STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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FOR THE YEAR ENDED JUNE 30, 2005

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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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

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

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

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

Leslie W. Merritt, Jr.

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

June 23, 2006

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INDEPENDENT AUDITOR'S REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Blue Ridge Community Educational Foundation, Inc., 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 Blue Ridge Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2006 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

May 8, 2006

BLUE RIDGE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Blue Ridge Community College's (BRCC) annual financial statements presents an overview of BRCC's financial activities during the fiscal year that ended on June 30, 2005. We encourage readers to consider this information in conjunction with the 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

This annual statement consists of three parts; Management's Discussion and Analysis, financial statements, and notes to the financial statements. The notes 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 Statement of Net Assets 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 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 tuition and fees, 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 question 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. The largest change in current assets is the decrease in cash which is not attributable to any one item, but to numerous small changes during the year.

	2005	2004	Increase/ (Decrease)
Current Assets			
Cash	$ 160,852.42	$ 423,859.23	$ (263,006.81)
Receivables	331,940.81	225,502.13	106,438.68
Due from NC Component Units		38,199.50	(38,199.50)
Inventories	50,315.61	45,684.58	4,631.03
Notes Receivable	26,177.52	72,976.85	(46,799.33)
Total Current Assets	$ 569,286.36	$ 806,222.29	$ (236,935.93)

Noncurrent assets include cash, amounts due from Primary Government, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). The $117,886.86 increase in noncurrent assets is due to an increase in Restricted Funds due from Primary Government for construction projects and additions to Capital Assets.

	2005	2004	Increase/ (Decrease)
Noncurrent Assets			
Cash	$ 16,300.67	$ 50,224.17	$ (33,923.50)
Restricted Due from Primary Government	432,544.70	228,192.49	204,352.21
Capital Assets	15,683,686.60	15,736,228.45	(52,541.85)
Total Noncurrent Assets	$ 16,132,531.97	$ 16,014,645.11	$ 117,886.86

Capital Assets

Capital assets decreased in total $52,541.85. This change is due to recording of accumulated depreciation in the amount of 764,403.42. There were also $203,736.57 total additions to capital assets for buildings and machinery and equipment and $508,125.00 total additions for construction in progress.

Liabilities

The College's liabilities are divided between current liabilities 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.

	2005	2004	Increase/ (Decrease)
Liabilities			
Current	$ 435,811.05	$ 275,608.46	$ 160,202.59
Long-Term	1,038,815.90	1,061,991.41	(23,175.51)
Total Liabilities	$ 1,474,626.95	$ 1,337,599.87	$ 137,027.08

Total liabilities of the College increased by $137,027.08 for the year. This increase is primarily due to the increase in Accounts Payable and Accrued Liabilities which increased $111,986.20.

Net Assets

Total net assets were $15,277,191.38 for June 30, 2005, which is a decrease of $256,076.15. Net assets are a measure of the value of all the College's assets after liabilities are deducted. The combination of the decrease in total assets of $119,049.97 and the increase in total liabilities of $137,027.08 produces an overall decrease of $256,076.15. Net assets Invested in Capital Assets, Net of Related Debt were $15,186,111.03, an increase of $81,254.37. The College also had Restricted Net Assets of $618,937.72 and a deficit balance of Unrestricted Net Assets of $577,857.37.

Revenues

The College's revenues are classified as operating and nonoperating revenues.

Operating revenues include Student Tuition and Fees, Federal Grants and Contracts, State and Local Grants and Contracts, Sales and Services (principally comprised of commission received from the bookstore and vending) and Other Revenues. The largest operating revenue accrues from the College's collection of Student Tuition and Fees. Operating revenues increased a total of $1,667,525.01 due primarily to increase in State and Local Grants and Contracts for repairs and renovations of facilities.

	2005	2004	Increase / (Decrease)
Operating Revenues			
Students Tuition and Fees, Net	$ 1,937,847.46	$ 1,865,234.46	$ 72,613.00
Federal Grants and Contracts	1,462,015.27	1,324,251.85	137,763.42
State and Local Grants and Contracts	1,446,082.45	11,095.00	1,434,987.45
Sales and Service, Net	150,161.02	106,687.78	43,473.24
Other operating revenues	150,734.51	172,046.61	(21,312.10)
Total Operating Revenues	$ 5,146,840.71	$ 3,479,315.70	$ 1,667,525.01

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. Also included are funds appropriated from the Henderson County and Transylvania County Boards of Commissioners, and various other revenues deposited into Institutional Funds. The increase in total nonoperating revenues is due to a significant increase in State aid, $773,286.57, as shown below.

	2005	2004	Increase/ (Decrease)
Nonoperating Revenues			
State Aid	$ 8,880,077.03	$ 8,106,790.46	$ 773,286.57
County Appropriation	1,966,332.00	1,891,270.00	75,062.00
Noncapital Grants & Gifts	720,894.32	1,107,536.04	(386,641.72)
Investment Inc. Interest & Fees	6,614.97	10,754.26	(4,139.29)
Other	2,227.62	(32,539.88)	34,767.50
Total Nonoperating Revenues	$ 11,576,145.94	$ 11,083,810.88	$ 492,335.06

The total nonoperating and operating revenues received by the College for the fiscal year was $16,711,872.18.

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits. Depreciation expense is identified consistent with the requirements for GASB 34/35. Total operating expenses increased a total of $1,647,097.87. The increase of $857,759.25 in Supplies and Materials was due to a combination of State money, construction projects, and a small amount of special funds.

	2005	2004	Increase/ (Decrease)
Operating Expenses			
Personal Services	$ 11,150,537.89	$ 10,336,837.73	$ 813,700.16
Supplies and Materials	2,201,117.98	1,343,358.73	857,759.25
Services	1,983,681.60	1,875,602.28	108,079.32
Scholarships and Fellowships	994,159.75	1,138,239.56	(144,079.81)
Utilities	429,747.00	422,286.51	7,460.49
Depreciation	764,403.42	760,224.96	4,178.46
Total Expenses	$ 17,523,647.64	$ 15,876,549.77	$ 1,647,097.87

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. Total capital contributions decreased $139,179.81 due to the $148,513.42 reduction in State Capital Aid.

	2005	2004	Increase/ (Decrease)
Capital Contributions			
State Capital Aid	$ 259,426.74	$ 407,940.16	$ (148,513.42)
Capital Grants	9,333.61		9,333.61
Total Capital Contributions	$ 268,760.35	$ 407,940.16	$ (139,179.81)

Significant Capital Asset Activity

The College received $1,145,145 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.

Significant Effects on Financial Position

As a result of actions taken by the North Carolina General Assembly, tuition for curriculum students was increased to $39.50 a credit hour with a maximum of $648.25 for 16 or more hours. This represents a 6.5% increase in the direct cost to students attending the College.

At fiscal year ended June 30, 2005, the College had not received any official information on the 2005-2006 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, 2005 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	158,033.20
Restricted Cash and Cash Equivalents		2,819.22
Receivables (Note 3)		331,940.81
Inventories		50,315.61
Notes Receivable, Net (Note 3)		26,177.52
Total Current Assets		569,286.36
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		16,300.67
Restricted Due from Primary Government		432,544.70
Capital Assets - Nondepreciable (Note 4)		2,138,765.00
Capital Assets - Depreciable, Net (Note 4)		13,544,921.60
Total Noncurrent Assets		16,132,531.97
Total Assets		16,701,818.33
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		168,595.18
Deferred Revenue		137,713.19
Funds Held for Others		11,656.21
Long-Term Liabilities - Current Portion (Note 6)		117,846.47
Total Current Liabilities		435,811.05
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,038,815.90
Total Noncurrent Liabilities		1,038,815.90
Total Liabilities		1,474,626.95
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		15,186,111.03
Restricted for:		
Nonexpendable:		
Loans		12,532.90
Expendable:		
Scholarships and Fellowships		1,010.75
Loans		28,758.37
Capital Projects		508,168.91
Other		68,466.79
Unrestricted		(577,857.37)
Total Net Assets	$	15,227,191.38

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, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,937,847.46
Federal Grants and Contracts		1,462,015.27
State and Local Grants and Contracts		1,446,082.45
Sales and Services, Net (Note 8)		150,161.02
Other Operating Revenues		150,734.51
Total Operating Revenues		5,146,840.71
EXPENSES		
Operating Expenses:		
Personal Services		11,150,537.89
Supplies and Materials		2,201,117.98
Services		1,983,681.60
Scholarships and Fellowships		994,159.75
Utilities		429,747.00
Depreciation		764,403.42
Total Operating Expenses		17,523,647.64
Operating Loss		(12,376,806.93)
NONOPERATING REVENUES		
State Aid		8,880,077.03
County Appropriations		1,966,332.00
Noncapital Grants		486,940.68
Noncapital Gifts		233,953.64
Investment Income, Net		6,614.97
Other Nonoperating Revenues		2,227.62
Net Nonoperating Revenues		11,576,145.94
Loss Before Other Revenues		(800,660.99)
State Capital Aid		259,426.74
County Capital Appropriations		275,824.49
Capital Grants		9,333.61
Decrease in Net Assets		(256,076.15)
NET ASSETS		
Net Assets, July 1, 2004 as Restated (Note 15)		15,483,267.53
Net Assets, June 30, 2005	$	15,227,191.38

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,093,722.87
Payments to Employees and Fringe Benefits	(11,119,649.25)
Payments to Vendors and Suppliers	(4,507,191.41)
Payments for Scholarships and Fellowships	(994,159.75)
Collection of Loans to Students	46,799.33
Other Receipts	4,201.90
Net Cash Used by Operating Activities	(11,476,276.31)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,880,077.03
County Appropriations	1,966,332.00
Noncapital Grants Received	320,787.97
Noncapital Gifts and Endowments Received	233,953.64
Cash Provided by Noncapital Financing Activities	11,401,150.64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	259,426.74
County Capital Appropriations	275,824.49
Capital Grants Received	9,333.61
Acquisition and Construction of Capital Assets	(711,861.57)
Principal Payments on Notes Payable	(61,142.88)
Cash Used by Capital and Related Financing Activities	(228,419.61)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	6,614.97
Cash Provided by Investing Activities	6,614.97
Net Decrease in Cash and Cash Equivalents	(296,930.31)
Cash and Cash Equivalents, July 1, 2004	474,083.40
Cash and Cash Equivalents, June 30, 2005	$ 177,153.09
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (12,376,806.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	764,403.42
Miscellaneous Nonoperating Income	2,227.62
Changes in Assets and Liabilities:	
Receivables, Net	(106,438.68)
Inventories	(4,631.03)
Notes Receivable, Net	46,799.33
Accounts Payable and Accrued Liabilities	111,986.20
Deferred Revenue	53,320.84
Funds Held for Others	1,974.28
Compensated Absences	30,888.64
Net Cash Used by Operating Activities	$ (11,476,276.31)

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	158,033.20
Restricted Cash and Cash Equivalents		2,819.22
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		16,300.67
Total Cash and Cash Equivalents - June 30, 2005	$	177,153.09
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income		204,352.21
Capital Asset Write-Offs		44,364.96

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

Blue Ridge Community College Educational Foundation, Inc.
Statement of Financial Position
June 30, 2005 ***Exhibit B-1***

ASSETS		
Current Assets		
Cash and Equivalents	$	1,156,600
Short-Term Investments		69,403
Promises to Give		55,748
Inventory of Items for Resale:		
Vehicles		1,100
Land		38,000
Construction in Progress		85,761
Total Current Assets		1,406,612
Other Assets:		
Property and Equipment, Net		265,806
Trust Investments		36,666
Beneficial Interest in an Estate		
Other Investments		4,584,605
Total Other Assets		4,887,077
Total Assets	$	6,293,689
LIABILITIES AND NET ASSES		
Current Liabilities		
Accounts Payable	$	1,791
Liability Under Trust Agreements, Current Portion		136
Total Current Liabilities		1,927
Net Assets		
Unrestricted		295,360
Temporarily Restricted		957,775
Permanently Restricted		5,038,627
Total Net Assets		6,291,762
Total Liabilities and Net Assets	$	6,293,689

See Note 1 in the Notes to the Financial Statements

Blue Ridge Community College Educational Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005 ***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Contributions	$ 145,183	$ 584,896	$ 919,797	$ 1,649,876
Interest and Dividends	12,994	53,970	346	67,310
Net Realized Gains (Losses) on Investments	(155)	101,487	442	101,774
Unrealized Gains on Investments	61,343	5,498		66,841
Gain on Sale of Real Estate Held for Sale	375			375
Gain (Loss) on Sale of Vehicles Held for Sale	308			308
Decline in Real Estate Value	(87,086)			(87,086)
Change in Value of Split Interest Agreements			(1,392)	(1,392)
Transfers	(32,443)	32,443		
Other	30,589	299		30,888
Net Assets Related Transactions	273,919	(273,919)		
Total Public Support and Revenues	405,027	504,674	919,193	1,828,894
EXPENSES				
Program Services				
Scholarship Awards	190,860			190,860
Other Awards	174,042			174,042
Other Program Services	7,942			7,942
Total Program Services	372,844			372,844
Support Services	84,524			84,524
Total Expenses	457,368			457,368
Increase (Decrease) in Net Assets	(52,341)	504,674	919,193	1,371,526
Net Assets at Beginning of Year	347,701	453,101	4,119,434	4,920,236
Net Assets at End of Year	$ 295,360	$ 957,775	$ 5,038,627	$ 6,291,762

See Note 1 in the Notes to the Financial Statements

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component units are either blended or discretely presented in the financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Blue Ridge Community College Educational Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 22 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation 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 Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2005, the Foundation distributed $372,844 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by calling (828) 694-1709.

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

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

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

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

D. **Cash and Cash Equivalents** – This classification includes 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 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

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 January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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 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 College's 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 AND INVESTMENTS

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 $900.00 and deposits in private financial institutions with a carrying value of $157,122.21 and a bank balance of $405,598.71.

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

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

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, 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, a 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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $19,130.88 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 136,175.15	$ 0.00	$ 136,175.15
Intergovernmental	147,319.26		147,319.26
Interest on Loans	3,908.62		3,908.62
Other	44,537.78		44,537.78
Total Current Receivables	$ 331,940.81	$ 0.00	$ 331,940.81
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 112,221.12	$ 86,043.60	$ 26,177.52

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	$ 1,630,640.00	$ 0.00	$ 0.00	$ 1,630,640.00
Construction in Progress		508,125.00		508,125.00
Total Capital Assets, Nondepreciable	1,630,640.00	508,125.00		2,138,765.00
Capital Assets, Depreciable:				
Buildings	20,745,019.36			20,745,019.36
Machinery and Equipment	2,583,802.10	203,736.57	44,364.96	2,743,173.71
General Infrastructure	911,125.90			911,125.90
Total Capital Assets, Depreciable	24,239,947.36	203,736.57	44,364.96	24,399,318.97
Less Accumulated Depreciation:				
Buildings	7,619,262.74	525,319.65		8,144,582.39
Machinery and Equipment	1,750,886.73	226,409.43	44,364.96	1,932,931.20
General Infrastructure	764,209.44	12,674.34		776,883.78
Total Accumulated Depreciation	10,134,358.91	764,403.42	44,364.96	10,854,397.37
Total Capital Assets, Depreciable, Net	14,105,588.45	(560,666.85)		13,544,921.60
Capital Assets, Net	$ 15,736,228.45	$ (52,541.85)	$ 0.00	$ 15,683,686.60

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 31,172.97
Accrued Payroll	59,943.57
Contract Retainage	72,667.00
Intergovernmental Payables	3,824.87
Other	986.77
Total Accounts Payable and Accrued Liabilities	$ 168,595.18

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, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Notes Payable	$ 622,970.31	$ 0.00	$ 61,142.88	$ 561,827.43	$ 64,251.86
Compensated Absences	563,946.30	333,205.19	302,316.55	594,834.94	53,594.61
Total Long-Term Liabilities	$ 1,186,916.61	$ 333,205.19	$ 363,459.43	$ 1,156,662.37	$ 117,846.47

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2005	Principal Outstanding 06/30/2005
Energy Conservation Equipment	BB&T	4.97%	12/12/2012	$ 699,187.00	$ 137,359.57	$ 561,827.43

The annual requirements to pay principal and interest on the notes payable at June 30, 2005, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2006	$ 64,251.86	$ 26,472.34
2007	67,518.93	23,205.27
2008	70,952.13	19,772.07
2009	74,559.92	16,164.28
2010	78,351.11	12,373.09
2011-2012	206,193.48	20,617.02
Total Requirements	$ 561,827.43	$ 118,604.07

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 128,380.80
2007	110,838.00
2008	110,838.00
2009	9,236.00
Total Minimum Lease Payments	$ 359,292.80

Rental expense for all operating leases during the year was $157,353.01.

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	$ 2,607,651.30	$ 0.00	$ 669,803.84	$ 1,937,847.46
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 8,729.22	$ 0.00	$ 0.00	$ 8,729.22
Bookstore	67,471.95			67,471.95
Athletic	1,606.00			1,606.00
Print Shop	139,706.28	129,888.48		9,817.80
Central Supply	15,314.96	14,990.01		324.95
Other	19,945.00			19,945.00
Sales and Services of Education and Related Activities	42,266.10			42,266.10
Total Sales and Services	$ 295,039.51	$ 144,878.49	$ 0.00	$ 150,161.02

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 6,830,819.40	$ 303,140.42	$ 758,158.56	$ 189.63	$ 0.00	$ 0.00	$ 7,892,308.01
Academic Support	705,259.15	13,349.19	100,358.43				818,966.77
Student Services	563,698.89	19,187.95	20,965.41	26,944.85			630,797.10
Institutional Support	2,491,617.45	40,026.81	451,788.58				2,983,432.84
Operations & Maint. of Plant	559,059.00	1,807,650.37	253,941.40		429,747.00		3,050,397.77
Student Financial Aid			55,487.44	967,025.27			1,022,512.71
Auxiliary Enterprises	84.00	17,763.24	342,981.78				360,829.02
Depreciation						764,403.42	764,403.42
Total Operating Expenses	$ 11,150,537.89	$ 2,201,117.98	$ 1,983,681.60	$ 994,159.75	$ 429,747.00	$ 764,403.42	$ 17,523,647.64

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 G.S. 135-5 and G.S. 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $9,398,440.66, of which $7,401,887.58 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $444,113.25 and $160,620.96, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $160,620.93, $14,987.97, and $0.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.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 $901.68 for the year ended June 30, 2005.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $139,668.00 for the year ended June 30, 2005.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employees' 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 $42,692.00 for the year ended June 30, 2005.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was $236,860.40. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. **Long-Term Disability –** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $32,938.39. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. 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. There were no employer contributions required for the current fiscal year.

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

NOTE 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 $72,667.00 at June 30, 2005.

B. **Community College General Obligation Bonds –** The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $923,837.44 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2004, net assets as previously reported was restated as follows:

	Amount
July 1, 2004 Net Assets as Previously Reported	$ 15,474,866.05
Restatements Relating to Capital Assets	8,401.48
July 1, 2004 Net Assets as Restated	$ 15,483,267.53

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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
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, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 8, 2006. We did not audit the financial statements of Blue Ridge Community College Educational Foundation, Inc. which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Blue Ridge Community College Educational Foundation, Inc. is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to the discretely presented component unit.

Matters Relating to Financial Reporting or Federal Compliance Objectives

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

1. Deficiencies in Financial Reporting
2. Violation of Terms of Gift Trust Agreement
3. Inadequate Controls Over Journal Entries

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, of the reportable conditions described above, we consider 1, 2, and 3 to be a material weakness.

Matters Not Related to Financial Reporting or Federal Compliance Objectives

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, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* We also consider finding 4 to have a material effect on the financial statements.

Finding

4. Deficit Net Asset Balances

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* (CONCLUDED)**

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

Leslie W. Merritt, Jr.

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

May 8, 2006

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AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. Finding numbers 1 and 4 were also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Blue Ridge Community College contained material misstatements. As a result, users of the financial statements could be misled about the College's financial condition and results of operations.

During our audit of the 2005 financial statements the following material misstatements were noted:

- Due to a misclassification of net assets and the cumulative effect of other errors, restricted net assets were understated by $3.3 million and unrestricted net assets were overstated by $3.3 million.
- The College overstated state aid by $1.9 million due to the failure to properly account for tuition and fees.
- The July 1 net assets balance presented in the Statement of Revenues, Expenses, and Changes in Net Assets did not agree with the prior year audit report. The balance was understated by $1.7 million.
- The amount recorded on the Statement of Cash Flows as noncapital gifts and endowments received was understated by $1.7 million.
- Various other misstatements were made in the financial statements and the notes to the financial statements.

Significant financial statement presentation errors were noted in both of the previous two audit reports issued by the Office of the State Auditor on the College's financial statements.

Recommendation: The College should place greater emphasis on the year end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements.

College's Response: The Business Office will significantly increase its review of year end financial reports to ensure accuracy. Personnel changes have been made that will bring increased experience and expertise to this issue.

2. VIOLATION OF TERMS OF GIFT TRUST AGREEMENT

The College failed to maintain the corpus amount of a trust in accordance with the trust agreement. As a result, the College is in violation of certain provisions of the trust agreement.

The College received an endowment of $25,000.00 with the stipulation that the College contribute an equal amount to the endowment and, "invest, reinvest, and maintain invested the corpus of the Trust created hereby and shall use the net income derived therefrom once the principal reaches Fifty Thousand Dollars ($50,000.00) for the purpose of providing loans for worthy and deserving young men and women who are students at BLUE RIDGE TECHNICAL COLLEGE."

At year end, the specified endowment fund had a cash balance of $11,032.90 per the general ledger, indicating the College had failed to comply with the terms of the trust.

Recommendation: The College should implement effective internal controls to ensure compliance with applicable provisions included in gift instruments.

College's Response: The violation was corrected within days of the occurrence. Controls and oversight have been put in place to prevent a recurrence.

3. INADEQUATE CONTROLS OVER JOURNAL ENTRIES

The College's procedures for preparing and recording journal entries were inadequate. Multiple journal entries were recorded incorrectly, or not at all, resulting in inaccurate financial reporting.

The College's procedures for recording journal entries did not include requirements for reviewing journal entries prior to posting to the College's accounting system. Furthermore, in some cases there was insufficient documentation to determine who prepared the entry or if the entry was recorded in the system.

Recommendation: The College should implement procedures to ensure that journal entries are accurately prepared, reviewed by the appropriate level of management and appropriately entered into the accounting system.

College's Response: Procedures and reviews have been implemented to clarify the posting of journal entries and to assure their accuracy. The personnel changes noted above will reinforce the improved control.

Matters Not Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in the management control process for a matter not directly related to financial reporting or federal compliance objectives.

4. DEFICIT NET ASSET BALANCES

The College's general ledger reflected three funds with significant deficit net asset balances. As a result, other funds were used to support these activities.

At June 30, 2005, the College's print shop had a deficit net asset balance of $175 thousand, an increased deficit of $19 thousand from the prior year. Prudent business practice would dictate that rate setting and expenses are monitored closely to ensure activities are functioning as intended.

The baseball and volleyball programs also had deficit net asset balances of $19.9 and $13.4 thousand, respectively. *North Carolina General Statute* 115D-5 (g) states in part that recreation extension courses shall be on a self-supporting basis.

Recommendation: The College should implement and monitor the execution of an effective plan to make these programs self-supporting, with sufficient revenues to sustain their operations.

College's Response: The College has plans in place to correct the deficit positions in three special funds. The Print Shop deficit is currently down by over $35,000. This reduction is expected to accelerate in the future. The College's Board of Trustees is implementing a program which will clear the deficits from the athletic programs and put them on a sustaining basis.

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