



# STATE OF NORTH CAROLINA

**BLADEN COMMUNITY COLLEGE**

**DUBLIN, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**BLADEN COMMUNITY COLLEGE**

**DUBLIN, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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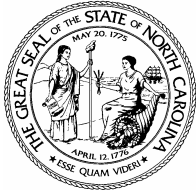
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2006, 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 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.*

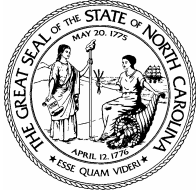
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 21, 2007

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets .....	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	9
A-3 Statement of Cash Flows .....	10
Component Unit Exhibits	
B-1 Statement of Financial Position... ..	12
B-2 Statement of Activities.....	13
Notes to the Financial Statements .....	15
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	29
AUDIT FINDINGS AND RECOMMENDATIONS.....	31
ORDERING INFORMATION .....	33



STATE OF NORTH CAROLINA  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Bladen Community College  
Dublin, North Carolina

We have audited the accompanying financial statements of Bladen Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bladen Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Bladen Community College Foundation, Inc., which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Bladen Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bladen Community College and its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2007, 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.

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., CPA, CFP  
State Auditor

May 10, 2007

## **BLADEN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 is designed to be similar to bottom line results for the College. The statement combines and consolidates current financial resources with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases and 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 aid 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

### Financial Highlights

The financial highlight for the College in fiscal year 2005-2006 was the completion of a new Information Technology Center and renovations to the East Arcadia Campus that will serve the community for many years to come.

Because of anticipated decline in State revenues, the College reverted a mandated one half percent of their total State budget back to North Carolina Community College System. This resulted in approximately \$29,485 being reverted by the College.

### Financial Analysis

#### Condensed Statement of Net Assets

	2006	2005	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 1,016,365.50	\$ 579,339.78	\$ 437,025.72
Noncurrent Assets:			
Capital Assets, Net of Depreciation	3,897,370.34	3,837,313.85	60,056.49
Other	7,439.10	632,193.64	(624,754.54)
Total Assets	<u>4,921,174.94</u>	<u>5,048,847.27</u>	<u>(127,672.33)</u>
<b>Liabilities</b>			
Current Liabilities	276,112.04	381,443.77	(105,331.73)
Noncurrent Liabilities	314,415.97	246,597.19	67,818.78
Total Liabilities	<u>590,528.01</u>	<u>628,040.96</u>	<u>(37,512.95)</u>
<b>Net Assets</b>			
Invested in Capital Assets	3,897,370.34	3,837,313.85	60,056.49
Restricted Expendable	184,886.89	642,567.58	(457,680.69)
Unrestricted	248,389.70	(59,075.12)	307,464.82
Total Net Assets	<u>\$ 4,330,646.93</u>	<u>\$ 4,420,806.31</u>	<u>\$ (90,159.38)</u>

The College received county capital appropriations for repairs and renovations for the first time in six years. The total county capital appropriations in the 2006 fiscal year was \$325,750.00. Some of these funds were not spent during the current fiscal year. Also, security/parking fees increased from \$5.00 per year to \$5.00 per semester. These factors contributed to the increase in the College's Current Assets. The Noncurrent Assets - Other reduced significantly because the College completed two on-going projects during the 2006 fiscal year.

Current liabilities decreased due to a reduction in the Workforce Investment Act (WIA) budget for the 2006 fiscal year. WIA is a federally funded grant designed to help dislocated workers, welfare recipients, and youth in need.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent liabilities increased because of an additional five bonus days awarded by the State to all full-time permanent staff. Noncurrent liabilities consist solely of accrued vacation and bonus leave.

The decrease in restricted net assets is a result of a receivable from the State for a construction project scheduled to begin in fiscal year 2006 but has since been delayed until fiscal year 2008. Therefore the original allotment was recorded in fiscal year 2005 and was removed in fiscal year 2006. The majority of the change in unrestricted net assets is due to the unexpended portion of a \$283,250 special allotment received from the local government.

### Analysis of Net Capital Assets

The categories of the College's capital assets are shown in this schedule. It is prepared on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant changes in Construction in Progress and Buildings are due to two projects being completed during the 2006 fiscal year. In this year, we added a new Industrial Training Center to our campus and renovated and repaired one of our off campus sites.

	2006	2005	Increase (Decrease)
Capital Assets:			
Land	\$ 78,163.55	\$ 78,163.55	\$ 0.00
Buildings	6,736,878.33	5,369,874.33	1,367,004.00
Machinery and Equipment	945,531.66	959,575.04	(14,043.38)
General Infrastructure	563,000.06	525,500.06	37,500.00
Construction in Progress		1,107,091.58	(1,107,091.58)
Total	8,323,573.60	8,040,204.56	283,369.04
Less: Accumulated Depreciation	4,426,203.26	4,202,890.71	223,312.55
Net Capital Assets	<u>\$ 3,897,370.34</u>	<u>\$ 3,837,313.85</u>	<u>\$ 60,056.49</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2006	2005	Increase (Decrease)
<b>Operating Revenues:</b>			
Student Tuition and Fees, net	\$ 590,815.63	\$ 331,075.51	\$ 259,740.12
Federal Grants and Contracts	3,868,277.09	4,244,135.69	(375,858.60)
State and Local Grants and Contracts	147,457.49	186,781.87	(39,324.38)
Sales and Services, net	103,902.91	200,806.90	(96,903.99)
Other Operating Revenue	37,025.49	28,903.81	8,121.68
Total Operating Revenues	<u>4,747,478.61</u>	<u>4,991,703.78</u>	<u>(244,225.17)</u>
<b>Operating Expenses:</b>			
Personal Services	7,261,128.55	7,697,559.34	(436,430.79)
Supplies and Materials	1,283,646.26	886,434.92	397,211.34
Services	1,254,626.66	1,282,923.71	(28,297.05)
Scholarships and Fellowships	1,730,710.15	2,010,464.56	(279,754.41)
Utilities	190,563.61	185,757.85	4,805.76
Depreciation	293,131.49	289,166.72	3,964.77
Total Operating Expenses	<u>12,013,806.72</u>	<u>12,352,307.10</u>	<u>(338,500.38)</u>
Operating Loss	<u>(7,266,328.11)</u>	<u>(7,360,603.32)</u>	<u>94,275.21</u>
<b>Nonoperating Revenues:</b>			
State Aid	6,166,663.56	5,883,896.46	282,767.10
County Appropriations	570,550.00	596,650.00	(26,100.00)
Other Nonoperating Revenues	217,982.12	193,439.65	24,542.47
Net Nonoperating Revenues	6,955,195.68	6,673,986.11	281,209.57
State Capital Aid	107,166.03	739,945.71	(632,779.68)
Capital Grants	325,750.00	21,666.00	304,084.00
Increase in Net Assets	121,783.60	74,994.50	46,789.10
<b>Net Assets</b>			
Net Assets - July 1, as Restated	4,420,806.31	4,345,811.81	74,994.50
Restatement	<u>(211,942.98)</u>		
Net Assets - June 30	<u>\$ 4,330,646.93</u>	<u>\$ 4,420,806.31</u>	<u>\$ (90,159.38)</u>
Total Revenues	<u>\$ 12,135,590.32</u>	<u>\$ 12,427,301.60</u>	<u>\$ (291,711.28)</u>

The change in student tuition and fees is due to the increase in the tuition rate per credit hour and an enrollment increase. Tuition rate increased from \$38.00 per credit hour to \$39.50 per credit hour. The net student tuition and fees amounts increased because third party sponsors experienced a reduction in their budget which resulted in those agencies funding fewer students than the previous year.

County Appropriations increased because of a special allocation, in the amount of \$283,250, given to the College by the County government for the 2006 fiscal year. Supplies and materials increased because of increased budget from State and local (county) in the 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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fiscal year. Because of the funding, the College was able to purchase more items for instructional purposes and daily business operations. The decrease in State capital aid was the result of a receivable from the State for a construction project scheduled to begin in fiscal year 2006 but has since been delayed until fiscal year 2008. Therefore the original allotment was recorded in fiscal year 2005 and was removed in fiscal year 2006. The amount was \$415,792.00 which was on the North Carolina Community College System Office bond allotment schedule as a reduction in the fiscal year 2006.

### **Economic Outlook and Effects on Financial Reporting**

While North Carolina's overall economy continues to improve, the area served by Bladen Community College has lagged the State in its economic recovery. The regional unemployment rate has improved over the past year, however unemployment continues to be a significant problem for this region. Textile plants continue to be closed and the migration from small family farms continues as the area begins to move toward a technology economy. From all economic reports there are no new expected industrial plant openings in this area for the foreseeable future.

As the employment rate has improved, the enrollment has decreased somewhat and is expected to level off as the College adopts programs for the new technology economy. The North Carolina Community College System awarded Bladen Community College specific low wealth funds for the first time in fiscal year 2006. This permitted the use of State funds for certain maintenance and repair and renovation items historically funded by local government funds. It is anticipated that this provision will continue until local government has sufficient funds to adequately fund the college. All other funds received by the College were stable in fiscal year 2006 and are expected to remain.

***Bladen Community College***  
***Statement of Net Assets***  
***June 30, 2006***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 324,116.89
Restricted Cash and Cash Equivalents	182,275.82
Receivables (Note 3)	347,481.94
Inventories	162,490.85

Total Current Assets	1,016,365.50
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Noncurrent Assets:

Restricted Due from Primary Government	7,439.10
Capital Assets - Nondepreciable (Note 4)	78,163.55
Capital Assets - Depreciable, Net (Note 4)	3,819,206.79

Total Noncurrent Assets	3,904,809.44
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Total Assets	4,921,174.94
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	206,631.31
Unearned Revenue	40,347.78
Long-Term Liabilities - Current Portion (Note 6)	29,132.95

Total Current Liabilities	276,112.04
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	314,415.97
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Total Noncurrent Liabilities	314,415.97
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Total Liabilities	590,528.01
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**NET ASSETS**

Invested in Capital Assets	3,897,370.34
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Restricted for:

Expendable:

Scholarships and Fellowships	10,335.21
Loans	777.54
Capital Projects	173,774.14

Unrestricted	248,389.70
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Total Net Assets	\$ 4,330,646.93
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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, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 590,815.63
Federal Grants and Contracts	3,868,277.09
State and Local Grants and Contracts	147,457.49
Sales and Services, Net (Note 9)	103,902.91
Other Operating Revenues	37,025.49

Total Operating Revenues	4,747,478.61
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**EXPENSES**

Operating Expenses:

Personal Services	7,261,128.55
Supplies and Materials	1,283,646.26
Services	1,254,626.66
Scholarships and Fellowships	1,730,710.15
Utilities	190,563.61
Depreciation	293,131.49

Total Operating Expenses	12,013,806.72
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Operating Loss	(7,266,328.11)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	6,166,663.56
County Appropriations	570,550.00
Noncapital Grants	220,960.18
Noncapital Gifts	2,185.00
Investment Income	4,402.13
Other Nonoperating Expenses	(9,565.19)

Net Nonoperating Revenues (Expenses)	6,955,195.68
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Income Before Other Revenues and Expenses	(311,132.43)
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State Capital Aid	107,166.03
County Capital Appropriations	325,750.00

Increase in Net Assets	121,783.60
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**NET ASSETS**

Net Assets, July 1, 2005, as Restated (Note 14)	4,208,863.33
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Net Assets, June 30, 2006	\$ 4,330,646.93
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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, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 4,682,116.69
Payments to Employees and Fringe Benefits	(7,202,199.88)
Payments to Vendors and Suppliers	(2,845,590.02)
Payments for Scholarships and Fellowships	(1,730,710.15)
Other Payments	(141.47)
	<hr/>
Net Cash Used by Operating Activities	(7,096,524.83)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	6,166,663.56
County Appropriations	570,550.00
Noncapital Grants Received	220,960.18
Noncapital Gifts Received	2,185.00
	<hr/>
Cash Provided by Noncapital Financing Activities	6,960,358.74

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	745,213.87
County Capital Appropriations	325,750.00
Acquisition and Construction of Capital Assets	(574,696.15)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	496,267.72

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	4,402.13
	<hr/>
Cash Provided by Investing Activities	4,402.13

Net Increase in Cash and Cash Equivalents	364,503.76
Cash and Cash Equivalents, July 1, 2005	141,888.95
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 506,392.71

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

Operating Loss	\$ (7,266,328.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	293,131.49
Changes in Assets and Liabilities:	
Receivables, Net	(44,616.70)
Inventories	(41,198.56)
Accounts Payable and Accrued Liabilities	(75,554.93)
Unearned Revenue	(20,745.22)
Funds Held for Others	(141.47)
Compensated Absences	58,928.67
	<hr/>
Net Cash Used by Operating Activities	\$ (7,096,524.83)

***Bladen Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2006***

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

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$	324,116.89
Restricted Cash and Cash Equivalents		<u>182,275.82</u>

Total Cash and Cash Equivalents - June 30, 2006 \$ 506,392.71

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Capital Asset Write-Offs	\$	9,565.19
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The accompanying notes to the financial statements are an integral part of this statement.

***Bladen Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2006***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	437,644.00
Property and Equipment, Net		<u>4,225.00</u>
Total Assets		<u>441,869.00</u>

**LIABILITIES**

Total Liabilities		<u>0.00</u>
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**NET ASSETS**

Unrestricted		230,489.00
Temporarily Restricted		42,945.00
Permanently Restricted		<u>168,435.00</u>
Total Net Assets	\$	<u><u>441,869.00</u></u>

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



***Bladen Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:	
Contributions	\$ 245,506.00
Other Investment Income (Change to Investment Earnings)	743.00
	<hr/>
Total Unrestricted Revenues and Gains	246,249.00
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	966.00
	<hr/>
Total Net Assets Released from Restrictions	966.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	247,215.00
	<hr/>
Expenses	
Scholarships	42,334.00
Management and General (Change to Administration)	12,883.00
Fund Raising	3,689.00
	<hr/>
Total Expenses	58,906.00
	<hr/>
Increase in Unrestricted Net Assets	188,309.00
	<hr/>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	8,538.00
Income on Long-Term Investments	751.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(966.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	8,323.00
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	58,930.00
Income on Long-Term Investments (Change to Investment Earnings)	6,103.00
	<hr/>
Increase in Permanently Restricted Net Assets	65,033.00
	<hr/>
Increase in Net Assets	261,665.00
Net Assets at Beginning of Year	180,204.00
	<hr/>
Net Assets at End of Year	\$ 441,869.00
	<hr/> <hr/>

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, 2006**

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**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 of the College and component units for which the College’s Board of Trustees is financially accountable. The College’s component units are either blended or discretely presented in the financial statements. The Bladen Community College Foundation, Inc. is discretely presented in the financial statements. Discretely presented component units’ financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Unit** – Bladen Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Bladen Community College Foundation, Inc. is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 19 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Bladen Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2006, the Foundation distributed \$14,011.41 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Executive Vice President at 7418 NC Highway 41 West, Dublin, NC 28332 or by calling (910) 879-5503.

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

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

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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. All receivables are shown at book value with no provisions for doubtful accounts considered necessary.
- 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 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 forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at fiscal year end is converted to sick leave.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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totaling \$1,425.00, and deposits in private financial institutions with a carrying value of \$504,967.71, and a bank balance of \$652,864.16.

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, 2006, 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, 2006, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Students	\$ 75,208.52
Accounts	73,827.77
Intergovernmental	<u>198,445.65</u>
<b>Total Current Receivables</b>	<u><u>\$ 347,481.94</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 78,163.55	\$ 0.00	\$ 0.00	\$ 78,163.55
Construction in Progress	1,107,091.58	471,957.43	1,579,049.01	
<b>Total Capital Assets, Nondepreciable</b>	<b>1,185,255.13</b>	<b>471,957.43</b>	<b>1,579,049.01</b>	<b>78,163.55</b>
Capital Assets, Depreciable:				
Buildings	5,176,579.32	1,560,299.01		6,736,878.33
Machinery and Equipment	849,200.64	102,738.72	6,407.70	945,531.66
General Infrastructure	553,815.25	18,750.00	9,565.19	563,000.06
Total Capital Assets, Depreciable	6,579,595.21	1,681,787.73	15,972.89	8,245,410.05
Less Accumulated Depreciation:				
Buildings	3,422,000.87	148,839.62		3,570,840.49
Machinery and Equipment	368,271.45	132,817.27	6,407.70	494,681.02
General Infrastructure	349,207.15	11,474.60		360,681.75
Total Accumulated Depreciation	4,139,479.47	293,131.49	6,407.70	4,426,203.26
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,440,115.74</b>	<b>1,388,656.24</b>	<b>9,565.19</b>	<b>3,819,206.79</b>
<b>Capital Assets, Net</b>	<b>\$ 3,625,370.87</b>	<b>\$ 1,860,613.67</b>	<b>\$ 1,588,614.20</b>	<b>\$ 3,897,370.34</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 28,040.45
Accrued Payroll	164,614.20
Intergovernmental Payables	13,976.66
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 206,631.31</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 284,620.25	\$ 222,483.29	\$ 163,554.62	\$ 343,548.92	\$ 29,132.95

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	<u>\$ 3,924.00</u>

Rental expense for all operating leases during the year was \$114,456.06.

### NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenue under noncancelable operating leases consists of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 22,060.00
2008	22,060.00
2009	22,060.00
2010	22,060.00
2011	22,060.00
2012-2016	110,300.00
2017-2021	110,300.00
2022-2026	110,300.00
2027-2031	110,300.00
2032-2036	<u>110,300.00</u>
Total Minimum Lease Payments	<u>\$ 661,800.00</u>

There was no Rental Revenue for operating leases during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 1,631,743.62	\$ 0.00	\$ 1,040,927.99	\$ 590,815.63
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 743,988.63	\$ 5,819.79	\$ 643,670.21	\$ 94,498.63
Vending	6,104.28			6,104.28
Other	3,300.00			3,300.00
<b>Total Sales and Services</b>	\$ 753,392.91	\$ 5,819.79	\$ 643,670.21	\$ 103,902.91

### NOTE 10 - 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	\$ 3,812,225.70	\$ 699,336.63	\$ 135,677.59	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,647,239.92
Research	178,507.78	9,272.49	11,673.08				199,453.35
Academic Support	430,176.24	11,068.51	9,522.75				450,767.50
Student Services	463,910.19	8,500.33	8,814.07				481,224.59
Institutional Support	2,074,535.90	96,051.58	824,664.85				2,995,252.33
Operations and Maintenance of Plant	223,602.93	98,862.88	223,653.63		190,563.61		736,683.05
Student Financial Aid				1,730,710.15			1,730,710.15
Auxiliary Enterprises	78,169.81	360,553.84	40,620.69				479,344.34
Depreciation						293,131.49	293,131.49
<b>Total Operating Expenses</b>	\$ 7,261,128.55	\$ 1,283,646.26	\$ 1,254,626.66	\$ 1,730,710.15	\$ 190,563.61	\$ 293,131.49	\$ 12,013,806.72

### NOTE 11 - PENSION PLANS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$6,204,377.17, of which \$5,164,413.00 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$309,864.78 and \$120,847.26, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$120,847.26, \$109,873.00, and \$9,394.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 \$67,003.00 for the year ended June 30, 2006.

### NOTE 12 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$196,247.69. 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 .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$26,854.95. 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, 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 \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$5,000,000 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 or institutional funds by a contract with a private insurance company.

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

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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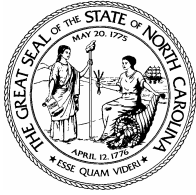
### NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2005, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2005, Net Assets as Previously Reported	\$ 4,420,806.31
Restatements: Correct Capital Asset Balances	<u>(211,942.98)</u>
July 1, 2005, Net Assets as Restated	<u><u>\$ 4,208,863.33</u></u>

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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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**

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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, and its discretely presented component unit, as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 10, 2007. Our report was modified to include a reference to other auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting 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.

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

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**Findings**

1. Deficiencies in Financial Reporting
2. Inadequate Bank Reconciliations

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 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 Finding 1 to be a material weakness.

Compliance and Other Matters

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

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

*Leslie W. Merritt, Jr.*

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

May 10, 2007

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

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

#### **1. DEFICIENCIES IN FINANCIAL REPORTING**

The financial statements and related notes prepared by Bladen Community College contained significant misstatements. As a result, users of the financial statements could be misled about the College's financial condition and results of operations.

During our audit of the 2006 financial statements, the following conditions resulting in significant misstatements were noted:

- The College failed to properly record a negative capital allotment from the North Carolina Community College System Office, resulting in an overstatement of nonoperating revenues of \$415,792.00.
- The College failed to properly adjust costs for capitalized assets out of the Supplies and Materials expense account. As a result, this account was overstated by \$414,238.09.
- The College incorrectly posted journal entries directly to net assets, which resulted in the general ledger being out of balance by \$241,287.16. As a result of the general ledger being out of balance, the College made inappropriate adjustments to balance the financial statements resulting in numerous misstatements in the financial statements submitted to the auditors.
- The College failed to reconcile the Asset Management System to the general ledger. There were assets capitalized in error, assets still in use recorded as fully depreciated and other errors, resulting in overstatements and understatements on the general ledger. The items netted to an overstatement of \$165,678.51 on the financial statements.
- The College posted an erroneous journal entry to the State Aid revenue account resulting in an overstatement of \$148,994.97.

There was no supporting documentation for many journal entries posted to the general ledger throughout the year. Without this supporting documentation, management cannot perform an adequate review to determine if the entries were necessary to fairly present the financial position of the College. There was also limited management review of the financial statements and the notes to the financial statements prior to submission to the

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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Office of the State Controller and Office of the State Auditor. This review was not adequate to identify misstatements on the financial statements or the notes.

*Recommendation:* The College should place greater emphasis on the year end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements. The College should perform an adequate review of the journal entries posted to the general ledger to assure the entries are appropriate and adequately supported.

*College's Response:* The College acknowledges the auditors finding relative to the completeness and accuracy of the financial statements. The College will implement sufficient internal controls to ensure appropriate and adequately supported accounting entries and will utilize retired state auditors to assist staff in their mastering the essentials of financial reporting and the year end reporting process.

### 2. INADEQUATE BANK RECONCILIATIONS

Bank reconciliations were not adequately performed or reviewed. As a result, there was an overstatement of cash and cash equivalents by \$124,291.95.

During our review of the bank reconciliations for the fiscal year, we noted that a reconciling item was carried for the entire year without adequate investigation and resolution. We determined that a beginning balance was brought forward incorrectly, resulting in an overstatement of cash of \$123,144 on the general ledger. Other minor discrepancies or errors on the June 30, 2006, bank reconciliation resulted in an additional overstatement that netted to \$1,147.95. An adequate bank reconciliation or review of the reconciliation should have prompted the College to identify and resolve the reconciling items or errors.

*Recommendation:* The College should implement proper policies and procedures to ensure that the bank reconciliations are adequately performed and reviewed for accuracy.

*College's Response:* The College acknowledges the auditors finding relative to inadequate bank reconciliations and will implement appropriate procedures to ensure timely and adequate bank reconciliations and review by senior management.

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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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