



STATE OF NORTH CAROLINA

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2011, 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 other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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 opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

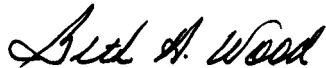
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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, 2011, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

April 25, 2012

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, 2011. 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 Financial Services office at (828) 694-1716.

Overview of the Financial Statements

These basic financial statements consist of three parts: management's discussion and analysis, financial statement exhibits, and notes to the 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 the College's 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 obligations to 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 gifts.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about BRCC's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as: where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

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

Financial Analysis

Assets

The assets of the College are divided between current and noncurrent assets.

Current assets include cash, receivables, amounts due from other agencies or individuals, inventories, and notes receivable. Current assets remained relatively stable in total when compared to the prior fiscal year. While net receivables increased, cash and other assets decreased in a consistent manner.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Current Assets			
Cash and Cash Equivalents	\$ 802,829	\$ 892,719	\$ (89,890)
Restricted Cash and Cash Equivalents	177,015	162,224	14,791
Receivables, Net	334,844	246,036	88,808
Due from State of North Carolina Component Units		272	(272)
Due from Community College Component Unit	698		698
Inventories	64,638	88,038	(23,400)
Prepaid Items	84,753	25,529	59,224
Notes Receivable, Net	10,292	13,498	(3,206)
	<u>1,475,069</u>	<u>1,428,316</u>	<u>46,753</u>
Total Current Assets	<u>\$ 1,475,069</u>	<u>\$ 1,428,316</u>	<u>\$ 46,753</u>

Noncurrent assets include cash, receivables, amounts due from primary government, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment).

	<u>2011</u>	<u>2010 (as restated)</u>	<u>Increase/ (Decrease)</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	\$ 562,387	\$ 224,328	\$ 338,059
Receivables, Net		58,537	(58,537)
Restricted Due from Primary Government		39,477	(39,477)
Capital Assets, Net	31,308,227	30,926,386	381,841
	<u>31,870,614</u>	<u>31,248,728</u>	<u>621,886</u>
Total Noncurrent Assets	<u>\$ 31,870,614</u>	<u>\$ 31,248,728</u>	<u>\$ 621,886</u>

The \$621,886 increase in noncurrent assets is mainly attributable to the \$2 million energy improvement and renovation project. A portion of these upgrades was capitalized in the 2010-2011 fiscal year as construction in progress. This project will be completed as of September 30, 2011.

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, a capital lease, as well as remaining balances of notes payable.

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Liabilities			
Current Liabilities	\$ 873,731	\$ 636,599	\$ 237,132
Noncurrent Liabilities	579,099	724,094	(144,995)
	<u>1,452,830</u>	<u>1,360,693</u>	<u>92,137</u>
Total Liabilities	<u>\$ 1,452,830</u>	<u>\$ 1,360,693</u>	<u>\$ 92,137</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As of June 30, 2011, the College entered into a capital lease for a new telephone system and related equipment which contributes to a portion of the overall total liabilities increase. The remaining increase was attributable to growth in summer class enrollment which increased unearned revenue, along with an increase in contract payables associated with the \$2 million repair and renovation project.

Net Assets

Total net assets were \$31,892,853 at June 30, 2011. Net assets are a measure of all the College's assets after liabilities are deducted. Although the College's unrestricted net assets are limited, restricted net assets continue to grow in the area of program support and capital project funding.

	<u>2011</u>	<u>2010</u> <u>(as restated)</u>	<u>Increase /</u> <u>(Decrease)</u>
Net Assets			
Invested in Capital Assets	\$ 31,084,984	\$ 30,720,193	\$ 364,791
Restricted	805,755	532,817	272,938
Unrestricted	<u>2,114</u>	<u>63,341</u>	<u>(61,227)</u>
Total Net Assets	<u>\$ 31,892,853</u>	<u>\$ 31,316,351</u>	<u>\$ 576,502</u>

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees and the revenue received from sales and services; principally comprised of commission received from the bookstore and vending contracts. Although gross tuition and fees increased as a result of increased enrollment during the 2010-11 academic year, scholarship discounts and the allowance for uncollectibles increased by a higher rate, which resulted in an overall \$218,412 decrease in net tuition and fees. This along with the offset by the receipt of some State funds to provide environmental, health and safety services to the other North Carolina Community Colleges resulted in a total decrease in operating revenues of \$32,413.

	<u>2011</u>	<u>2010</u>	<u>Increase /</u> <u>(Decrease)</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 2,000,108	\$ 2,218,520	\$ (218,412)
Federal Grants and Contracts	5,123		5,123
State and Local Grants and Contracts	256,475		256,475
Sales and Services, Net	269,669	293,256	(23,587)
Other Operating Revenues	<u>54,212</u>	<u>106,224</u>	<u>(52,012)</u>
Total Operating Revenues	<u>\$ 2,585,587</u>	<u>\$ 2,618,000</u>	<u>\$ (32,413)</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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

expense, equipment, and capital improvements. Also included are funds appropriated by the Henderson County and Transylvania County Boards of Commissioners, and various other revenues deposited into Institutional Funds. The increase in nonoperating revenues is mainly attributable to an increase in enrollment which drives our State funding allocations. Also, as enrollment grows, financial assistance available to individual students also increases.

	<u>2011</u>	<u>2010</u>	<u>Increase/ Increase/</u>
Nonoperating Revenues (Expenses)			
State Aid	\$ 10,293,113	\$ 8,901,520	\$ 1,391,593
County Appropriations	2,573,894	2,562,787	11,107
Noncapital Grants - Student Financial Aid	4,732,651	4,338,082	394,569
Noncapital Grants - Other	677,079	672,722	4,357
Noncapital Gifts	347,635	436,728	(89,093)
Investment Income, Net	2,498	5,642	(3,144)
Other Nonoperating Revenues (Expenses)	120,428	(49,494)	169,922
 Total nonoperating revenues	 <u>\$ 18,747,298</u>	 <u>\$ 16,867,987</u>	 <u>\$ 1,879,311</u>

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and related fringe benefits. Depreciation expense is identified consistent with the requirements for GASB Statements No. 34/35. While expenses for scholarships and fellowships continue to grow in concert with enrollment, the College decreased its expenses for external services while experiencing an increase in personal services in order to accommodate the increased demand on programs and services.

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Operating Expenses			
Salaries and Benefits	\$ 13,951,491	\$ 13,272,574	\$ 678,917
Supplies and Materials	1,622,946	1,343,877	279,069
Services	1,727,758	1,915,390	(187,632)
Scholarships and Fellowships	3,752,199	3,277,128	475,071
Utilities	564,051	581,468	(17,417)
Depreciation	1,346,731	1,289,085	57,646
 Total Operating Expenses	 <u>\$ 22,965,176</u>	 <u>21,679,522</u>	 <u>\$ 1,285,654</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 by approximately \$500,000, primarily due

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

to the \$2 million energy improvement and renovation project completed and funded in the 2010-11 fiscal year.

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Capital Contributions			
State Capital Aid	\$ 1,076,285	\$ 748,432	\$ 327,853
County Capital Aid	1,122,164	874,673	247,491
Capital Grants and Gifts	<u>10,344</u>	<u>64,544</u>	<u>(54,200)</u>
Total Capital Contributions	<u>\$ 2,208,793</u>	<u>\$ 1,687,649</u>	<u>\$ 521,144</u>

Future Capital Asset Activity

Preliminary planning for the construction of a Public Safety building is on hold, pending approval of funding in the future.

Economic Outlook

Following two years of large enrollment increases, growth has stabilized. In addition, the College has experienced a decrease in operational funding by the State and County due to current economic challenges. As the College looks ahead, we will continue to look for ways to do more with less as well as pursue other revenue generating opportunities through the Blue Ridge Community College Educational Foundation, Inc. and other auxiliary efforts. Moreover, the College will continue to control costs by looking for new and innovative ways to improve operational efficiencies through external partnerships, energy efficiencies and technology maximization.

Blue Ridge Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 802,829
Restricted Cash and Cash Equivalents	177,015
Receivables, Net (Note 4)	334,844
Due from Community College Component Units	698
Inventories	64,638
Prepaid Items	84,753
Notes Receivable, Net (Note 4)	10,292
	<hr/>
Total Current Assets	1,475,069
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	562,387
Capital Assets - Nondepreciable (Note 5)	3,130,261
Capital Assets - Depreciable, Net (Note 5)	28,177,966
	<hr/>
Total Noncurrent Assets	31,870,614
	<hr/>
Total Assets	33,345,683
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	362,075
Due to Primary Government	283
Unearned Revenue	237,414
Funds Held for Others	61,592
Long-Term Liabilities - Current Portion (Note 7)	212,367
	<hr/>
Total Current Liabilities	873,731
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	579,099
	<hr/>
Total Liabilities	1,452,830
	<hr/>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	31,084,984
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	50,000
Loans	1,500
Expendable:	
Scholarships and Fellowships	3,936
Loans	80,846
Capital Projects	419,160
Other	250,313
Unrestricted	2,114
	<hr/>
Total Net Assets	\$ 31,892,853
	<hr/> <hr/>

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, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 2,000,108
Federal Grants and Contracts	5,123
State and Local Grants and Contracts	256,475
Sales and Services, Net (Note 9)	269,669
Other Operating Revenues	54,212
	<hr/>
Total Operating Revenues	2,585,587
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	13,951,491
Supplies and Materials	1,622,946
Services	1,727,758
Scholarships and Fellowships	3,752,199
Utilities	564,051
Depreciation	1,346,731
	<hr/>
Total Operating Expenses	22,965,176
	<hr/>
Operating Loss	(20,379,589)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	10,293,113
County Appropriations	2,573,894
Noncapital Grants - Student Financial Aid	4,732,651
Noncapital Grants	677,079
Noncapital Gifts	347,635
Investment Income, Net	2,498
Interest and Fees on Debt	(7,847)
Other Nonoperating Revenues	128,275
	<hr/>
Net Nonoperating Revenues	18,747,298
	<hr/>
Loss Before Other Revenues	(1,632,291)
	<hr/>
State Capital Aid	1,076,285
County Capital Aid	1,122,164
Capital Grants	10,344
	<hr/>
Increase in Net Assets	576,502

NET ASSETS

Net Assets, July 1, 2010 as Restated (Note 15)	31,316,351
	<hr/>
Net Assets, June 30, 2011	\$ 31,892,853
	<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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,653,669
Payments to Employees and Fringe Benefits	(14,018,500)
Payments to Vendors and Suppliers	(4,123,096)
Payments for Scholarships and Fellowships	(3,629,768)
Loans Issued to Students	(200)
Other Receipts	152,715
	<hr/>
Net Cash Used by Operating Activities	(18,965,180)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,293,113
County Appropriations	2,573,894
Noncapital Grants - Student Financial Aid	4,763,704
Noncapital Grants Received	710,904
Noncapital Gifts Received	346,937
	<hr/>
Cash Provided by Noncapital Financing Activities	18,688,552

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,115,762
County Capital Aid	1,002,540
Capital Grants Received	10,344
Proceeds from Sale of Capital Assets	178
Acquisition and Construction of Capital Assets	(1,486,191)
Principal Paid on Capital Debt and Leases	(97,696)
Interest Paid on Capital Debt and Leases	(7,847)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	537,090

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	2,498
	<hr/>
Net Increase in Cash and Cash Equivalents	262,960
Cash and Cash Equivalents, July 1, 2010	1,279,271
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 1,542,231
	<hr/> <hr/>

Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (20,379,589)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,346,731
Provision for Uncollectible Loans and Write-Offs	3,405
Miscellaneous Nonoperating Income	129,571
Changes in Assets and Liabilities:	
Receivables, Net	54,130
Inventories	23,400
Prepaid Items	(59,224)
Notes Receivable, Net	(200)
Accounts Payable and Accrued Liabilities	(158,332)
Due to Primary Government	(42,146)
Unearned Revenue	134,612
Funds Held for Others	24,916
Compensated Absences	(42,454)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (18,965,180)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 802,829
Restricted Cash and Cash Equivalents	177,015
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	562,387
	<hr/>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 1,542,231</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 194,595
Assets Acquired through a Gift	39,905
Increase in Receivables Related to Nonoperating Income	85,047

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, 2011***

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	763,100
Promises to Give		34,656
Other Receivables		624
Assets Available-For-Sale		<u>2,450</u>

Total Current Assets 800,830

Investments 8,529,418

Total Assets 9,330,248

NET ASSETS

Unrestricted		875,455
Temporarily Restricted		1,554,007
Permanently Restricted		<u>6,900,786</u>

Total Net Assets \$ 9,330,248

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, 2011

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES:				
Contributions	\$ 284,033	\$ 398,800	\$ 228,766	\$ 911,599
Interest and Dividends	29,337	106,534		135,871
Realized Gains on Sale of Investments	144,201	526,455		670,656
Unrealized Gains on Investments	150,979	546,638		697,617
Transfers	(84,768)	84,782	(14)	
Other	200	2,075		2,275
Net Assets Released from Restrictions	324,453	(324,453)		
Total Public Support and Revenues	848,435	1,340,831	228,752	2,418,018
EXPENSES:				
Program Services:				
Scholarship Awards	226,897			226,897
Other Student Financial Assistance	52,544			52,544
Other Awards	276,581			276,581
Other Program Services	172			172
Total Program Services	556,194			556,194
Supporting Services	133,688			133,688
Total Expenses	689,882			689,882
Increase in Net Assets	158,553	1,340,831	228,752	1,728,136
Net Assets at Beginning of Year	716,902	213,176	6,672,034	7,602,112
Net Assets at End of Year	<u>\$ 875,455</u>	<u>\$ 1,554,007</u>	<u>\$ 6,900,786</u>	<u>\$ 9,330,248</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, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Blue Ridge Community College is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its 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 its relationship to the College.

The Foundation is a legally separate, tax-exempt component unit of 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the 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, 2011, the Foundation distributed \$344,134 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.
- 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, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 18 to 50 years for general infrastructure, 15 to 50 years for buildings, and 3 to 37 years for equipment.

The outdoor sculpture collection is capitalized at fair value at the date of donation. The collection is depreciated over the life of the collection using the straight-line method. The estimated useful life for the collection is 25 years.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 December 31 plus the leave earned, less the leave taken between January 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 leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 printing and copy services. All internal sales activities to College departments from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Funds Held for Others** - Funds held for others are resources in the possession of the College, but held and administered by an outside organization or club.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function, to fund construction projects, motor vehicle purchases, and maintenance of equipment, and to supplement faculty salaries. Unexpended county current appropriation and county capital appropriation do not revert and are restricted to use for future capital projects and renovations 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 \$2,100, and deposits in private financial institutions with a carrying value of \$1,342,792 and a bank balance of \$1,435,114.

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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; specified bills of exchange; certain savings certificates; 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$197,339 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 1.9 years as of June 30, 2011. 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.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>At June 30, 2011</u>	<u>Market Value</u>	<u>Cost</u>
Government Bonds	\$ 889,514	\$ 857,501
Corporate Bonds	700,086	664,304
Mortgage Backed Securities	359,956	356,949
Publicly Traded Equities and Mutual Funds	6,293,431	5,645,936
Cash and Money Market Funds	286,431	286,431
Total Investments	\$ 8,529,418	\$ 7,811,121

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2011, net appreciation of \$48,272 was available to be spent for restricted purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 260,647	\$ 177,298	\$ 83,349
Student Sponsors	19,901	5,277	14,624
Intergovernmental	220,184		220,184
Other	16,687		16,687
Total Current Receivables	\$ 517,419	\$ 182,575	\$ 334,844
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 101,468	\$ 91,176	\$ 10,292

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 1,590,270	\$ 0	\$ 0	\$ 1,590,270
Construction in Progress	468,063	1,071,928		1,539,991
Total Capital Assets, Nondepreciable	2,058,333	1,071,928	0	3,130,261
Capital Assets, Depreciable:				
Buildings	37,041,047			37,041,047
Machinery and Equipment	4,820,218	658,117	5,200	5,473,135
Art, Literature, and Artifacts	55,000			55,000
General Infrastructure	1,177,086			1,177,086
Total Capital Assets, Depreciable	43,093,351	658,117	5,200	43,746,268
Less Accumulated Depreciation for:				
Buildings	11,321,846	845,292		12,167,138
Machinery and Equipment	2,201,281	466,247	3,726	2,663,802
Art, Literature, and Artifacts	2,783	2,200		4,983
General Infrastructure	699,387	32,992		732,379
Total Accumulated Depreciation	14,225,297	1,346,731	3,726	15,568,302
Total Capital Assets, Depreciable, Net	28,868,054	(688,614)	1,474	28,177,966
Capital Assets, Net	\$ 30,926,387	\$ 383,314	\$ 1,474	\$ 31,308,227

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 196,643
Accrued Payroll	84,875
Contract Retainage	49,260
Intergovernmental Payables	29,383
Other	1,914
Total Accounts Payable and Accrued Liabilities	\$ 362,075

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes Payable	\$ 206,193	\$ 0	\$ 75,317	\$ 130,876	\$ 86,165
Capital Leases Payable		65,486	22,379	43,107	21,230
Compensated Absences	659,937	422,797	465,251	617,483	104,972
Total Long-Term Liabilities	\$ 866,130	\$ 488,283	\$ 562,947	\$ 791,466	\$ 212,367

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

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Energy Conservation Equipment	BB&T	4.97%	12/12/2012	\$ 699,187	\$ 568,311	\$ 130,876

The annual requirements to pay principal and interest on notes payable at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2012	\$ 86,165	\$ 4,559
2013	44,711	650
Total Requirements	\$ 130,876	\$ 5,209

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligation** - A capital lease obligation relating to a new telephone system is recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 22,543
2013	22,543
Total Minimum Lease Payments	45,086
Amount Representing Interest (3% Rate of Interest)	1,979
Present Value of Future Lease Payments	<u>\$ 43,107</u>

Telephone system and equipment acquired under capital lease amounted to \$57,274 at June 30, 2011. Depreciation for the capital assets associated with the capital lease is included in depreciation expense.

- B. Operating Lease Obligations** - The College entered into an operating lease for copiers. Future minimum lease payments under the cancelable operating lease consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 59,220
2013	59,220
2014	59,220
2015	59,220
2016	43,339
Total Minimum Lease Payments	<u>\$ 280,219</u>

The College has no noncancelable operating leases. Rental expense for all operating leases during the year was \$103,430.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 3,598,256	\$ 0	\$ 1,429,674	\$ 168,474	\$ 2,000,108
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 90,969	\$ 0	\$ 0	\$ 0	\$ 90,969
Print Shop	164,842	164,842			
Conference Center	20,483				20,483
Rent	36,519				36,519
Other	48,896				48,896
Sales and Services of Education and Related Activities	72,802				72,802
Total Sales and Services	<u>\$ 434,511</u>	<u>\$ 164,842</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 269,669</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,395,591	\$ 661,121	\$ 712,593	\$ 45,544	\$ 0	\$ 0	\$ 9,814,849
Public Service	21,536	1,875	12,059				35,470
Academic Support	908,591	63,720	63,558				1,035,869
Student Services	796,661	25,903	23,037	26,734			872,335
Institutional Support	2,910,139	477,854	511,723				3,899,716
Operations and Maintenance	850,811	331,413	404,788		563,945		2,150,957
Student Financial Aid				3,679,921			3,679,921
Auxiliary Enterprises	68,162	61,060			106		129,328
Depreciation						1,346,731	1,346,731
Total Operating Expenses	<u>\$ 13,951,491</u>	<u>\$ 1,622,946</u>	<u>\$ 1,727,758</u>	<u>\$ 3,752,199</u>	<u>\$ 564,051</u>	<u>\$ 1,346,731</u>	<u>\$ 22,965,176</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,337,890, of which \$8,906,962 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$439,113 and \$534,213, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$439,113, \$302,662, and \$282,267, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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 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 \$179,971 for the year ended June 30, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$40,876 for the year ended June 30, 2011.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$436,441, \$381,506, and \$344,433, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2010, and 2009, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$46,316, \$44,085, and \$43,684, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Office pays the premium, based on a composite rate, directly to the private insurer.

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from a private insurance company with coverage of \$50,000 per occurrence with a \$500 deductible.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance for student accident, nursing, multimedia, internet security, emergency medical and cosmetology liability policies.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$394,215 and on other purchases were \$5,615 at June 30, 2011.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 30,941,744
Prior Year Construction in Progress	<u>374,607</u>
July 1, 2010 Net Assets as Restated	<u><u>\$ 31,316,351</u></u>

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Beth A. Wood, CPA
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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 25, 2012. Our report was modified to include a reference to other auditors.

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

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

April 25, 2012

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

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

FINANCIAL REPORTING PROCESS NEEDS IMPROVEMENT

The College did not reduce tuition and fees revenue and scholarships expense by the amount of financial aid received and applied to the students' accounts. As a result, \$1,275,633 was reported as revenue twice, once as tuition and fees and once as grants or gifts. It appears that omitting this year-end adjustment was a simple oversight that did not get detected by the internal control system.

The College made organizational changes and experienced turnover of key accounting and financial reporting personnel during the year audited. Much of the financial reporting process was performed by an employee who was also final reviewer of the financial statements. This situation likely contributed to the oversight discussed above not being detected, as well as to several less significant financial statement errors noted during our audit.

Recommendation: The College should strengthen internal control over the year-end financial reporting process to ensure the accuracy of the financial statements. For example, to the extent possible, someone other than the preparer should independently review the financial statements and supporting information.

College Response: The College concurs with the State Auditor that our financial reporting process still needs improvement; however we feel the entire accounting staff really stepped up and improved their contribution in preparing their respective year-end close reconciliations and certain portions of the financial statements. The Chief Financial Officer did thoroughly review their work and identified several areas that still required a more "hands on" approach to rectify in her first six months with the College. There were some less significant financial statement errors identified through the review process that the College did not correct due to limited time and the need to focus on the more material/significant areas prior to meeting our submittal deadline. In conclusion, we feel the financial statement review process did effectively identify several inaccuracies and areas of incompleteness, however not in a timely manner.

As we move forward, we have a team of staff accountants, including a new revenue accountant that possesses the necessary accounting credentials and experience to get the job done. Moreover, the College has also hired another Certified Public Accountant to oversee the year-end close process and reinforce the financial reporting process and controls put into place over the last fiscal year. These improvements should further enable the assignment of statement preparation tasks to multiple accountants with a more effective review process that will produce complete, accurate and timely financial statements for the year ending June 30, 2012 and beyond.

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