthorized person receipting payments and multiple persons using a change fund. The College has implemented procedures to ensure no unauthorized individual receipts any payments and that each employee who does receipt payments uses a separate change fund.

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June 30, 2004

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