



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Bladen Community College

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

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

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

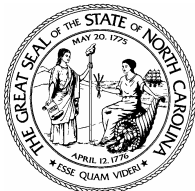
Leslie W. Merritt, Jr.

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

November 17, 2006

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State Auditor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bladen Community College
Dublin, North Carolina

We have audited the accompanying basic financial statements of Bladen Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit *provides* a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bladen Community College as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

Leslie W. Merritt, Jr.

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

September 11, 2006

BLADEN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The information in this section is intended to provide a general overview of Bladen Community College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. Since Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements and their financial focus are discussed below.

The Statement of Net Assets presents the financial position of the College at year-end. It includes all of the College's assets and liabilities with the difference reported as net assets. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by State, local, federal, and other revenues. This Statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

The financial highlight for the College in fiscal 2004-05 was the large investment made in capital construction. This investment will provide service to the community for many years.

Financial Analysis

Condensed Statement of Net Assets

	2005	2004	Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 579,339.78	\$ 672,109.06	\$ (92,769.28)	(13.8) %
Noncurrent Assets:				
Capital Assets, Net of Depreciation	3,837,313.85	2,886,101.47	951,212.38	33.0 %
Other	632,193.64	962,101.56	(329,907.92)	(34.3) %
Total Assets	<u>5,048,847.27</u>	<u>4,520,312.09</u>	<u>528,535.18</u>	11.7 %
Liabilities				
Current Liabilities	381,443.77	283,052.41	98,391.36	34.8 %
Noncurrent Liabilities	246,597.19	238,635.80	7,961.39	3.3 %
Total Liabilities	<u>628,040.96</u>	<u>521,688.21</u>	<u>106,352.75</u>	20.4 %
Net Assets				
Invested in Capital Assets	3,837,313.85	2,886,101.47	951,212.38	33.0 %
Restricted Expendable	642,567.58	908,628.84	(266,061.26)	(29.3) %
Unrestricted	(59,075.12)	203,893.57	(262,968.69)	(129.0) %
Total Net Assets	<u>\$ 4,420,806.31</u>	<u>\$ 3,998,623.88</u>	<u>\$ 422,182.43</u>	10.6 %

During the year ended June 30, 2005, there was a significant increase in capital assets and a significant decrease in noncurrent receivables. The College had previously reported a receivable from the State to fund construction projects, and during the year this money was collected and invested in capital assets. These projects included both renovations and new construction. The notes to the financial statements contain a detailed schedule of changes in capital assets during the year.

Current liabilities increased during the year due to the addition of more full-time employees and salary increases, which led to an increase in accrued payroll costs. The College's only long-term liability is for employee compensated absences. This liability represents vacation time earned and not taken at year-end. The notes to the financial statements contain a detailed schedule of changes in the compensated absences liability during the year.

The increase in net assets - invested in capital assets is directly related to the increase in capital assets, and the decrease in restricted net assets is a product of the reduced receivable from the State for the construction projects. The decrease in unrestricted net assets resulted from the expenditure of unrestricted cash for capital purposes and the increase in accrued payroll.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2005	2004	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 331,075.51	\$ 211,530.50	\$ 119,545.01	56.5 %
Federal Grants and Contracts	4,244,135.69	3,955,845.10	288,290.59	7.3 %
Other	416,492.58	846,534.99	(430,042.41)	(50.8) %
Total Operating Revenues	4,991,703.78	5,013,910.59	(22,206.81)	(0.4) %
Nonoperating Revenues:				
State Aid	5,883,896.46	4,984,128.32	899,768.14	18.1 %
County Appropriations	596,650.00	497,035.31	99,614.69	20.0 %
Other Nonoperating Revenues	193,439.65	284,941.04	(91,501.39)	(32.1) %
Total Nonoperating Revenues	6,673,986.11	5,766,104.67	907,881.44	15.7 %
Total Revenues	11,665,689.89	10,780,015.26	885,674.63	8.2 %
Operating Expenses:				
Salaries and Benefits	7,697,559.34	6,305,718.84	1,391,840.50	22.1 %
Scholarships and Fellowships	2,010,464.56	2,236,841.06	(226,376.50)	(10.1) %
Other	2,644,283.20	2,873,692.03	(229,408.83)	(8.0) %
Total Operating Expenses	12,352,307.10	11,416,251.93	936,055.17	8.2 %
Other:				
State Capital Aid	739,945.71	1,179,774.78	(439,829.07)	(37.3) %
Capital Grants	21,666.00	17,945.69	3,720.31	100.0 %
Increase in Net Assets	\$ 74,994.50	\$ 561,483.80	\$ (486,489.30)	(86.6) %

Salaries and benefits increased during the year as a result of add full-time staff positions and pay raises. State aid and county appropriations also increased, primarily to pay for the increased salary and benefits.

Economic Outlook and Effects on Financial Reporting

As the State's economy has turned downward in the previous years, the region that Bladen Community College serves continues to experience plant closings, high unemployment and results in record high enrollments at the College. Unable to finance this additional demand for educational offerings, the North Carolina General Assembly increased State tuition for students for Fall 2004 from \$35.50 to \$38.00 per credit hour, a 7% increase. The College anticipates continued growth in enrollment during the 2005-06 year. State and county funding, as well as grant funding, remain stable.

Bladen Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 130,664.31
Restricted Cash and Cash Equivalents	11,224.64
Receivables, Net (Note 3)	302,865.24
Due from Primary Government	13,293.30
Inventories	121,292.29

Total Current Assets	579,339.78
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Noncurrent Assets:

Restricted Due from Primary Government	632,193.64
Capital Assets - Nondepreciable, Net (Note 4)	1,185,255.13
Capital Assets - Depreciable, Net (Note 4)	2,652,058.72

Total Noncurrent Assets	4,469,507.49
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Total Assets	5,048,847.27
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	282,186.24
Deferred Revenue	61,093.00
Funds Held for Others	141.47
Long-Term Liabilities - Current Portion (Note 6)	38,023.06

Total Current Liabilities	381,443.77
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	246,597.19
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Total Liabilities	628,040.96
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NET ASSETS

Invested in Capital Assets	3,837,313.85
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Restricted for:

Expendable:

Scholarships and Fellowships	12,092.69
Loans	777.54
Capital Projects	504,616.77
Other	125,080.58

Unrestricted	(59,075.12)
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Total Net Assets	\$ 4,420,806.31
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The accompanying notes to the financial statements are an integral part of this statement.

***Bladen Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 331,075.51
Federal Grants and Contracts	4,244,135.69
State and Local Grants and Contracts	186,781.87
Sales and Services, Net (Note 8)	200,806.90
Other Operating Revenues	28,903.81

Total Operating Revenues	<u>4,991,703.78</u>
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EXPENSES

Operating Expenses:

Personal Services	7,697,559.34
Supplies and Materials	886,434.92
Services	1,282,923.71
Scholarships and Fellowships	2,010,464.56
Utilities	185,757.85
Depreciation	289,166.72

Total Operating Expenses	<u>12,352,307.10</u>
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Operating Loss	<u>(7,360,603.32)</u>
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NONOPERATING REVENUES

State Aid	5,883,896.46
County Appropriations	596,650.00
Noncapital Grants	183,337.75
Noncapital Gifts	7,325.00
Investment Income	1,831.73
Other Nonoperating Revenues	945.17

Net Nonoperating Revenues	<u>6,673,986.11</u>
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Income Before Other Revenues, Expenses, Gains, and Losses	(686,617.21)
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State Capital Aid	739,945.71
Capital Grants	<u>21,666.00</u>

Increase in Net Assets	74,994.50
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NET ASSETS

Net Assets, July 1, 2004 as Restated (Note 16)	<u>4,345,811.81</u>
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Net Assets, June 30, 2005	<u><u>\$ 4,420,806.31</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Bladen Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received From or On Behalf of Customers	\$ 5,068,239.31
Payments to Employees and Fringe Benefits	(7,604,073.42)
Payments to Vendors and Suppliers	(2,392,440.35)
Payments for Scholarships and Fellowships	(2,010,464.56)
Other Payments	(30,733.43)

Net Cash Used by Operating Activities	<u>(6,969,472.45)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,883,896.46
County Appropriations	596,650.00
Noncapital Grants Received	210,386.36
Noncapital Gifts Received	7,325.00

Cash Provided by Noncapital Financing Activities	<u>6,698,257.82</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,055,560.33
Capital Grants Received	21,666.00
Acquisition and Construction of Capital Assets	(948,739.47)

Net Cash Provided by Capital and Related Financing Activities	<u>128,486.86</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>1,831.73</u>
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Cash Provided by Investing Activities	<u>1,831.73</u>
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Net Decrease in Cash and Cash Equivalents	(140,896.04)
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Cash and Cash Equivalents, July 1, 2004	<u>282,784.99</u>
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Cash and Cash Equivalents, June 30, 2005	<u><u>\$ 141,888.95</u></u>
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RECONCILIATION OF OPERATING LOSS

TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (7,360,603.32)
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Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation Expense	289,166.72
Miscellaneous Nonoperating Income	945.17
Changes in Assets and Liabilities:	
Receivables, Net	25,685.33
Inventories	(59,518.79)
Accounts Payable and Accrued Liabilities	96,211.48
Deferred Revenue	50,850.20
Funds Held for Others	(31,678.60)
Compensated Absences	19,469.36

Net Cash Used by Operating Activities	<u><u>\$ (6,969,472.45)</u></u>
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***Bladen Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	130,664.31
Restricted Cash and Cash Equivalents		<u>11,224.64</u>

Total Cash and Cash Equivalents - June 30, 2005	\$	<u><u>141,888.95</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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BLADEN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- 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 private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 18 to 43 years for general infrastructure, 15 to 40 years for buildings, and 5 to 19 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

K. Net Assets – The College's net assets are classified as follows:

Invested in Capital Assets – This represents the College's total investment in capital assets.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the college bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function. Unexpended county appropriations do not revert and are available for future use as approved by the county commissioners.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,225, and deposits in private financial institutions with a carrying value of \$140,664 and a bank balance of \$429,247.

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

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

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 88,835.74	\$ 67,109.00	\$ 21,726.74
Vendor Credits	97,703.85		97,703.85
Intergovernmental Receivables	183,434.65		183,434.65
Total Current Receivables	\$ 369,974.24	\$ 67,109.00	\$ 302,865.24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2004	Increases	Balance June 30, 2005
Capital Assets, Nondepreciable:			
Land	\$ 78,163.55	\$ 0.00	\$ 78,163.55
Construction in Progress	337,774.20	769,317.38	1,107,091.58
Total Capital Assets, Nondepreciable	415,937.75	769,317.38	1,185,255.13
Capital Assets, Depreciable:			
Buildings	5,369,874.33		5,369,874.33
Machinery and Equipment	842,770.43	116,804.61	959,575.04
General Infrastructure	519,000.06	6,500.00	525,500.06
Total Capital Assets, Depreciable	6,731,644.82	123,304.61	6,854,949.43
Less Accumulated Depreciation:			
Buildings	3,269,619.28	152,381.59	3,422,000.87
Machinery and Equipment	309,707.69	121,975.00	431,682.69
General Infrastructure	334,397.02	14,810.13	349,207.15
Total Accumulated Depreciation	3,913,723.99	289,166.72	4,202,890.71
Total Capital Assets, Depreciable, Net	2,817,920.83	(165,862.11)	2,652,058.72
Capital Assets, Net	\$ 3,233,858.58	\$ 603,455.27	\$ 3,837,313.85

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 77,858.79
Accrued Payroll	177,278.84
Intergovernmental Payables	27,048.61
Total Accounts Payable and Accrued Liabilities	\$ 282,186.24

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 265,150.89	\$ 214,500.67	\$ 195,031.31	\$ 284,620.25	\$ 38,023.06

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 62,104.68
2007	3,924.00
Total Minimum Lease Payments	<u>\$ 66,028.68</u>

Rental expense for all operating leases during the year was \$115,878.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 1,232,117.82</u>	<u>\$ 0.00</u>	<u>\$ 833,933.31</u>	<u>\$ 67,109.00</u>	<u>\$ 331,075.51</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 10,607.76	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,607.76
Bookstore	691,466.61	5,470.51	501,366.96		184,629.14
Other	5,570.00				5,570.00
Total Sales and Services	<u>\$ 707,644.37</u>	<u>\$ 5,470.51</u>	<u>\$ 501,366.96</u>	<u>\$ 0.00</u>	<u>\$ 200,806.90</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,598,759.85	\$ 120,272.95	\$ 160,008.01	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,879,040.81
Research	207,410.54	11,634.05	16,399.16				235,443.75
Academic Support	574,926.04	5,468.12	7,582.62				587,976.78
Student Services	412,234.40	9,622.47	10,362.40				432,219.27
Institutional Support	2,681,902.60	286,312.55	919,729.18		1,975.08		3,889,919.41
Operations & Maintenance of Plant	152,343.21	32,602.94	124,277.34		183,782.77		493,006.26
Student Financial Aid				2,010,464.56			2,010,464.56
Auxiliary Enterprises	69,982.70	420,521.84	44,565.00				535,069.54
Depreciation						289,166.72	289,166.72
Total Operating Expenses	<u>\$ 7,697,559.34</u>	<u>\$ 886,434.92</u>	<u>\$ 1,282,923.71</u>	<u>\$ 2,010,464.56</u>	<u>\$ 185,757.85</u>	<u>\$ 289,166.72</u>	<u>\$ 12,352,307.10</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$6,108,786, of which \$5,063,292 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$303,797 and \$109,873, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$109,873, \$9,394, and zero, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$37,585 for the year ended June 30, 2005.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College’s total contribution to the Plan was \$162,025. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina’s *Comprehensive Annual Financial Report*.
- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. For the year ended June 30, 2005, the College’s total contribution to the DIPNC was \$22,532. The College assumes no liability for long-term disability benefits under the Plan other than its

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 12 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5 million per occurrence and a \$50,000 deductible. The College is protected from losses from employee dishonesty and computer fraud for employees paid entirely from county and institutional funds by a contract with a private insurance company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$386,349 at June 30, 2005.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$2,574,208 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

- C. Federal Grants** - As of June 30, 2005, the College was not in compliance with student financial aid program regulations requiring repayment of grants when a student withdraws from classes. Subsequent to year-end, the College refunded \$25,236 for the 2004 and 2005 fiscal years, and a liability for this amount has been reported in the financial statements. The College has also paid the refund owed for the 2006 fiscal year. It is uncertain whether the federal funding agency will require refunds for years prior to 2004 for which a refund was not paid. However, the College considers it unlikely that such refunds will be required and believes any potential contingent liability to be immaterial to the financial statements.

NOTE 14 - RELATED PARTIES

Foundation – The Bladen Community College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$16,158 for the year ended June 30, 2005.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and*

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Investment Risk Disclosures. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 16 - NET ASSET RESTATEMENT

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

	<u>Amount</u>
July 1, 2004 Net Assets as Previously Reported	\$ 3,998,623.88
Restatement - Correction of Capital Asset Balances	<u>347,187.93</u>
July 1, 2004 Net Assets as Restated	<u><u>\$ 4,345,811.81</u></u>

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

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Bladen Community College
Dublin, North Carolina

We have audited the financial statements of Bladen Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 11, 2006. As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report as items 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the Audit Findings and Recommendations section of this report as item 2.

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

Leslie W. Merritt, Jr.

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

September 11, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Bladen Community College contained numerous misstatements. As a result, the financial statements could be misleading to readers.

During our audit of the 2005 financial statements, we noted the following misstatements:

- a. The College incorrectly recorded beginning of the year amounts. This resulted in a \$999,375 overstatement of revenues, a \$61,773 understatement of expenses and an invalid \$736,904 restatement of net assets. The July 1 net asset balance presented in the Statement of Revenues, Expenses and Changes in Net Assets did not match the prior year audit report. The balance was understated by \$324,815.
- b. The College reported deficit restricted expendable net assets of \$292,318. Restricted net assets should not have been reduced below zero, with the difference used to reduce unrestricted net assets.
- c. The College did not record a receivable for grant funds earned in June. As a result receivables and related operating revenues were understated by \$196,727.
- d. The College inappropriately reported \$417,873 of State capital aid as operating revenue rather than nonoperating revenue.
- e. The College improperly recorded scholarship discounts. As a result, student tuition and fees were understated by \$407,673 and bookstore sales and services revenue was overstated by the same amount. The revenue discounting note disclosure did not match the financial statements and contained other errors. The gross amount of tuition and fees disclosed in the note was overstated by \$958,952, the scholarship discount was overstated by \$1,176,731 and the College recognized no allowance for uncollectible accounts. The bookstore sales discount reported in the note was understated by \$501,366.
- f. The College reported three different cash amounts in the financial statements. Cash was reported as \$141,888 on the statement of net assets, \$1,203,609 on the statement of cash flows and \$243,419 in the notes to the financial statements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- g. The College did not disclose the appropriate amounts in the commitment and contingencies note. The outstanding commitments on construction contracts were understated by \$336,349, and the College's remaining authorization on future bond sales and allotment approval was overstated by \$990,531.
- h. Various other misstatements were made in the financial statements, notes to the financial statements, and management's discussion and analysis.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the completeness and accuracy of the financial statements. The College may want to obtain outside assistance to help close the accounting records and prepare financial statements.

Response: We acknowledge the finding of the auditors and outside assistance has been obtained in closing the FY2006 accounting records. This assistance included the preparation of the financial statements and will remain available to staff on an ongoing basis.

2. LIABILITY FOR UNEARNED STUDENT FINANCIAL AID REVENUES

Bladen Community College did not return unearned student financial aid grants to the federal government in accordance with program regulations. The College has determined that as of June 30, 2005, it owed the federal government \$25,236 for the 2005 and 2004 fiscal years.

When students withdraw or drop courses, the College is required to compute the amount of unearned student financial aid credited to the students' accounts for tuition and fees and return it to the federal government. At year-end, the College had not paid any refunds and did not report a liability in the financial statements for the amount owed.

During our audit, the College was investigating the refund requirements and subsequently returned \$44,723 to the federal government for the 2004, 2005 and 2006 fiscal years.

Recommendation: The College should request an official management decision from the federal funding agency to determine whether payback for fiscal years prior to 2004 will be required.

Response: We acknowledge the finding of the auditors. The College is compliant in its return of Title IV funds back to FY2004. The College will request an official management determination from the federal funding agency as to any liability for fiscal years prior to FY2004.

ORDERING INFORMATION

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

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