STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Findings, Recommendations, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Ridge Community College (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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Blue Ridge Community College Educational Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Blue Ridge Community College Educational Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 30, 2018

Management's Discussion and Analysis

This section of Blue Ridge Community College's (College) annual financial statements presents an overview of the College's financial activities during the fiscal year that ended on June 30, 2017. 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 Chief Financial Officer at (828) 694-1730.

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 the College report information about the College 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 Position includes all of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It provides information about the nature and amounts of investments in resources (assets and deferred outflows of resources) and obligations to creditors (liabilities and deferred inflows of resources). It also provides the basis for evaluating the capital structure of the College and assessing the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the College's operations over the past year and can be used to determine whether the College 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 the College'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 where the cash came from, what cash was used for, and 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

Condensed Statement of Net Position

Below is a condensed comparative analysis between the Statement of Net Position for the fiscal year ended June 30, 2017 and the prior fiscal year.

	2017	2016	Increase/ (Decrease)
Assets			
Current Assets	$ 1,301,456	$ 3,213,559	$ (1,912,103)
Noncurrent Assets			
Restricted Cash and Cash Equivalents	833,288	1,539,544	(706,256)
Capital Assets, Net	41,081,123	29,303,554	11,777,569
Total Assets	43,215,867	34,056,657	9,159,210
Deferred Outflows of Resources	4,176,907	1,028,052	3,148,855
Liabilities			
Current Liabilities	1,064,171	804,475	259,696
Long-Term Liabilities	6,365,751	2,865,155	3,500,596
Total Liabilities	7,429,922	3,669,630	3,760,292
Deferred Inflows of Resources	297,811	535,186	(237,375)
Net Position			
Investment in Capital Assets	41,081,123	29,303,554	11,777,569
Restricted	1,352,506	3,447,921	(2,095,415)
Unrestricted	(2,768,588)	(1,871,582)	(897,006)
Total Net Position	$ 39,665,041	$ 30,879,893	$ 8,785,148

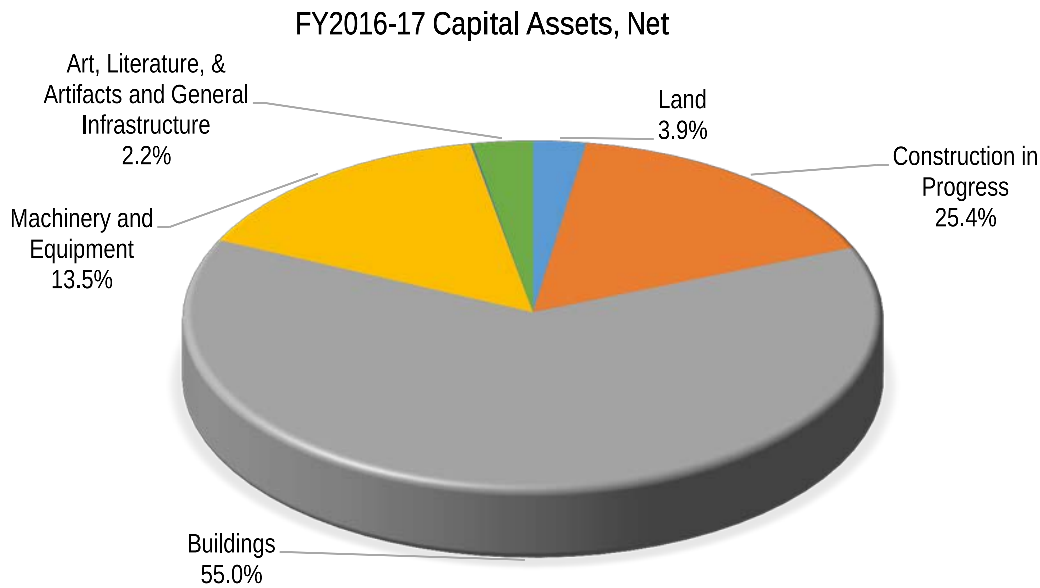
This condensed Statement of Net Position reflects the financial position of the College. Net position, which represents the residual interest in the College's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, increased $8,785,148 from the previous fiscal year.

Assets

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

<u>Current Assets</u> - Current assets include cash, receivables, inventories, prepaid items, and notes receivable. Total current assets decreased $1,912,103. Cash and cash equivalents, including the current portion of restricted cash and cash equivalents, decreased $600,820 due to a decrease in unexpended funds in county and institutional accounts at the end of the fiscal year and the increase in expenditures for the Golden Leaf Grant Foundation Southeastern Advanced Molding Technology Center (SAMTEC) and Health Sciences Center (HSC) grants. Additionally, the amount due from the Golden Leaf Foundation decreased $1,310,000 in fiscal year 2017 when compared to fiscal year 2016.

Noncurrent Assets - Noncurrent assets include cash and capital assets (land, construction in progress, buildings, general infrastructure, art, literature, and artifacts, and machinery and equipment).



The $706,256 decrease in noncurrent restricted cash and cash equivalents is due to furniture expenditures for HSC and the completion of capital projects. The $10,400,028 increase in nondepreciable capital assets is due to the Innovative High School (IHS) construction in progress at June 30, 2017. The increase in depreciable capital assets is primarily due to the donation of equipment for operation of SAMTEC and the purchase of equipment for HSC.

Refer to Note 6 of the notes to the financial statements for a detail of the changes in capital assets by category.

Deferred Outflows of Resources

Deferred outflows of resources totaled $4,176,907 for fiscal year 2017 and represents pension contributions subsequent to the measurement date and the change in proportion and differences between the College's contributions and proportionate share of pension contributions. The increase from the prior year is due to the College's proportionate share of the change in assumptions and the net difference between projected and actual earnings on pension plan investments for the Teachers' and State Employees' Retirement System (TSERS). See Note 11 to the financial statements for more details.

Liabilities

The College's debt agreements are divided between current liabilities payable within twelve 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. Also included in long-term liabilities is net pension liability, which represents the College's proportionate share of the collective net pension liability of TSERS.

The College did not enter into any new financial arrangements during the year. Current liabilities are primarily limited to accounts payable, unearned tuition revenue, and the current portion of accrued employee annual leave estimated to be paid during the next fiscal year.

Current Liabilities – Current liabilities increased $259,696 primarily due to an increase in accrued accounts payable at the end of the fiscal year.

Noncurrent Liabilities - The increase in noncurrent liabilities is due to the accrual of net pension liability. Net pension liability increased due to a sharp decline in the retirement system earnings and a moderate increase in the payment of benefits. Since the College is a participant in the cost-sharing pension plan, the College shares the loss on the decrease in market value of investments. The net pension liability is the College's portion of the present value of projected benefit payments to be provided through the pension plan. Accrual and disclosure of net pension liability, including deferred outflows and inflows of resources and pension expense is required under GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which became effective beginning fiscal year 2015.

Deferred Inflows of Resources

Deferred inflows of resources totaled $297,811 and represents the difference between actual and expected experience for pensions and the net difference between projected and actual earnings on pension plan investments. The decrease from the prior fiscal year is primarily due to differences between actuarial calculations of the projected investment earnings and actual earnings of funds invested in the TSERS. See Note 11 to the financial statements for further detail.

Net Position

Net position is a measure of all the College's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The net position of the College was $39,665,041 at June 30, 2017, which was an increase of $8,785,148 during fiscal year 2017.

For reporting purposes, net position is divided into four categories: investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted.

Investment in Capital Assets – Investment in capital assets represent the College's capital assets net of accumulated depreciation. The increase in investment in capital assets is due to the donation of equipment for the operation of SAMTEC and the construction in progress for the IHS.

Restricted – Nonexpendable – Nonexpendable restricted net position includes an endowment 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. There was no change in restricted nonexpendable net position during fiscal year 2017.

Restricted – Expendable – Expendable restricted net position includes resources in which the College is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties. Restricted net position – expendable decreased by $2,095,415 in fiscal year 2017. The significant decrease is primarily due to a decrease in funding ($1,310,000) available from the Golden Leaf Foundation for the SAMTEC and HSC grants.

Unrestricted – Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. During fiscal year 2017, unrestricted net position decreased $897,006.

Statement of Revenues, Expenses, and Changes in Net Position

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Position represent the change in total net position. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains and losses received.

	2017	2016	Increase / (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 2,118,581	$ 1,883,324	$ 235,257
State and Local Grants and Contracts	307,682	300,071	7,611
Nongovernmental Grants and Contracts		10,000	(10,000)
Sales and Services, Net	229,618	215,669	13,949
Other Operating Revenues	275,618	261,605	14,013
Total Operating Revenues	2,931,499	2,670,669	260,830
Operating Expenses			
Salaries and Benefits	16,374,066	14,921,730	1,452,336
Supplies and Materials	1,179,137	1,169,630	9,507
Services	2,599,414	2,830,133	(230,719)
Scholarships and Fellowships	2,343,381	2,615,352	(271,971)
Utilities	472,679	516,856	(44,177)
Depreciation	1,401,331	1,368,329	33,002
Total Operating Expenses	24,370,008	23,422,030	947,978
Operating Loss	(21,438,509)	(20,751,361)	(687,148)
Nonoperating Revenues			
State Aid	11,091,340	11,196,379	(105,039)
County Appropriations	3,026,621	2,621,507	405,114
Noncapital Grants - Student Financial Aid	3,286,191	3,506,632	(220,441)
Noncapital Grants	722,709	2,370,164	(1,647,455)
Noncapital Gifts	478,294	456,765	21,529
Investment Income	12,381	12,250	131
Other Nonoperating Revenues	118,872	25,275	93,597
Total Nonoperating Revenues	18,736,408	20,188,972	(1,452,564)
Loss Before Other Revenues	(2,702,101)	(562,389)	(2,139,712)
State Capital Aid	246,194	484,087	(237,893)
County Capital Aid	11,163,468	1,216,425	9,947,043
Capital Gifts	77,587	135,270	(57,683)
Total Other Revenues	11,487,249	1,835,782	9,651,467
Increase in Net Position	8,785,148	1,273,393	7,511,755
Net Position			
Net Position - Beginning of the Year	30,879,893	29,606,500	1,273,393
Net Position - End of the Year	$ 39,665,041	$ 30,879,893	$ 8,785,148
Reconcilation of Increase in Net Position			
Total Revenues	$ 33,155,156	$ 24,695,423	$ 8,459,733
Less: Total Expenses	24,370,008	23,422,030	947,978
Increase in Net Position	$ 8,785,148	$ 1,273,393	$ 7,511,755

Total Revenues and Expenses

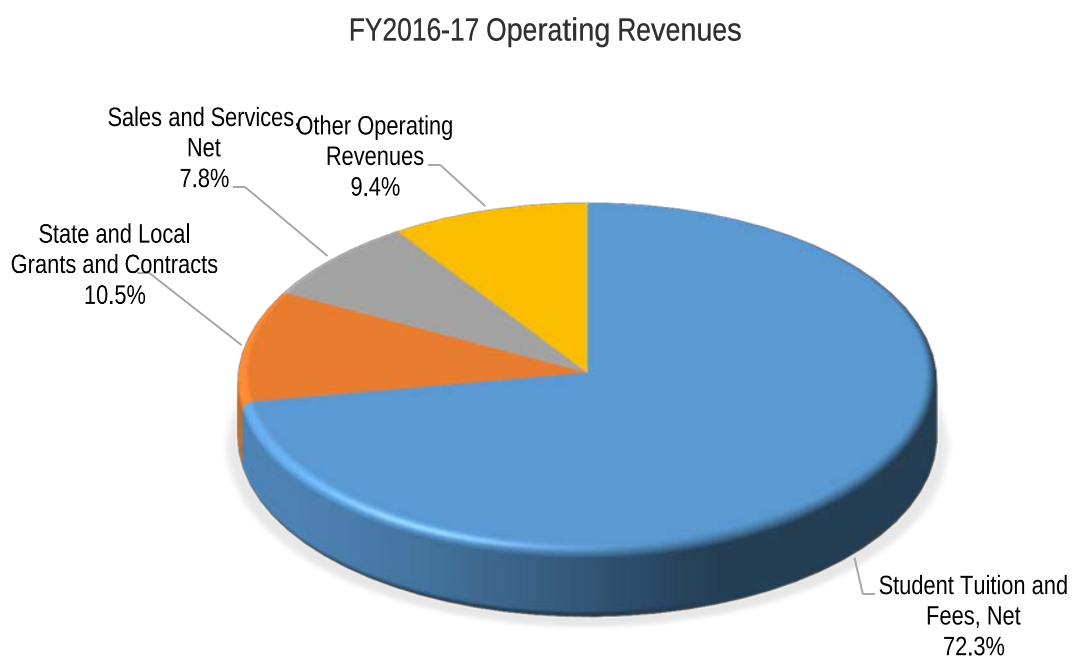
The College's total revenues are classified as operating, nonoperating, and capital contributions. Total expenses are classified as either operating or nonoperating. Total revenues increased more than total expenses increased.

Operating Revenues

Operating revenues include student tuition and fees, state and local grants, nongovernmental grants, and revenue earned from sales and services; principally comprised of commissions received from the bookstore, vending contracts, live project fees, and conferences and event services.

In-state student tuition revenue increased $175,083 in fiscal year 2017 due to an increase in student enrollment. Other operating revenues increased over the prior year due to an increase in continuing education specific fees revenue.

Refer to Note 9 in the notes to the financial statements for a detail of sales and services revenues.



Nonoperating Revenues

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 expenses and equipment. Also included are funds appropriated by the Henderson County and Transylvania County Boards of Commissioners, and various other operating revenues deposited into institutional funds.

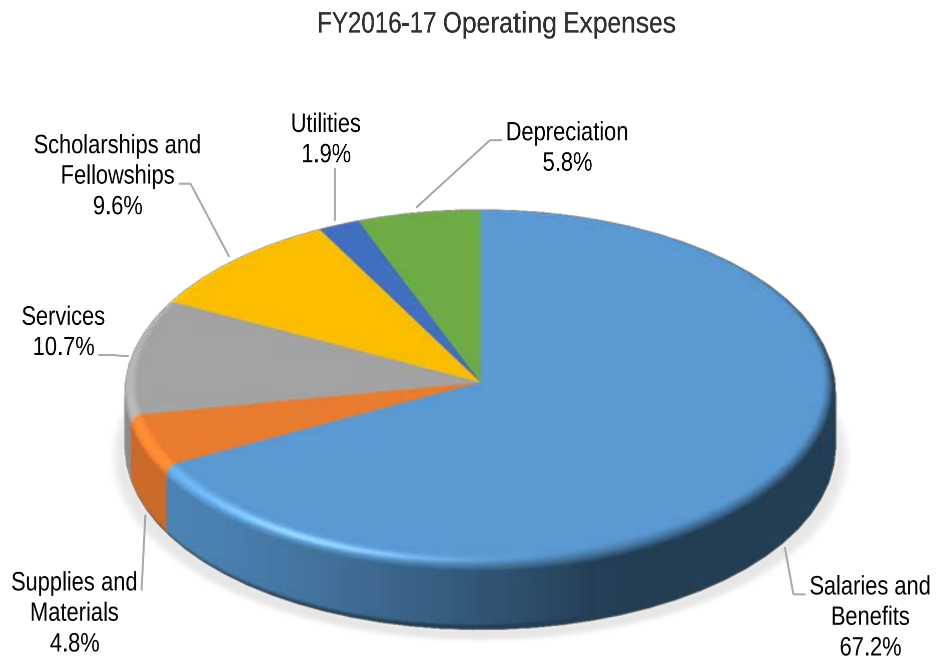
State aid decreased $105,039 whereas County appropriations increased $405,114. The appropriation increase is due to Henderson County budgeting more funds towards the College's general expenses rather than capital outlay in fiscal year 2017. Noncapital grants decreased, in part, due to the $1,310,000 decrease in funding available from the Golden Leaf Foundation in fiscal year 2017 when compared to fiscal year 2016. Student financial aid decreased $220,441 due to a decline in students requiring financial assistance.

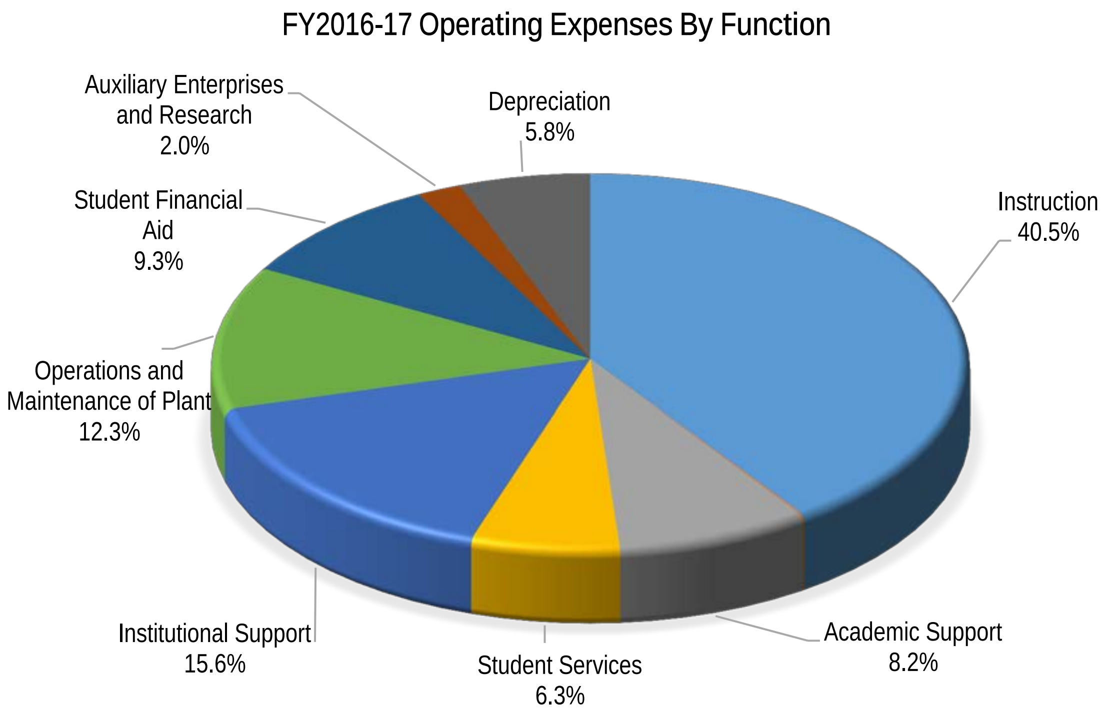
Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and related fringe benefits. The recording of depreciation expense is consistent with the requirements of GASB Statements No. 34 and 35.

The increase in salaries is due to a combination of the following: the addition of full-time positions to support College operations and instruction; an increase in the employer's retirement rate; and an increase in the employer's contribution to the State Health Plan effective January 2017.

The decrease in services was due primarily to a decrease in spending. Scholarships and fellowship expense decreased due to a decline in students requiring financial assistance, which decreased the Federal Pell Grants awarded during fiscal year 2017. Depreciation increased due to the donation of equipment needed to equip the SAMTEC.





Capital Contributions

Capital contributions are received from appropriations from Henderson and Transylvania counties, private donations, and the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books.

State capital aid decreased $237,893. County capital aid increased $9,947,043, primarily due to a noncash county appropriation for the IHS. The $57,683 decrease in capital gifts is due to a decrease in capital equipment donated by the Blue Ridge Community College Educational Foundation.

Future Capital Asset Activity

The College will use Connect NC bond funding for a number of capital projects including the following: the renovation of the Sink Building to include a One Stop Welcome Center for all students; an expansion of the Arts & Sciences Building science labs to meet the needs of the students; an addition to the Spearman Building to expand the automotive technology programs; and the renovation of the Strauss Building at the Transylvania County Campus.

Economic Outlook

Leading global companies view Henderson County as a desirable employment location. Businesses are drawn to Transylvania County for its natural resources and access to an industrious, reliable work-force. According to the Bureau of Labor Statistics, Henderson County's unemployment rate dropped from 4.40% in July of 2016 to 3.50% in June of 2017, and Transylvania County's unemployment rate dropped from 4.70% in July of 2016 to 3.90% in June of 2017.

The economic position of the College is closely tied to that of the State. Management feels that by using a conservative realistic approach in handling its resources the College will be able to continue providing superior education to its students in a quality learning environment, even during the period of economic hardship.

The College continues to partner with the Henderson County Commissioners and the Henderson County Public School System. Construction of the new IHS is scheduled to be finished in August of 2017. Early College students will take classes to obtain their associates degree, while Career Academy students will take classes in fire training, mechatronics, culinary arts, art, and business to obtain applied science certificates and degrees. The facility is 50,000 square feet and has the capacity to house 800 students. Career Academy students will graduate with a high school diploma and college credit and Early College students will graduate with an associate degree after five years.

Through a joint partnership with GF Linamar, Golden Leaf Foundation, the North Carolina Community College System, and Henderson County, the College opened the SAMTEC lab located on the Henderson County Campus in May 2017. The lab will use the expertise of instructors from several of the College's premier curriculum programs including mechatronics, computer integrated machining, welding, and engineering technology to support the training needs of area companies such as GF Linamar, Elkamet, B.I.G. Adventures, Continental Automotive Systems, Meritor, Raumedic, and Lassonde Pappas.

FINANCIAL STATEMENTS

Blue Ridge Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2017 — *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 234,167
Restricted Cash and Cash Equivalents	254,226
Receivables, Net (Note 5)	186,954
Due from State of North Carolina Component Units	327,500
Inventories	81,067
Prepaid Items	216,645
Notes Receivable, Net (Note 5)	897
Total Current Assets	1,301,456
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	833,288
Capital Assets - Nondepreciable (Note 6)	12,022,738
Capital Assets - Depreciable, Net (Note 6)	29,058,385
Total Noncurrent Assets	41,914,411
Total Assets	43,215,867
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	4,176,907
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	691,002
Due to State of North Carolina Component Units	10,589
Unearned Revenue	215,008
Funds Held for Others	43,621
Long-Term Liabilities - Current Portion (Note 8)	103,951
Total Current Liabilities	1,064,171
Noncurrent Liabilities:	
Long-Term Liabilities (Note 8)	6,365,751
Total Liabilities	7,429,922
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	297,811

Blue Ridge Community College
Statement of Net Position
June 30, 2017

NET POSITION

Investment in Capital Assets	41,081,123
Restricted for:	
Nonexpendable:	
Loans	1,500
Expendable:	
Scholarships and Fellowships	78,509
Loans	27,837
Capital Projects	789,044
Restricted for Specific Programs	455,616
Unrestricted	(2,768,588)
Total Net Position	$ 39,665,041

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 Position
For the Fiscal Year Ended June 30, 2017 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	2,118,581
State and Local Grants and Contracts		307,682
Sales and Services, Net (Note 9)		229,618
Other Operating Revenues		275,618
Total Operating Revenues		2,931,499
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,374,066
Supplies and Materials		1,179,137
Services		2,599,414
Scholarships and Fellowships		2,343,381
Utilities		472,679
Depreciation		1,401,331
Total Operating Expenses		24,370,008
Operating Loss		(21,438,509)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,091,340
County Appropriations		3,026,621
Noncapital Grants - Student Financial Aid		3,286,191
Noncapital Grants		722,709
Noncapital Gifts		478,294
Investment Income		12,381
Other Nonoperating Revenues		118,872
Total Nonoperating Revenues		18,736,408
Loss Before Other Revenues		(2,702,101)
State Capital Aid		246,194
County Capital Aid		11,163,468
Capital Gifts		77,587
Increase in Net Position		8,785,148
NET POSITION		
Net Position, July 1, 2016		30,879,893
Net Position, June 30, 2017	$	39,665,041

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

Blue Ridge Community College
Statement of Cash Flows ***Exhibit A-3***
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,941,780
Payments to Employees and Fringe Benefits	(16,210,921)
Payments to Vendors and Suppliers	(4,044,243)
Payments for Scholarships and Fellowships	(2,343,128)
Loans Issued to Students	(3,341)
Collection of Loans to Students	3,571
Other Receipts	127,637
Net Cash Used by Operating Activities	(19,528,645)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,091,340
County Appropriations	3,026,621
Noncapital Grants - Student Financial Aid	3,286,191
Noncapital Grants	2,019,058
Noncapital Gifts	478,294
William D. Ford Direct Lending Receipts	2,305,210
William D. Ford Direct Lending Disbursements	(2,305,210)
Net Cash Provided by Noncapital Financing Activities	19,901,504
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	246,194
County Capital Aid	730,999
Capital Gifts	77,587
Acquisition and Construction of Capital Assets	(2,747,096)
Net Cash Used by Capital and Related Financing Activities	(1,692,316)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	12,381
Net Decrease in Cash and Cash Equivalents	(1,307,076)
Cash and Cash Equivalents, July 1, 2016	2,628,757
Cash and Cash Equivalents, June 30, 2017	$ 1,321,681

Blue Ridge Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2017 — *Page 2 of 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (21,438,509)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,401,331
Provision for Uncollectible Loans and Write-Offs	528
Nonoperating Other Income	119,536
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	1,640
Inventories	(6,510)
Prepaid Items	19,047
Notes Receivable, Net	230
Deferred Outflows for Pensions	(3,148,855)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	243,099
Due to State of North Carolina Component Units	7,211
Unearned Revenue	8,893
Net Pension Liability	3,540,870
Funds Held for Others	8,101
Deferred Inflows for Pensions	(237,375)
Compensated Absences	(47,882)
Net Cash Used by Operating Activities	$ (19,528,645)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 234,167
Restricted Cash and Cash Equivalents	254,226
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	833,288
Total Cash and Cash Equivalents - June 30, 2017	$ 1,321,681

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Payments on the College's Behalf	10,432,469
Increase in Receivables Related to Nonoperating Income	13,654
Loss on Disposal of Capital Assets	665

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, 2017 *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	598,790
Promises to Give		26,430
Other Receivables		3,407
Asset Available-For-Sale		15,685
Total Current Assets		644,312
Investments		10,838,405
Total Assets	$	11,482,717
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$	7,266
Net Assets:		
Unrestricted		
Undesignated		1,077,014
Board-Designated		13,959
Total Unrestricted		1,090,973
Temporarily Restricted		2,370,939
Permanently Restricted		8,013,539
Total Net Assets		11,475,451
Total Liabilities and Net Assets	$	11,482,717

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, 2017 *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Contributions	$ 536,129	$ 229,763	$ 217,219	$ 983,111
Interest and Dividends	26,641	109,717		136,358
Net Realized and Unrealized Gains on Investments	154,168	659,555		813,723
Transfers	2,928	(2,928)		
Other	721	3,191		3,912
Net Assets Released from Restrictions	516,487	(516,487)		
Total Public Support and Revenues	1,237,074	482,811	217,219	1,937,104
EXPENSES				
Program Services				
Scholarship Awards	372,214			372,214
Other Student Financial Assistance	9,564			9,564
Other Awards	369,519			369,519
Total Program Services	751,297			751,297
Supporting Services	142,286			142,286
Total Expenses	893,583			893,583
Increase in Net Assets	343,491	482,811	217,219	1,043,521
Net Assets at Beginning of Year	747,482	1,888,128	7,796,320	10,431,930
Net Assets at End of Year	$ 1,090,973	$ 2,370,939	$ 8,013,539	$ 11,475,451

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

NOTES TO THE FINANCIAL STATEMENTS

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 (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. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit – Blue Ridge Community College Educational Foundation, Inc. (Foundation) is a legally separate, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 15 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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, 2017, the Foundation distributed $555,881 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation 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.

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 aid, 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 probable of collection.

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 (STIF). The STIF 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
Art, Literature, and Artifacts	10-25 years
General Infrastructure	10-75 years

The outdoor sculpture collection, acquired prior to July 1, 2015, 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.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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. **Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

L. **Net Position** - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - **Nonexpendable** - Nonexpendable restricted net position includes 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 Position - **Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources.

M. Scholarship Discounts - Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. 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 Position. 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 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.

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as printing and copy services. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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, maintenance of equipment, and to supplement faculty salaries. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use 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 Position as cash and cash equivalents includes cash on hand totaling $2,050, and deposits in private financial institutions with a carrying value of $291,844 and a bank balance of $600,393.

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, 2017, 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 (STIF); 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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,027,787, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

Component Unit - Investments of the College's discretely presented component unit, the Foundation, 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:

At June 30, 2017	Amount
Cash and Money Market Funds	$ 685,754
Equity Securities	6,430,558
Mutual Funds	863,678
Alternative Investments	814,044
Government Bonds	753,800
Corporate Bonds	961,541
Mortgage Backed Securities	329,030
Total Investments	$ 10,838,405

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $1,027,787 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit - Investment accounts consist of various financial instruments that are recorded at fair value based on current quoted market prices provided by investment custodians or other valuation methods. The fair value of each financial instrument in the table below was measured using FASB ASC 820 input guidance and valuation techniques.

The following table sets forth carrying amounts and estimated fair values for financial instruments:

	Fair Value	Fair Value Measurement Using Level 1	Level 2	Level 3
Cash and Money Market Funds	$ 685,754	$ 685,754	$ 0	$ 0
Equity Securities	6,430,558	6,430,558		
Mutual Funds	863,678	863,678		
Alternative Investments	814,044			814,044
Government Bonds	753,800		753,800	
Corporate Bonds	961,541		961,541	
Mortgage Backed Securities	329,030		329,030	
Total Investments by Fair Value Level	$ 10,838,405	$ 7,979,990	$ 2,044,371	$ 814,044

A reconciliation of changes in Level 3 inputs is as follows:

Year Ended June 30, 2017	Total
Level 3 Inputs, Beginning of Year	$ 477,919
Purchases	300,000
Unrealized Gain	36,125
Level 3 Inputs, End of Year	$ 814,044

NOTE 4 - 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, 2017, net appreciation of $1,304 was available to be spent, which was classified in net position as restricted expendable for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 195,514	$ 120,009	$ 75,505
Student Sponsors	4,155	2,551	1,604
Intergovernmental	80,486		80,486
Other	178,407	149,048	29,359
Total Current Receivables	$ 458,562	$ 271,608	$ 186,954
Current Notes Receivable:			
Institutional Student Loan Programs	$ 2,323	$ 1,426	$ 897

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 1,590,269	$ 0	$ 0	$ 1,590,269
Construction in Progress	32,441	10,432,469	32,441	10,432,469
Total Capital Assets, Nondepreciable	1,622,710	10,432,469	32,441	12,022,738
Capital Assets, Depreciable:				
Buildings	40,065,373	65,549		40,130,922
Machinery and Equipment	7,556,414	2,219,019	77,023	9,698,410
Art, Literature, and Artifacts	55,000			55,000
General Infrastructure	1,307,388	494,969		1,802,357
Total Capital Assets, Depreciable	48,984,175	2,779,537	77,023	51,686,689
Less Accumulated Depreciation for:				
Buildings	16,615,197	910,237		17,525,434
Machinery and Equipment	3,783,329	454,538	76,358	4,161,509
Art, Literature, and Artifacts	15,983	2,200		18,183
General Infrastructure	888,822	34,356		923,178
Total Accumulated Depreciation	21,303,331	1,401,331	76,358	22,628,304
Total Capital Assets, Depreciable, Net	27,680,844	1,378,206	665	29,058,385
Capital Assets, Net	$ 29,303,554	$ 11,810,675	$ 33,106	$ 41,081,123

The schedule above includes construction in progress for a building in the amount of $10,432,469, as well as land for which the College does not hold the title. On December 1, 2016, the College executed a Special Warranty Deed conveying 3.33 acres to Henderson County for the purpose of constructing the Innovative High School (IHS). In order for the County to obtain the financing needed to provide the resources for IHS, the College transferred title for the land to the County for use as collateral until the debt is satisfied, at which time the College takes title to IHS and the title to the land reverts back to the College.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 321,575
Accrued Payroll	367,814
Other	1,613
Total Current Accounts Payable and Accrued Liabilities	$ 691,002

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 2,264,186	$ 3,540,870	$ 0	$ 5,805,056	$ 0
Compensated Absences	712,528	530,378	578,260	664,646	103,951
Total Long-Term Liabilities	$ 2,976,714	$ 4,071,248	$ 578,260	$ 6,469,702	$ 103,951

Additional information regarding the net pension liability is included in Note 11.

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, Net	$ 3,557,261	$ 0	$ 1,399,434	$ 39,246	$ 2,118,581
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 85,761	$ 0	$ 0	$ 0	$ 85,761
Print Shop	122,528	122,528			
Rent	71,825				71,825
Other	12,417				12,417
Sales and Services of Education and Related Activities	59,615				59,615
Total Sales and Services, Net	$ 352,146	$ 122,528	$ 0	$ 0	$ 229,618

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	$ 9,217,324	$ 47,592	$ 543,936	$ 49,831	$ 0	$ 0	$ 9,858,683
Research	20,894						20,894
Academic Support	1,929,768	26,395	45,069				2,001,232
Student Services	1,358,829	20,095	138,930	26,256			1,544,110
Institutional Support	2,861,999	145,793	792,333				3,800,125
Operations and Maintenance of Plant	780,825	786,347	967,436		472,679		3,007,287
Student Financial Aid				2,266,980			2,266,980
Auxiliary Enterprises	204,427	152,915	111,710	314			469,366
Depreciation						1,401,331	1,401,331
Total Operating Expenses	$ 16,374,066	$ 1,179,137	$ 2,599,414	$ 2,343,381	$ 472,679	$ 1,401,331	$ 24,370,008

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $621,486, and the College's contributions were $1,033,739 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $5,805,056 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the College's proportion was 0.06316%, which was an increase of 0.00172 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 10,918,189	$ 5,805,056	$ 1,505,612

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,187,702. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0	$ 274,355
Changes of Assumptions	856,105	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,070,269	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	216,794	23,456
Contributions Subsequent to the Measurement Date	1,033,739	
Total	$ 4,176,907	$ 297,811

The amount of $1,033,739 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2018	$ 516,779
2019	516,686
2020	1,160,168
2021	651,724
Total	$ 2,845,357

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 (TSERS). 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 Chapter 135, Article 3B, 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 TSERS 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 established by the General Assembly.

For the period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $601,806, $550,655, and $521,588, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 TSERS. 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $39,361, $40,316, and $38,953, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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 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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 deductible. Employee dishonesty insurance for employees who are paid from non-state funds is purchased from a private insurance company with coverage of $75,000 per occurrence with a $500 deductible.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the College

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

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Required Supplementary Information

Blue Ridge Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit C-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.06316%	0.06144%	0.06392%	0.06170%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,805,056	$ 2,264,186	$ 749,412	$ 3,745,819
Covered Payroll	$ 9,833,125	$ 9,500,692	$ 9,560,738	$ 9,387,356
Net Pension Liability as a Percentage of Covered Payroll	59.04%	23.83%	7.84%	39.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Blue Ridge Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,033,739	$ 899,731	$ 869,313	$ 830,828	$ 781,967
Contributions in Relation to the Contractually Determined Contribution	1,033,739	899,731	869,313	830,828	781,967
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 10,358,103	$ 9,833,125	$ 9,500,692	$ 9,560,738	$ 9,387,356
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 676,561	$ 439,113	$ 302,662	$ 282,267	$ 254,694
Contributions in Relation to the Contractually Determined Contribution	676,561	439,113	302,662	282,267	254,694
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 9,093,558	$ 8,906,962	$ 8,477,922	$ 8,400,807	$ 8,350,621
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

Blue Ridge Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina’s 2016 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Blue Ridge Community College (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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 30 2018. Our report includes a reference to other auditors who audited the financial statements of Blue Ridge Community College Educational Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Blue Ridge Community College Educational Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Blue Ridge Community College Educational Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Findings, Recommendations, and Responses section to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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.*

College's Response to Finding

The College's response to the finding identified in our audit is described in the accompanying Findings, Recommendations, and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 30, 2018

FINDINGS, RECOMMENDATIONS, 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.

IMPROPER SEGREGATION OF DUTIES INCREASED RISK OF UNDETECTED ERRORS

Duties were not properly segregated in the College's Finance Office during the audit period. A member of management had the ability to post journal entries that changed the financial records without independent review. As a result, there was an increased risk of errors or fraud occurring without detection.

During the audit period, the Finance Office did not ensure adequate separation of duties for 28 of the 120 (23%) journal entries posted during the year-end accrual process. A senior manager prepared and posted the entries without subsequent review.

While no instances of fraud or material error were identified as a result of the entries this employee posted, an increased risk existed because there was no independent review of journal entries prepared and posted by this employee.

According to the College, they experienced significant turnover in the past two years. The limited staff size led to additional year-end responsibilities being performed by the senior manager, including recording year-end journal entries and preparing and reviewing the financial statements.

Best practices require adequate segregation of duties. Specifically, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that segregation of duties generally entails dividing the responsibility for recording, authorizing, and approving transactions. Segregation of duties is fundamental to mitigating the risk of error or fraud because it reduces, but can't absolutely prevent, the possibility of one person acting alone.

Recommendation: College management should reassign responsibilities over journal entry processing to properly segregate duties. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

College's Response: See page 46 for the College's response to this finding.

Dr. Laura B. Leatherwood
President

January 29, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Auditor Wood:

We are providing this letter in connection with the audit finding of Blue Ridge Community College as of June 30, 2017.

Improper Segregation of Duties Increased Risk of Undetected Errors

OSA Recommendations

College management should reassign responsibilities over journal entry processing to properly segregate duties. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

Agency Response

Blue Ridge Community College is in agreement with the finding and the recommendation made by the State Auditor's Office.

The deficiency occurred during a period the Business Office was short-staffed and year-end processes and reporting needed to be completed in a timely manner. Senior management will be involved in the review process of completed year-end accrual journal entries going forward. If presented with unique challenges, such as a shortage of staff, senior management will need to assess how to better accomplish duties and still remain in compliance.

The Associate Vice President for Finance/CFO and the Director of Finance will implement changes to the way journal entries are prepared, posted, and reviewed during the 2018 year-end accrual process. In the past and as well as the future, Blue Ridge Community College values and will follow the guidance of the State Auditor's Office.

Laura B. Leatherwood
Dr. Laura B. Leatherwood, President

Carolyn W. Alley
Carolyn W. Alley, CFO

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NCOSA
The Taxpayers' Watchdog

This audit required 394 hours at an approximate cost of $40,582.