



STATE OF NORTH CAROLINA

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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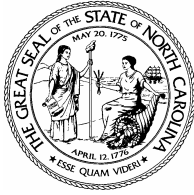
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STATE OF NORTH CAROLINA
Office of the State Auditor

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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

We have completed a financial statement and compliance audit of Blue Ridge Community College for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed certain deficiencies or instances of noncompliance that are detailed in the Audit Findings and Responses 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.

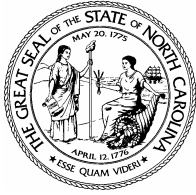
Leslie W. Merritt, Jr.

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

March 18, 2008

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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, 2007, 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Blue Ridge Community College 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2008, on our consideration of the College's internal control over financial

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

March 10, 2008

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, 2007. 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 Basic Financial Statements

The basic financial statements consist of three parts: Management's Discussion and Analysis, the financial statement exhibits and the notes to the financial statements.

Basic 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. The notes to the financial statements are a required component of the basic financial statements and explain in more detail some of the information in the financial statements.

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 increase in current assets is principally due to an increase in cash. The increase in cash is directly related to the timing of amounts due to vendors and an increase in local government funds from cost savings measures taken during the year. The decrease in amounts due from NC Component Units is related to the termination of a Golden Leaf grant.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Current Assets			
Cash and Cash Equivalents	\$ 377,982.04	\$ 80,065.89	\$ 297,916.15
Restricted Cash and Cash Equivalents	26,183.54	19,495.10	6,688.44
Receivables, Net	297,958.64	259,665.24	38,293.40
Due From State of North Carolina Component Units		100,000.00	(100,000.00)
Inventories	50,693.18	66,185.20	(15,492.02)
Notes Receivable, Net	13,701.49	29,861.20	(16,159.71)
Total Current Assets	<u>\$ 766,518.89</u>	<u>\$ 555,272.63</u>	<u>\$ 211,246.26</u>

Noncurrent assets include cash, receivables, amounts due from Primary Government, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). The \$8,158,218.91 increase in noncurrent assets is due primarily to ongoing construction of two buildings, the Technology Education and Development Center and the New Vocational Training Building, located on the Flat Rock and Transylvania locations.

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	\$ 59,028.35	\$ 55,147.98	\$ 3,880.37
Receivables	775,013.60	65,025.86	709,987.74
Restricted Due from Primary Government	623,821.29	82,408.07	541,413.22
Capital Assets	22,508,315.81	15,605,378.23	6,902,937.58
Total Noncurrent Assets	<u>\$ 23,966,179.05</u>	<u>\$ 15,807,960.14</u>	<u>\$ 8,158,218.91</u>

Capital Assets

Capital assets increased due to construction of two buildings as mentioned above.

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, as well as remaining balances of notes payable and capital leases payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Liabilities			
Current	\$ 1,542,174.71	\$ 451,078.54	\$ 1,091,096.17
Long-Term	1,186,905.98	1,089,099.80	97,806.18
Total Liabilities	<u>\$ 2,729,080.69</u>	<u>\$ 1,540,178.34</u>	<u>\$ 1,188,902.35</u>

Total liabilities of the College increased by \$1,188,902.35 during the year. This increase is due to liabilities for payments for current construction completion and long term amounts held for retainage for the construction of two buildings.

Net Assets

Total net assets were \$22,003,617.25 for June 30, 2007. Net assets are a measure of the value of all the College's assets after liabilities are deducted. There was an increase in total assets of \$8,369,465.17 and the increase in total liabilities of \$1,188,902.35. After removing the effect of a prior period adjustment causing an increase in beginning net assets of \$571,309.38, the overall increase in net assets from current year activity is \$6,609,253.44.

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 21,822,215.10	\$ 15,107,802.66	\$ 6,714,412.44
Restricted	772,624.09	279,092.80	493,531.29
Unrestricted	(591,221.94)	(563,841.03)	(27,380.91)
Total Net Assets	<u>\$ 22,003,617.25</u>	<u>\$ 14,823,054.43</u>	<u>\$ 7,180,562.82</u>

Revenues

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

Operating revenues include student tuition and fees, net, 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. Operating revenues decreased a total of \$413,219.71 due mainly to the decrease in Federal Pell grants and the reduction in tuition resulting from a decrease in student enrollment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 1,774,837.26	\$ 2,126,004.59	\$ (351,167.33)
Federal Grants and Contracts	1,068,258.09	1,260,179.95	(191,921.86)
State and Local Grants and Contracts	237,002.58	223,753.43	13,249.15
Sales and Services, Net	158,565.48	142,763.43	15,802.05
Other Operating Revenues	156,118.28	55,300.00	100,818.28
Total Operating Revenues	<u>\$ 3,394,781.69</u>	<u>\$ 3,808,001.40</u>	<u>\$ (413,219.71)</u>

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 Henderson County and Transylvania County Commissioners, and various other revenues deposited into Institutional Funds. The change in total nonoperating revenues is due to a significant increase in State aid. The increase in State aid is mainly the result of additional funding for payroll increases for the employees of the College.

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Nonoperating Revenues (Expenses)			
State Aid	\$ 9,924,494.76	\$ 9,066,163.75	\$ 858,331.01
County Appropriations	2,194,607.00	2,098,373.00	96,234.00
Noncapital Grants & Gifts	1,035,795.09	1,020,373.23	15,421.86
Investment Income	29,026.97	11,798.59	17,228.38
Other Nonoperating Expenses	(286,534.60)	(26,290.34)	(260,244.26)
Total Nonoperating Revenues	<u>\$ 12,897,389.22</u>	<u>\$ 12,170,418.23</u>	<u>\$ 726,970.99</u>

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 Statements No. 34/35. Total operating expenses decreased a total of \$151,114.95.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2007	2006	Increase/ (Decrease)
Operating Expenses			
Personal Services	\$ 12,439,247.53	\$ 12,089,585.08	\$ 349,662.45
Supplies and Materials	990,724.12	1,146,580.56	(155,856.44)
Services	1,569,613.85	1,780,988.83	(211,374.98)
Scholarships and Fellowships	910,669.73	1,067,108.39	(156,438.66)
Utilities	446,559.30	458,368.93	(11,809.63)
Depreciation	853,436.92	818,734.61	34,702.31
Total Nonoperating Revenues	<u>\$ 17,210,251.45</u>	<u>\$ 17,361,366.40</u>	<u>\$ (151,114.95)</u>

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 increased \$6,662,444.26 due principally from the funds received from Henderson and Transylvania Counties for construction of two buildings.

	2007	2006	Increase/ (Decrease)
Capital Contributions			
State Capital Aid	\$ 1,293,738.91	\$ 331,253.68	\$ 962,485.23
County Capital Appropriations	6,233,595.07	366,247.05	5,867,348.02
Capital Grants		120,221.39	(120,221.39)
Capital Gifts		47,167.60	(47,167.60)
Total Capital Contributions	<u>\$ 7,527,333.98</u>	<u>\$ 864,889.72</u>	<u>\$ 6,662,444.26</u>

Operating revenues of \$3,394,781.69 and nonoperating revenues of \$13,183,923.82 combine for total revenues of \$16,578,705.51. Operating expenses of \$17,210,251.45 and nonoperating expenses of \$286,534.60 combine for total expenses of \$17,496,786.05. After considering capital contributions of \$7,527,333.98, the resulting change in net assets is \$6,609,253.44 from current year activity. The total change in net asset for the year is \$7,180,562.82 as a result of a prior period adjustment increase of \$571,309.38.

Significant Capital Asset Activity

The College received \$725,767.46 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. The College also received \$6,233,595.07 from Henderson and Transylvania counties for construction of the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Technology Education and Development Center and the New Vocational Training Building. The College has outstanding construction commitments in the amount of \$11,222,876.44 as a result of these projects.

Significant Effects on Financial Position

At fiscal year ended June 30, 2007, the College had not received any official information on the 2007-2008 budget from the State of North Carolina.

Blue Ridge Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 377,982.04
Restricted Cash and Cash Equivalents	26,183.54
Receivables, Net (Note 3)	297,958.64
Inventories	50,693.18
Notes Receivable, Net (Note 3)	13,701.49
	<hr/>
Total Current Assets	766,518.89

Noncurrent Assets:

Restricted Cash and Cash Equivalents	59,028.35
Receivables (Note 3)	775,013.60
Restricted Due from Primary Government	623,821.29
Capital Assets - Nondepreciable (Note 4)	8,898,112.56
Capital Assets - Depreciable, Net (Note 4)	13,610,203.25
	<hr/>
Total Noncurrent Assets	23,966,179.05
	<hr/>
Total Assets	24,732,697.94

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,186,492.31
Due to Primary Government	33,460.41
Due to County	12,589.62
Unearned Revenue	83,959.99
Funds Held for Others	10,712.26
Long-Term Liabilities - Current Portion (Note 6)	214,960.12
	<hr/>
Total Current Liabilities	1,542,174.71

Noncurrent Liabilities:

Due to Primary Government	33,460.41
Due to County	50,358.48
Long-Term Liabilities (Note 6)	1,103,087.09
	<hr/>
Total Noncurrent Liabilities	1,186,905.98
	<hr/>
Total Liabilities	2,729,080.69

***Blue Ridge Community College
Statement of Net Assets
June 30, 2007***

***Exhibit A-1
Page 2***

NET ASSETS

Invested in Capital Assets, Net of Related Debt	21,822,215.10
Restricted for:	
Nonexpendable:	
Loans	50,000.00
Other	1,500.00
Expendable:	
Scholarships and Fellowships	292.30
Loans	26,183.54
Capital Projects	694,648.25
Unrestricted	<u>(591,221.94)</u>
Total Net Assets	<u>\$ 22,003,617.25</u>

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,774,837.26
Federal Grants and Contracts	1,068,258.09
State and Local Grants and Contracts	237,002.58
Sales and Services, Net (Note 8)	158,565.48
Other Operating Revenues	156,118.28
	<hr/>
Total Operating Revenues	3,394,781.69

EXPENSES

Operating Expenses:	
Personal Services	12,439,247.53
Supplies and Materials	990,724.12
Services	1,569,613.85
Scholarships and Fellowships	910,669.73
Utilities	446,559.30
Depreciation	853,436.92
	<hr/>
Total Operating Expenses	17,210,251.45
	<hr/>
Operating Loss	(13,815,469.76)

NONOPERATING REVENUES (EXPENSES)

State Aid	9,924,494.76
County Appropriations	2,194,607.00
Noncapital Grants	527,954.92
Noncapital Gifts	507,840.17
Investment Income	29,026.97
Other Nonoperating Expenses	(286,534.60)
	<hr/>
Net Nonoperating Revenues	12,897,389.22
	<hr/>
Income Before Other Revenues and Expenses	(918,080.54)
	<hr/>
State Capital Aid	1,293,738.91
County Capital Aid	6,233,595.07
	<hr/>
Increase in Net Assets	6,609,253.44

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	15,394,363.81
	<hr/>
Net Assets, June 30, 2007	\$ 22,003,617.25
	<hr/> <hr/>

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,326,398.82
Payments to Employees and Fringe Benefits	(12,532,175.54)
Payments to Vendors and Suppliers	(3,005,200.74)
Payments for Scholarships and Fellowships	(920,908.78)
Loans Issued to Students	(33,653.56)
Collection of Loans to Students	37,079.89
Other Payments	(278,790.08)
	<hr/>
Net Cash Used by Operating Activities	(13,407,249.99)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,924,494.76
County Appropriations	2,194,607.00
Noncapital Grants Received	757,823.84
Noncapital Gifts Received	507,840.17
	<hr/>
Cash Provided by Noncapital Financing Activities	13,384,765.77

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	752,325.69
County Capital Aid	5,523,607.33
Acquisition and Construction of Capital Assets	(5,814,612.44)
Principal Paid on Capital Debt and Leases	(159,378.37)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	301,942.21

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	29,026.97
	<hr/>
Cash Provided by Investing Activities	29,026.97

Net Increase in Cash and Cash Equivalents	308,484.96
Cash and Cash Equivalents, July 1, 2006	154,708.97
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 463,193.93

***Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3
Page 2***

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (13,815,469.76)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	853,436.92
Provision for Uncollectible Loans and Write-Offs	12,733.38
Miscellaneous Nonoperating Expense	(286,265.75)
Changes in Assets and Liabilities:	
Receivables, Net	(38,293.40)
Inventories	15,492.02
Notes Receivable	3,426.33
Accounts Payable and Accrued Liabilities	(56,063.49)
Unearned Revenue	(40,328.52)
Funds Held for Others	7,475.67
Compensated Absences	<u>(63,393.39)</u>
Net Cash Used by Operating Activities	<u><u>\$ (13,407,249.99)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 377,982.04
Restricted Cash and Cash Equivalents	26,183.54
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>59,028.35</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 463,193.93</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 1,468,229.53
Increase in Receivables Related to Nonoperating Income	378,705.97

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, 2007

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,457,521
Short-Term Investments	72,051
Promises To Give	82,790
Inventories of Items for Resale:	
Vehicles	1,000
	<hr/>
Total Current Assets	1,613,362

Other Assets:

Trust Investments	31,641
Other Investments	6,416,267
	<hr/>
Total Other Assets	6,447,908

Total Assets	<u><u>\$ 8,061,270</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	<u>\$ 3,568</u>
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NET ASSETS

Unrestricted	464,207
Temporarily Restricted	1,552,588
Permanently Restricted	6,040,907
	<hr/>
Total Net Assets	8,057,702

Total Liabilities and Net Assets	<u><u>\$ 8,061,270</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Blue Ridge Community College Educational Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenues:				
Contributions	\$ 116,214	\$ 342,730	\$ 252,148	\$ 711,092
Interest and Dividends	22,102	116,677	34	138,813
Net Realized Gains on Investments	(16)	360,943	136	361,063
Unrealized Gains on Investments	84,339	223,438		307,777
Loss on Sale of Real Estate Held for Sale	(11,903)			(11,903)
Change in Value of Split Interest Agreements			(2,371)	
Transfers	37,697	(50,947)	13,250	
Other	6,208	5,464		11,672
Net Assets Released from Restriction	569,074	(569,074)		
Total Public Support and Revenues	823,715	429,231	263,197	1,516,143
Expenses:				
Program Services				
Scholarship Awards	231,473			231,473
Other Student Financial Assistance	45,220			45,220
Other Awards	469,862			469,862
Other Program Services	570			570
Total Program Services	747,125			747,125
Supporting Services	93,359			93,359
Total Expenses	840,484			840,484
Increase in Net Assets	(16,769)	429,231	263,197	675,659
Net Assets at Beginning of Year	480,976	1,123,357	5,777,710	7,382,043
Net Assets at End of Year	<u>\$ 464,207</u>	<u>\$ 1,552,588</u>	<u>\$ 6,040,907</u>	<u>\$ 8,057,702</u>

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

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BLUE RIDGE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. 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 discretely presented component unit based on the nature and significance of the 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 18 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from Governmental Accounting Standards Board (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, 2007, the Foundation distributed \$530,199.61 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by calling (828) 694-1710.

- 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 fund. The short-term investment fund 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 valued at the lower of cost or market 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 to 50 years for general infrastructure, 15 to 40 years for buildings, and 5 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, capital lease obligations, 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 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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 central stores and 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,000.00, and deposits in private financial institutions with a carrying value of \$253,282.51 and a bank balance of \$71,160.39.

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.

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, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$208,911.42 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

weighted average maturity of 1.6 years as of June 30, 2007. 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.

Component Unit - Investments of the College's component unit, Blue Ridge Community College Educational Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required.

Investments are presented in the financial statements in the aggregate at fair marked value as follows:

At June 30, 2007	Cost	Market
Trust Investments	<u>\$ 32,000.00</u>	<u>\$ 31,641.00</u>
Other Investments:		
Certificates of Deposit	72,051.00	72,051.00
Stocks and Bonds	<u>5,672,641.00</u>	<u>6,416,267.00</u>
Total Other Investments	<u>5,744,692.00</u>	<u>6,488,318.00</u>
Total Investments	<u><u>\$ 5,776,692.00</u></u>	<u><u>\$ 6,519,959.00</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 183,138.82	\$ 23,572.04	\$ 159,566.78
Intergovernmental	123,919.32		123,919.32
Other	14,472.54		14,472.54
Total Current Receivables	<u>\$ 321,530.68</u>	<u>\$ 23,572.04</u>	<u>\$ 297,958.64</u>
Noncurrent Receivables:			
Intergovernmental	<u>\$ 775,013.60</u>	<u>\$ 0.00</u>	<u>\$ 775,013.60</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 113,907.96</u>	<u>\$ 100,206.47</u>	<u>\$ 13,701.49</u>

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 1,630,640.00	\$ 0.00	\$ 0.00	\$ 1,630,640.00
Construction in Progress	678,285.00	6,589,187.56		7,267,472.56
Total Capital Assets, Nondepreciable	<u>2,308,925.00</u>	<u>6,589,187.56</u>		<u>8,898,112.56</u>
Capital Assets, Depreciable:				
Buildings	21,011,144.36			21,011,144.36
Machinery and Equipment	2,756,956.05	596,146.41	161,090.71	3,192,011.75
General Infrastructure	920,257.90			920,257.90
Total Capital Assets, Depreciable	<u>24,688,358.31</u>	<u>596,146.41</u>	<u>161,090.71</u>	<u>25,123,414.01</u>
Less Accumulated Depreciation:				
Buildings	8,621,886.98	529,310.81		9,151,197.79
Machinery and Equipment	1,642,148.21	299,288.48	160,821.86	1,780,614.83
General Infrastructure	556,560.51	24,837.63		581,398.14
Total Accumulated Depreciation	<u>10,820,595.70</u>	<u>853,436.92</u>	<u>160,821.86</u>	<u>11,513,210.76</u>
Total Capital Assets, Depreciable, Net	<u>13,867,762.61</u>	<u>(257,290.51)</u>	<u>268.85</u>	<u>13,610,203.25</u>
Capital Assets, Net	<u>\$ 16,176,687.61</u>	<u>\$ 6,331,897.05</u>	<u>\$ 268.85</u>	<u>\$ 22,508,315.81</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 849,856.88
Accrued Payroll	19,586.98
Contract Retainage	315,690.60
Other	1,357.85
Total Accounts Payable and Accrued Liabilities	\$ 1,186,492.31

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, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 497,575.57	\$ 0.00	\$ 67,518.93	\$ 430,056.64	\$ 70,952.13
Capital Lease Payable		347,903.51	91,859.44	256,044.07	85,348.74
Compensated Absences	695,339.89	339,596.76	402,990.15	631,946.50	58,659.25
Total Long-Term Liabilities	\$ 1,192,915.46	\$ 687,500.27	\$ 562,368.52	\$ 1,318,047.21	\$ 214,960.12

Additional information regarding capital lease obligations is included in Note 7.

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 June 30, 2007	Principal Outstanding June 30, 2007
Energy Conservation Equipment	BB&T	4.97%	12/12/2012	\$ 699,187.00	\$ 269,130.36	\$ 430,056.64

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Notes Payable	
	Principal	Interest
2008	\$ 70,952.13	\$ 19,772.07
2009	74,559.92	16,164.28
2010	78,351.11	12,373.09
2011	82,335.18	8,389.08
2012	86,491.69	4,202.51
2013	37,366.61	465.08
Total Requirements	\$ 430,056.64	\$ 61,366.11

NOTE 7 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 91,859.23
2009	91,859.23
2010	91,859.23
Total Minimum Lease Payments	275,577.69
Amount Representing Interest (4.54% Rate of Interest)	19,533.62
Present Value of Future Lease Payments	\$ 256,044.07

Machinery and equipment acquired under capital lease amounted to \$347,903.51 at June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 101,635.32
2009	97,899.07
2010	95,230.32
2011	<u>71,422.74</u>
Total Minimum Lease Payments	<u>\$ 366,187.45</u>

Rental expense for all operating leases during the year was \$114,033.87.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 2,228,032.32	\$ 0.00	\$ 440,461.68	\$ 12,733.38	\$ 1,774,837.26
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 8,758.75	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,758.75
Bookstore	32,685.84				32,685.84
Athletic	4,791.91				4,791.91
Other	24,767.50				24,767.50
Sales and Services of Education and Related Activities	70,705.73				70,705.73
Independent Operations	<u>184,246.26</u>	<u>167,390.51</u>			<u>16,855.75</u>
Total Sales and Services	<u>\$ 325,955.99</u>	<u>\$ 167,390.51</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 158,565.48</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 7,539,779.06	\$ 195,192.27	\$ 568,473.49	\$ 1,650.00	\$ 0.00	\$ 0.00	\$ 8,305,094.82
Academic Support	888,349.53	73,762.51	54,166.65				1,016,278.69
Student Services	670,536.67	23,238.69	23,955.75	28,292.38			746,023.49
Institutional Support	2,793,112.26	175,653.85	590,503.05				3,559,269.16
Operations and Maintenance of Plant	547,470.01	495,394.06	203,431.83		446,559.30		1,692,855.20
Student Financial Aid			3,915.47	880,727.35			884,642.82
Auxiliary Enterprises		27,482.74	125,167.61				152,650.35
Depreciation						853,436.92	853,436.92
Total Operating Expenses	<u>\$ 12,439,247.53</u>	<u>\$ 990,724.12</u>	<u>\$ 1,569,613.85</u>	<u>\$ 910,669.73</u>	<u>\$ 446,559.30</u>	<u>\$ 853,436.92</u>	<u>\$ 17,210,251.45</u>

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

For the year ended June 30, 2007, the College had a total payroll of \$10,468,982.24, of which \$8,468,925.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$508,135.54 and \$225,273.42, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$225,273.42, \$188,826.99, and \$160,620.93, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$150.28 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$216,275.76 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$36,486.28 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2007, the College's total contribution to the Plan was \$321,819.18. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$44,038.41. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$75,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from The Netherlands 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

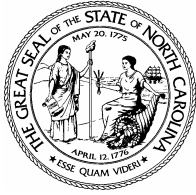
NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$11,222,876.44 at June 30, 2007.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 14,823,054.43
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	<u>571,309.38</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 15,394,363.81</u></u>



STATE OF NORTH CAROLINA
Office of the State Auditor

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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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 10, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Blue Ridge Community College Educational Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

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

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

**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 management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

March 10, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters. Finding number 1 was also reported in the prior year.

1. FINANCIAL STATEMENTS AND NOTES REQUIRED SIGNIFICANT CORRECTIONS

The financial statements and related notes prepared by Blue Ridge Community College contained significant misstatements. Without our audit adjustments, users of the financial statements could have been misled about the College's financial condition and results of operations.

Misstatements noted in our audit included the following:

- a. The College incorrectly posted a journal entry in its attempt to correct an error in the estimate of useful lives for buildings and equipment. As a result, supplies and materials expense was understated and the restatement of beginning net assets was understated by \$338,108.82.
- b. The College failed to consider their estimate of useful lives for infrastructure when making corrections of estimates to the useful lives of all capital assets. As a result, capital assets were understated and by \$233,200.56. Depreciation expense related to these assets was understated by \$11,554.49.
- c. The College failed to reclassify contract retainage. As a result, construction in progress was understated and supplies and materials expense was overstated by \$315,690.60.
- d. The College misclassified net asset accounts. The aggregate impact of offsetting reclassifications amounted to \$216,319.27. Additionally, the College erroneously reduced invested in capital assets by debt that was not capital-related, resulting in an understatement of \$129,868.92 in invested in capital assets and an overstatement of unrestricted net assets.
- e. The College failed to properly allocate student tuition and fees to the appropriate period. As a result, tuition and fee revenues and receivables were overstated by \$142,787.62.
- f. The College incorrectly classified mandatory repayments as services expenses and long-term liabilities. As a result, current long-term liabilities and noncurrent long-term liabilities were overstated by \$46,050.03 and \$83,818.89 respectively.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

The amounts were reclassified as other nonoperating expense, due to primary government and due to county.

- g. The College failed to report disclosures about material investments held by the discretely presented component unit. These investments had a market value of \$6,519,959.00.
- h. The College failed to include \$450,879.43 in the commitments note for outstanding commitments on construction contracts.
- i. The Statement of Cash Flows contained a significant number of errors.
- j. Various other misstatements were noted in the financial statements, notes to the financial statements and management's discussion and analysis.

There is a lack of controls surrounding the financial reporting process. Specifically:

- No policies or procedures have been established for the process of or to provide guidance in the preparation of the financial statements.
- Journal entries prepared during the year-end closing and financial reporting processes were both initiated and approved by one individual. There was no subsequent review or approval by management.
- The financial statements were prepared by the same individual that prepared the year-end journal entries without management review.

Recommendation: The College should place greater emphasis on the year-end reporting process and address deficiencies in controls over the financial reporting process.

College's Response: The College takes no exceptions to the finding and recommendation. The appropriate adjusting entries have been made. The College will be developing policies and procedures to address the internal control issues as outlined in the audit finding and recommendation. The implementation of these policies and procedures will greatly mitigate future audit exceptions.

2. DEFICIENCIES IN SEGREGATION OF DUTIES

During our audit we noted several areas where duties were not properly segregated. As a result, errors or misappropriations could occur and not be detected in a timely manner.

First, the cashier is responsible for receipting and also has responsibility for setting the fee schedule within the Colleague system for tuition and fee rates. Secondly, the payroll accountant responsible for coordinating the payroll process performs the functions of entering payroll data in the Colleague system, printing payroll checks, and disbursing

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

payroll checks. Finally, the equipment coordinator is responsible for tagging assets, entering assets into the Colleague system, reconciling related accounts, and performing the annual inventory.

Recommendation: Management should evaluate and, to the extent necessary, reassign job duties and system access rights in order to better segregate duties to enhance internal control.

College's Response: The College concurs with the finding and recommendation. The College is currently reviewing the job duties and responsibilities of all Business Office personnel and the Human Resource Department. Restructuring of the department will be done to ensure that internal controls are adequately addressed.

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