



STATE OF NORTH CAROLINA

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, 2012, 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, 2012, 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 February 8, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

February 8, 2013

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, 2012. 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) 694-1713.

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-term 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, prepaid items and notes receivable. Current assets increased slightly in total when compared to the prior fiscal year. The majority of the increase over the prior year is due

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

to an increase in cash and restricted cash. This is related to the timing of amounts received for contracts/grants not expended out in current fiscal year, and the carryover of funds for future multi-year commitments.

| | <u>2012</u> | <u>2011</u> | <u>Increase/ (Decrease)</u> |
|---|---------------------|---------------------|---------------------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 858,218 | \$ 802,829 | \$ 55,389 |
| Restricted Cash and Cash Equivalents | 375,411 | 177,015 | 198,396 |
| Receivables, Net | 305,782 | 334,844 | (29,062) |
| Due from Community College Component Unit | 1,725 | 698 | 1,027 |
| Inventories | 68,130 | 64,638 | 3,492 |
| Prepaid Items | 62,743 | 84,753 | (22,010) |
| Notes Receivable, Net | 730 | 10,292 | (9,562) |
| Total Current Assets | <u>\$ 1,672,739</u> | <u>\$ 1,475,069</u> | <u>\$ 197,670</u> |

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

| | <u>2012</u> | <u>2011</u> | <u>Increase/ (Decrease)</u> |
|--|----------------------|----------------------|---------------------------------|
| Noncurrent Assets | | | |
| Restricted Cash and Cash Equivalents | \$ 657,972 | \$ 562,387 | \$ 95,585 |
| Restricted Due from Primary Government | 200,000 | | 200,000 |
| Capital Assets, Net | <u>30,822,003</u> | <u>31,308,227</u> | <u>(486,224)</u> |
| Total Noncurrent Assets | <u>\$ 31,679,975</u> | <u>\$ 31,870,614</u> | <u>\$ (190,639)</u> |

The \$190,639 decrease in net capital assets is mainly attributable to the completion, capitalization and subsequent commencement of depreciation of the \$2 million energy improvement and renovation project completed during the current fiscal year. Depreciation expense recorded during the current fiscal year included amounts for the completed projects, which increased depreciation expense, thereby reducing the net book value of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

| Liabilities | 2012 | 2011 | Increase/ (Decrease) |
|--------------------------|---------------------|---------------------|---------------------------------|
| Current Liabilities | \$ 788,334 | \$ 873,731 | \$ (85,397) |
| Noncurrent Liabilities | 565,733 | 579,099 | (13,366) |
| Total Liabilities | \$ 1,354,067 | \$ 1,452,830 | \$ (98,763) |

No new liabilities were entered into during the current fiscal year. The decrease in liabilities is mostly attributed to payments made on current outstanding notes payable and capital lease obligations.

Net Assets

Total net assets were \$31,998,647 at June 30, 2012. Net assets are a measure of all the College's assets after liabilities are deducted. The decrease in Invested in Capital Assets, Net of Related Debt is attributed to a decrease in the book value of capital assets via depreciation expense and a decrease in the related debt balances and restricted contracts/grants received. Restricted net assets continue to grow in the area of capital project funding, specifically the one-time ability to carryover equipment funds for capital purposes. The increase in unrestricted net assets is due to an increase in operating revenues over the prior year.

| Net Assets | 2012 | 2011 | Increase / (Decrease) |
|---|----------------------|----------------------|----------------------------------|
| Invested in Capital Assets, Net of Related Debt | \$ 30,755,414 | \$ 31,084,984 | \$ (329,570) |
| Restricted | 1,078,540 | 805,755 | 272,785 |
| Unrestricted | 164,693 | 2,114 | 162,579 |
| Total Net Assets | \$ 31,998,647 | \$ 31,892,853 | \$ 105,794 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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. Gross tuition and fees increased because of an increase in charges per credit hour, resulting in the majority of the total increase in total operating revenues of \$412,413.

| | <u>2012</u> | <u>2011</u> | <u>Increase / (Decrease)</u> |
|--------------------------------------|---------------------|---------------------|----------------------------------|
| Operating Revenues | | | |
| Student Tuition and Fees, Net | \$ 2,429,588 | \$ 2,000,108 | \$ 429,480 |
| Federal Grants and Contracts | | 5,123 | (5,123) |
| State and Local Grants and Contracts | 234,900 | 256,475 | (21,575) |
| Sales and Services, Net | 278,780 | 269,669 | 9,111 |
| Other Operating Revenues | 54,732 | 54,212 | 520 |
| | <u>\$ 2,998,000</u> | <u>\$ 2,585,587</u> | <u>\$ 412,413</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 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 decrease in nonoperating revenues is due to a decrease in state and county budget allocations. Also, decreases in enrollment, resulting in a decrease in student aid and grant funding contributed to the decline in noncapital grants. As enrollment decreases, financial assistance available to individual students also decreases.

| | <u>2012</u> | <u>2011</u> | <u>Increase/ Increase/</u> |
|---|----------------------|----------------------|--------------------------------|
| Nonoperating Revenues | | | |
| State Aid | \$ 10,244,328 | \$ 10,293,113 | \$ (48,785) |
| County Appropriations | 2,399,480 | 2,573,894 | (174,414) |
| Noncapital Grants - Student Financial Aid | 4,600,100 | 4,732,651 | (132,551) |
| Noncapital Grants - Other | 529,787 | 677,079 | (147,292) |
| Noncapital Gifts | 368,601 | 347,635 | 20,966 |
| Investment Income | 11,946 | 2,498 | 9,448 |
| Other Nonoperating Revenues (Expenses) | 10,664 | 120,428 | (109,764) |
| | <u>\$ 18,164,906</u> | <u>\$ 18,747,298</u> | <u>\$ (582,392)</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. Operating expenses remain relatively stable in total compared to the prior year. While salaries and benefits increased due to an increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

benefits and creation of new positions, expenses for scholarships and fellowships decreased in concert with enrollment. Supplies also decreased due to an increase in the purchase of depreciable items in the current fiscal year while services declined due to a decrease in contracted services, printing and binding and facilities and maintenance agreements.

| | <u>2012</u> | <u>2011</u> | <u>Increase/ (Decrease)</u> |
|------------------------------|----------------------|----------------------|---------------------------------|
| Operating Expenses | | | |
| Salaries and Benefits | \$ 14,550,950 | \$ 13,951,491 | \$ 599,459 |
| Supplies and Materials | 1,259,272 | 1,622,946 | (363,674) |
| Services | 1,480,173 | 1,727,758 | (247,585) |
| Scholarships and Fellowships | 3,521,380 | 3,752,199 | (230,819) |
| Utilities | 529,093 | 564,051 | (34,958) |
| Depreciation | 1,451,554 | 1,346,731 | 104,823 |
| Total Operating Expenses | <u>\$ 22,792,422</u> | <u>\$ 22,965,176</u> | <u>\$ (172,754)</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 decreased by \$473,483. This is primarily due to completion of the \$2 million energy improvement and renovation project that was completed and mostly funded in the 2010-11 fiscal year.

| | <u>2012</u> | <u>2011</u> | <u>Increase/ (Decrease)</u> |
|------------------------------|---------------------|---------------------|---------------------------------|
| Capital Contributions | | | |
| State Capital Aid | \$ 970,343 | \$ 1,076,285 | \$ (105,942) |
| County Capital Aid | 560,429 | 1,122,164 | (561,735) |
| Capital Grants and Gifts | 204,538 | 10,344 | 194,194 |
| Total Capital Contributions | <u>\$ 1,735,310</u> | <u>\$ 2,208,793</u> | <u>\$ (473,483)</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. Amounts due from the state of \$200,000 are restricted for renovation of the Spearman Building for the new Mechatronics program.

Economic Outlook

Following two years of large enrollment increases, growth has stabilized or declined in some areas. The College continues to eliminate certain low enrollment programs while creating new programs that best meet the every changing needs of the community and area workforce.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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, 2012

Exhibit A-1

ASSETS

| | |
|--|------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 858,218 |
| Restricted Cash and Cash Equivalents | 375,411 |
| Receivables, Net (Note 4) | 305,782 |
| Due from Community College Component Units | 1,725 |
| Inventories | 68,130 |
| Prepaid Items | 62,743 |
| Notes Receivable, Net (Note 4) | 730 |
| | <hr/> |
| Total Current Assets | 1,672,739 |
| | <hr/> |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 657,972 |
| Restricted Due from Primary Government | 200,000 |
| Capital Assets - Nondepreciable (Note 5) | 1,711,856 |
| Capital Assets - Depreciable, Net (Note 5) | 29,110,147 |
| | <hr/> |
| Total Noncurrent Assets | 31,679,975 |
| | <hr/> |
| Total Assets | 33,352,714 |
| | <hr/> |

LIABILITIES

| | |
|---|-----------|
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities (Note 6) | 370,349 |
| Due to Primary Government | 1,811 |
| Unearned Revenue | 251,136 |
| Funds Held for Others | 28,741 |
| Long-Term Liabilities - Current Portion (Note 7) | 136,297 |
| | <hr/> |
| Total Current Liabilities | 788,334 |
| | <hr/> |
| Noncurrent Liabilities: | |
| Long-Term Liabilities (Note 7) | 565,733 |
| | <hr/> |
| Total Liabilities | 1,354,067 |
| | <hr/> |

NET ASSETS

| | |
|---|---------------|
| Invested in Capital Assets, Net of Related Debt | 30,755,414 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 50,000 |
| Loans | 1,500 |
| Expendable: | |
| Scholarships and Fellowships | 186 |
| Loans | 79,545 |
| Capital Projects | 654,988 |
| Restricted for Specific Programs | 292,321 |
| | <hr/> |
| Unrestricted | 164,693 |
| | <hr/> |
| Total Net Assets | \$ 31,998,647 |
| | <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, 2012***

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|--------------|
| Student Tuition and Fees, Net (Note 9) | \$ 2,429,588 |
| State and Local Grants and Contracts | 234,900 |
| Sales and Services, Net (Note 9) | 278,780 |
| Other Operating Revenues | 54,732 |

| | |
|--------------------------|-----------|
| Total Operating Revenues | 2,998,000 |
|--------------------------|-----------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|------------|
| Salaries and Benefits | 14,550,950 |
| Supplies and Materials | 1,259,272 |
| Services | 1,480,173 |
| Scholarships and Fellowships | 3,521,380 |
| Utilities | 529,093 |
| Depreciation | 1,451,554 |

| | |
|--------------------------|------------|
| Total Operating Expenses | 22,792,422 |
|--------------------------|------------|

| | |
|----------------|--------------|
| Operating Loss | (19,794,422) |
|----------------|--------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|---|------------|
| State Aid | 10,244,328 |
| County Appropriations | 2,399,480 |
| Noncapital Grants - Student Financial Aid | 4,600,100 |
| Noncapital Grants | 529,787 |
| Noncapital Gifts | 368,601 |
| Investment Income | 11,946 |
| Interest and Fees on Debt | (5,873) |
| Other Nonoperating Revenues | 16,537 |

| | |
|---------------------------|------------|
| Net Nonoperating Revenues | 18,164,906 |
|---------------------------|------------|

| | |
|----------------------------|-------------|
| Loss Before Other Revenues | (1,629,516) |
|----------------------------|-------------|

| | |
|--------------------|---------|
| State Capital Aid | 970,343 |
| County Capital Aid | 560,429 |
| Capital Gifts | 204,538 |

| | |
|------------------------|---------|
| Increase in Net Assets | 105,794 |
|------------------------|---------|

NET ASSETS

| | |
|--------------------------|------------|
| Net Assets, July 1, 2011 | 31,892,853 |
|--------------------------|------------|

| | |
|---------------------------|---------------|
| Net Assets, June 30, 2012 | \$ 31,998,647 |
|---------------------------|---------------|

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------|
| Received from Customers | \$ 2,878,811 |
| Payments to Employees and Fringe Benefits | (14,386,406) |
| Payments to Vendors and Suppliers | (3,192,827) |
| Payments for Scholarships and Fellowships | (3,522,167) |
| Loans Issued to Students | (20,970) |
| Collection of Loans to Students | 25,126 |
| Other Payments | (11,127) |
| | <hr/> |
| Net Cash Used by Operating Activities | (18,229,560) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-------------|
| State Aid Received | 10,244,328 |
| County Appropriations | 2,399,480 |
| Noncapital Grants - Student Financial Aid | 4,600,100 |
| Noncapital Grants Received | 504,184 |
| Noncapital Gifts | 367,574 |
| William D. Ford Direct Lending Receipts | 1,519,103 |
| William D. Ford Direct Lending Disbursements | (1,519,103) |
| | <hr/> |
| Net Cash Provided by Noncapital Financing Activities | 18,115,666 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|-----------|
| State Capital Aid Received | 770,343 |
| County Capital Aid | 609,481 |
| Capital Grants Received | 101,360 |
| Acquisition and Construction of Capital Assets | (916,599) |
| Principal Paid on Capital Debt and Leases | (107,394) |
| Interest Paid on Capital Debt and Leases | (5,873) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 451,318 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------|
| Investment Income | 11,946 |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 349,370 |
| Cash and Cash Equivalents, July 1, 2011 | 1,542,231 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2012 | \$ 1,891,601 |

Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

| | |
|---|-------------------------------|
| Operating Loss | \$ (19,794,422) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 1,451,554 |
| Provision for Uncollectible Loans and Write-Offs | 13,974 |
| Miscellaneous Nonoperating Income | 21,724 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (125,130) |
| Inventories | (3,492) |
| Prepaid Items | 22,010 |
| Notes Receivable, Net | (4,412) |
| Accounts Payable and Accrued Liabilities | 188,277 |
| Due to Primary Government | 1,528 |
| Unearned Revenue | 13,722 |
| Funds Held for Others | (32,851) |
| Compensated Absences | 17,958 |
| | <hr/> |
| Net Cash Used by Operating Activities | <u><u>\$ (18,229,560)</u></u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|----------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 858,218 |
| Restricted Cash and Cash Equivalents | 375,411 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 657,972 |
| | <hr/> |
| Total Cash and Cash Equivalents - June 30, 2012 | <u><u>\$ 1,891,601</u></u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--|-----------|
| Assets Acquired through Assumption of a Liability | \$ 27,750 |
| Assets Acquired through a Gift | 204,538 |
| Capital Asset Write-offs | 5,187 |
| Increase in Receivables Related to Nonoperating Income | 200,000 |

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, 2012

Exhibit B-1

ASSETS

Current Assets:

| | |
|----------------------|------------|
| Cash and Equivalents | \$ 487,006 |
| Promise to Give | 31,020 |
| Other Receivables | 13,738 |
| | <hr/> |
| Total Current Assets | 531,764 |
| | <hr/> |

| | |
|-------------|-----------|
| Investments | 8,366,391 |
| | <hr/> |

| | |
|--------------|-----------|
| Total Assets | 8,898,155 |
| | <hr/> |

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|------------------|-------|
| Accounts Payable | 1,725 |
| | <hr/> |

Net Assets:

| | |
|------------------|---------|
| Unrestricted: | |
| Undesignated | 771,249 |
| Board-Designated | 21,242 |
| | <hr/> |

| | |
|------------------------|-----------|
| Total Unrestricted | 792,491 |
| Temporarily Restricted | 1,082,412 |
| Permanently Restricted | 7,021,527 |
| | <hr/> |

| | |
|------------------|-----------|
| Total Net Assets | 8,896,430 |
| | <hr/> |

| | |
|----------------------------------|--------------|
| Total Liabilities and Net Assets | \$ 8,898,155 |
| | <hr/> <hr/> |

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, 2012

Exhibit B-2

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|---------------------|
| PUBLIC SUPPORT AND REVENUES | | | | |
| Contributions | \$ 298,624 | \$ 191,052 | \$ 120,741 | \$ 610,417 |
| Interest and Dividends | 27,379 | 101,323 | | 128,702 |
| Net Realized and Unrealized Losses on Investments | (31,452) | (117,784) | | (149,236) |
| Transfers | 13,641 | (13,641) | | |
| Other | 35 | 8,448 | | 8,483 |
| Net Assets Released from Restrictions | 640,302 | (640,302) | | |
| Total Public Support and Revenues | <u>948,529</u> | <u>(470,904)</u> | <u>120,741</u> | <u>598,366</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Scholarship Awards | 272,990 | | | 272,990 |
| Other Student Financial Assistance | 58,672 | | | 58,672 |
| Other Awards | 555,682 | | | 555,682 |
| Other Program Services | 5,250 | | | 5,250 |
| Total Program Services | <u>892,594</u> | | | <u>892,594</u> |
| Supporting Services | <u>138,899</u> | | | <u>138,899</u> |
| Total Expenses | <u>1,031,493</u> | | | <u>1,031,493</u> |
| Increase (Decrease) in Net Assets | (82,964) | (470,904) | 120,741 | (433,127) |
| Net Assets at Beginning of Year | <u>875,455</u> | <u>1,553,316</u> | <u>6,900,786</u> | <u>9,329,557</u> |
| Net Assets at End of Year | <u>\$ 792,491</u> | <u>\$ 1,082,412</u> | <u>\$ 7,021,527</u> | <u>\$ 8,896,430</u> |

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

BLUE RIDGE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Discretely Presented Component Unit - 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, 2012, the Foundation distributed \$573,139 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 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 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 15 to 50 years for buildings, and 4 to 37 years for equipment.

The outdoor sculpture collection is capitalized at cost or 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 and fees, 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 and to fund construction projects, motor vehicle purchases, and maintenance of equipment, and to supplement faculty salaries. Unexpended county current appropriations and county capital appropriations do not revert and are available for future capital projects and renovations by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposits in private financial institutions with a carrying value of \$1,427,908 and a bank balance of \$1,488,711.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$461,593 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. 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) 707-0500.

Component Unit:

Investments - Investments of the College's discretely presented component unit, the Blue Ridge Community College Educational, Inc., 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 investment by type:

| <u>At June 30, 2012</u> | <u>Fair Value</u> |
|-----------------------------|---------------------|
| Cash and Money Market Funds | \$ 667,505 |
| Equity Securities | 4,596,632 |
| Mutual Funds | 751,458 |
| Government Bonds | 970,215 |
| Corporate Bonds | 919,462 |
| Mortgage Backed Securities | 461,119 |
| Total | <u>\$ 8,366,391</u> |

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, 2012, net appreciation of \$57,331 was available to be spent, of which \$56,092 was classified as expendable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

net assets restricted for loans and \$1,239 was classified as expendable net assets restricted for specific programs.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|-------------------------------------|----------------------|---|--------------------|
| Current Receivables: | | | |
| Students | \$ 400,484 | \$ 248,977 | \$ 151,507 |
| Student Sponsors | 42,843 | 7,989 | 34,854 |
| Intergovernmental | 86,057 | | 86,057 |
| Other | 33,364 | | 33,364 |
| Total Current Receivables | \$ 562,748 | \$ 256,966 | \$ 305,782 |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Institutional Student Loan Programs | \$ 105,880 | \$ 105,150 | \$ 730 |

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

| | Balance July 1, 2011 | Increases | Decreases | Balance June 30, 2012 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 1,590,270 | \$ 0 | \$ 0 | \$ 1,590,270 |
| Construction in Progress | 1,539,991 | 411,260 | 1,829,665 | 121,586 |
| Total Capital Assets, Nondepreciable | 3,130,261 | 411,260 | 1,829,665 | 1,711,856 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 37,041,047 | 1,834,663 | | 38,875,710 |
| Machinery and Equipment | 5,473,135 | 533,566 | 7,500 | 5,999,201 |
| Art, Literature, and Artifacts | 55,000 | | | 55,000 |
| General Infrastructure | 1,177,086 | 20,693 | | 1,197,779 |
| Total Capital Assets, Depreciable | 43,746,268 | 2,388,922 | 7,500 | 46,127,690 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 12,167,138 | 941,448 | | 13,108,586 |
| Machinery and Equipment | 2,663,802 | 473,377 | 2,313 | 3,134,866 |
| Art, Literature, and Artifacts | 4,983 | 2,200 | | 7,183 |
| General Infrastructure | 732,379 | 34,529 | | 766,908 |
| Total Accumulated Depreciation | 15,568,302 | 1,451,554 | 2,313 | 17,017,543 |
| Total Capital Assets, Depreciable, Net | 28,177,966 | 937,368 | 5,187 | 29,110,147 |
| Capital Assets, Net | \$ 31,308,227 | \$ 1,348,628 | \$ 1,834,852 | \$ 30,822,003 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

| | Amount |
|---|-------------------|
| Accounts Payable | \$ 125,213 |
| Accrued Payroll | 231,461 |
| Intergovernmental Payables | 3,949 |
| Other | 9,726 |
| Total Accounts Payable and Accrued Liabilities | \$ 370,349 |

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, 2012, is presented as follows:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Current Portion |
|------------------------------------|-------------------------|-------------------|-------------------|--------------------------|--------------------|
| Notes Payable | \$ 130,876 | \$ 0 | \$ 86,164 | \$ 44,712 | \$ 44,712 |
| Capital Leases Payable | 43,107 | | 21,230 | 21,877 | 21,877 |
| Compensated Absences | 617,483 | 464,411 | 446,453 | 635,441 | 69,708 |
| Total Long-Term Liabilities | \$ 791,466 | \$ 464,411 | \$ 553,847 | \$ 702,030 | \$ 136,297 |

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, 2012 | Principal Outstanding June 30, 2012 |
|-------------------------------|--------------------------|------------------|---------------------------|--------------------------------|--|---|
| Energy Conservation Equipment | BB&T | 4.97% | 12/12/2012 | \$ 699,187 | \$ 654,475 | \$ 44,712 |

The annual requirements to pay principal and interest on notes payable at June 30, 2012, are as follows:

| Fiscal Year | Annual Requirements | |
|-------------|---------------------|----------|
| | Notes Payable | |
| | Principal | Interest |
| 2013 | \$ 44,712 | \$ 650 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to telephone system equipment is 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, 2012:

| <u>Fiscal Year</u> | <u>Amount</u> |
|---|------------------|
| 2013 | \$ 22,543 |
| Total Minimum Lease Payments | 22,543 |
| Amount Representing Interest (3% Rate of Interest) | 666 |
| Present Value of Future Lease Payments | \$ 21,877 |

Machinery and equipment acquired under capital lease amounted to \$65,044 at June 30, 2012. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. Operating Lease Obligations** - The College entered into operating leases for copiers. Future minimum lease payments under cancelable operating leases consist of the following at June 30, 2012:

| <u>Fiscal Year</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2013 | \$ 59,220 |
| 2014 | 59,220 |
| 2015 | 59,220 |
| 2016 | 43,339 |
| Total Minimum Lease Payments | \$ 220,999 |

The College has no noncancelable operating leases. Rental expense for all operating leases during the year was \$69,044.

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 Allowance for Uncollectibles | Net Revenues |
|--|-------------------|-----------------------------------|----------------------------------|---|-----------------|
| Operating Revenues: | | | | | |
| Student Tuition and Fees | \$ 4,042,172 | \$ 0 | \$ 1,528,383 | \$ 84,201 | \$ 2,429,588 |
| Sales and Services: | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Bookstore | \$ 129,762 | \$ 0 | \$ 0 | \$ 0 | \$ 129,762 |
| Printshop | 123,617 | 123,617 | | | |
| Rent | 41,133 | | | | 41,133 |
| Other | 24,024 | | | | 24,024 |
| Sales and Services of Education and Related Activities | 83,861 | | | | 83,861 |
| Total Sales and Services | \$ 402,397 | \$ 123,617 | \$ 0 | \$ 0 | \$ 278,780 |

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/ Amortization | Total |
|-------------------------------------|-----------------------------|------------------------------|--------------|------------------------------------|------------|-------------------------------|---------------|
| Instruction | \$ 8,772,353 | \$ 214,206 | \$ 488,985 | \$ 1,960 | \$ 0 | \$ 0 | \$ 9,477,504 |
| Research | 1,670 | | | | | | 1,670 |
| Public Service | 5,446 | | | | | | 5,446 |
| Academic Support | 1,126,481 | 31,089 | 75,605 | | | | 1,233,175 |
| Student Services | 898,636 | 17,127 | 158,252 | 26,463 | | | 1,100,478 |
| Institutional Support | 2,839,657 | 384,214 | 459,040 | | | | 3,682,911 |
| Operations and Maintenance of Plant | 853,428 | 612,422 | 220,855 | | 529,093 | | 2,215,798 |
| Student Financial Aid | | | 301 | 3,492,957 | | | 3,493,258 |
| Auxiliary Enterprises | 53,279 | 214 | 77,135 | | | | 130,628 |
| Depreciation | | | | | | 1,451,554 | 1,451,554 |
| Total Operating Expenses | \$ 14,550,950 | \$ 1,259,272 | \$ 1,480,173 | \$ 3,521,380 | \$ 529,093 | \$ 1,451,554 | \$ 22,792,422 |

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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,568,056, of which \$9,093,558 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$676,561 and \$545,613, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$676,561, \$439,113, and \$302,662, 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) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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 \$134,832 for the year ended June 30, 2012.

Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The plan administrator is Great American Life Insurance Company. No costs are incurred by the College. The voluntary contributions by employees amounted to \$38,252 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$454,678, \$436,441, and \$381,506, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2012, 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, 2011, and 2010, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$47,287, \$46,316, and \$44,085, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 per claimant 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 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 \$75,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 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

Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$243,868 at June 30, 2012.

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Beth A. Wood, CPA
State Auditor

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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, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 8, 2013. 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

The College's management is responsible for establishing and maintaining effective 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.

**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)**

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

February 8, 2013

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 464 audit hours at an approximate cost of \$33,408. The cost represents .10% of the College's total assets and .15% of total expenses subjected to audit.