



STATE OF NORTH CAROLINA

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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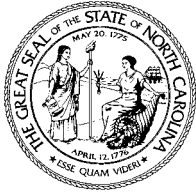
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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
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, 2008, 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 Responses section of this report. The College's response is included following the finding.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the component unit, are based on the report of the other auditors.

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

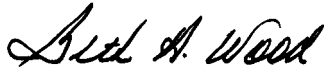
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bladen Community College and its discretely presented component unit as of June 30, 2008, and the respective changes 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2009, 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.



Beth A. Wood, CPA
State Auditor

June 4, 2009

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 to financial statements. 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 nonfinancial 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 most significant financial highlight for the College in 2007-2008 was the appropriation of \$275,000.00 from the county to begin replacing the fire, smoke, burglar, and safety equipment on the main campus. The county secured the funds and pledged additional funds to complete that project in the next fiscal year.

The State continues to be the major funding source of the College.

Financial Analysis

Condensed Statement of Net Assets

	2008	2007	Increase (Decrease)
Assets			
Current Assets	\$ 982,207.50	\$ 997,295.93	\$ (15,088.43)
Noncurrent Assets:			
Capital Assets, Net of Depreciation	4,250,747.35	4,193,075.35	57,672.00
Restricted Due from Primary Government	4,257,730.45	4,480,000.00	(222,269.55)
Total Assets	<u>\$ 9,490,685.30</u>	<u>\$ 9,670,371.28</u>	<u>\$ (179,685.98)</u>
Liabilities			
Current Liabilities	\$ 112,586.33	\$ 279,408.32	\$ (166,821.99)
Noncurrent Liabilities	320,036.03	216,089.06	103,946.97
Total Liabilities	<u>\$ 432,622.36</u>	<u>\$ 495,497.38</u>	<u>\$ (62,875.02)</u>
Net Assets			
Invested in Capital Assets	\$ 4,250,747.35	\$ 4,193,075.35	\$ 57,672.00
Restricted Expendable	4,584,736.17	4,518,756.18	65,979.99
Unrestricted	222,579.42	463,042.37	(240,462.95)
Total Net Assets	<u>\$ 9,058,062.94</u>	<u>\$ 9,174,873.90</u>	<u>\$ (116,810.96)</u>

The changes in current and noncurrent liabilities were the result of errors in 2007 reporting, the effect of which was offsetting and therefore no restatement was made.

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. Changes in the accumulated depreciation were due to the reevaluation of assets' useful lives. Construction in progress increased due to two new projects being started during the 2008 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2008	2007	Increase (Decrease)
Capital Assets:			
Land	\$ 78,163.55	\$ 78,163.55	\$ 0.00
Buildings	6,799,654.16	6,799,654.16	
Machinery and Equipment	922,957.82	898,484.83	24,472.99
General Infrastructure	537,750.06	537,750.06	
Construction in Progress	<u>246,448.00</u>		<u>246,448.00</u>
Total	8,584,973.59	8,314,052.60	270,920.99
Less: Accumulated Depreciation	<u>4,334,226.24</u>	<u>4,120,977.25</u>	<u>213,248.99</u>
Net Capital Assets	<u>\$ 4,250,747.35</u>	<u>\$ 4,193,075.35</u>	<u>\$ 57,672.00</u>

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

	2008	2007	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	\$ 393,394.67	\$ 489,072.94	\$ (95,678.27)
Federal Grants and Contracts	3,480,681.63	3,484,151.85	(3,470.22)
State and Local Grants and Contracts	181,214.49	75,468.69	105,745.80
Sales and Services, Net	320,563.93	121,828.32	198,735.61
Other Operating Revenue	<u>67,464.47</u>	<u>105,811.17</u>	<u>(38,346.70)</u>
Total Operating Revenues	<u>4,443,319.19</u>	<u>4,276,332.97</u>	<u>166,986.22</u>
Operating Expenses:			
Personal Services	7,909,148.67	8,087,998.90	(178,850.23)
Supplies and Materials	1,279,011.17	1,162,954.53	116,056.64
Services	846,072.49	1,206,978.04	(360,905.55)
Scholarships and Fellowships	1,822,823.54	1,564,729.20	258,094.34
Utilities	182,009.79	204,165.15	(22,155.36)
Depreciation	<u>278,878.29</u>	<u>237,300.60</u>	<u>41,577.69</u>
Total Operating Expenses	<u>12,317,943.95</u>	<u>12,464,126.42</u>	<u>(146,182.47)</u>
Operating Loss	<u>(7,874,624.76)</u>	<u>(8,187,793.45)</u>	<u>313,168.69</u>
Nonoperating Revenues:			
State Aid	6,581,765.74	6,960,076.44	(378,310.70)
County Appropriations	632,564.00	582,550.00	50,014.00
Other Nonoperating Revenues	<u>216,451.50</u>	<u>213,044.04</u>	<u>3,407.46</u>
Net Nonoperating Revenues	7,430,781.24	7,755,670.48	(324,889.24)
State Capital Aid	282,736.81	4,728,919.70	(4,446,182.89)
County Capital Grant		66,000.00	(66,000.00)
Capital Grants	<u>11,853.03</u>	<u>21,490.38</u>	<u>(9,637.35)</u>
Increase in Net Assets	(149,253.68)	4,384,287.11	(4,533,540.79)
Net Assets			
Net Assets - July 1, as Restated	<u>9,207,316.62</u>	<u>4,790,586.79</u>	<u>4,416,729.83</u>
Net Assets - June 30	<u>\$ 9,058,062.94</u>	<u>\$ 9,174,873.90</u>	<u>\$ (116,810.96)</u>
Total Revenues	<u>\$ 12,168,690.27</u>	<u>\$ 16,848,413.53</u>	<u>\$ (4,679,723.26)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The increase in state and local grants and contracts is due to the College receiving funding from the State related to the Education Access Rewards North Carolina Scholars Program. This funding was new in the 2008 fiscal year. Sales and services revenue increased due to an increase in bookstore sales.

Services expenses decreased in the 2008 fiscal year due to a decrease in funding under the Workforce Investment Act and in capital funding from the county. In the 2007 fiscal year the College utilized funding from both these sources to pay for expenses related to Services.

County capital grants decreased because the local commissioners did not award the College any capital certification for the 2008 fiscal year. State capital aid decreased because the State allotted approximately \$4.5 million in funding to the College for construction projects in the 2007 fiscal year. No such allotments by the State were made in the 2008 fiscal year.

Economic Outlook and Effects on Financial Reporting

The future of Bladen Community College is closely tied to the economic condition of the State of North Carolina. State and county funding to the College comprised over 64% of the total revenues during fiscal 2008. The downturn in the State and local economy could impact funding in future years. The specific impact is uncertain.

Amid the economic concerns, student enrollment recovered somewhat during the 2008 fiscal year but did not reach the 2006 record level. Typically community college enrollment mirrors the increases and or decrease in the area's unemployment rate. Bladen County's unemployment rate leveled during the last half of 2007 but began to increase in 2008. A review of the area's demographics reveals that the county did not experience any significant economic or population change during the past year. However, high school students and out of county students continue to increase at the College in spite of the last quarter increase in transportation fuel costs. From graduation data it appears that these out of county students are seeking and finding suitable employment elsewhere upon graduation.

Other than capital funding, state funds decreased less than five percent in 2008 and other funding did not significantly change. The College continued to be below the state average for local operation support, which means that aging college facilities are not being maintained appropriately. While the College did not experience any catastrophic decreases in funding related to operations, the level of local funding continues to be inadequate and may expose the College to major facility outages in the future.

Bladen Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 398,164.57
Restricted Cash and Cash Equivalents	130,173.20
Receivables, Net (Note 3)	260,924.67
Inventories	192,945.06

Total Current Assets	982,207.50
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Noncurrent Assets:

Restricted Due from Primary Government	4,257,730.45
Capital Assets - Nondepreciable (Note 4)	324,611.55
Capital Assets - Depreciable, Net (Note 4)	3,926,135.80

Total Noncurrent Assets	8,508,477.80
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Total Assets	9,490,685.30
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	29,428.75
Unearned Revenue	39,546.00
Funds Held for Others	16,689.19
Long-Term Liabilities - Current Portion (Note 6)	26,922.39

Total Current Liabilities	112,586.33
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	320,036.03
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Total Liabilities	432,622.36
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NET ASSETS

Invested in Capital Assets	4,250,747.35
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Restricted - Expendable for:

Capital Projects	4,419,212.89
Scholarships and Fellowships	55,479.69
Specific Programs	77,092.01
Other	32,951.58

Unrestricted	222,579.42
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Total Net Assets	\$ 9,058,062.94
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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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 393,394.67
Federal Grants and Contracts	3,480,681.63
State and Local Grants and Contracts	181,214.49
Sales and Services, Net (Note 9)	320,563.93
Other Operating Revenues	67,464.47

Total Operating Revenues	4,443,319.19
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EXPENSES

Operating Expenses:

Personal Services	7,909,148.67
Supplies and Materials	1,279,011.17
Services	846,072.49
Scholarships and Fellowships	1,822,823.54
Utilities	182,009.79
Depreciation	278,878.29

Total Operating Expenses	12,317,943.95
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Operating Loss	(7,874,624.76)
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NONOPERATING REVENUES (EXPENSES)

State Aid	6,581,765.64
County Appropriations	632,564.00
Noncapital Grants	197,222.74
Noncapital Gifts	5,690.16
Investment Income	7,704.33
Other Nonoperating Revenues	5,834.37

Net Nonoperating Revenues	7,430,781.24
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Income Before Other Revenues, Expenses, Gains, and Losses	(443,843.52)
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State Capital Aid	282,736.81
Capital Grants	11,853.03

Decrease in Net Assets	(149,253.68)
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NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 16)	9,207,316.62
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Net Assets, June 30, 2008	\$ 9,058,062.94
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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, 2008***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,598,613.33
Payments to Employees and Fringe Benefits	(7,994,026.56)
Payments to Vendors and Suppliers	(2,331,193.54)
Payments for Scholarships and Fellowships	(1,822,823.54)
Other Receipts	16,166.38
	<hr/>
Net Cash Used by Operating Activities	(7,533,263.93)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	6,581,765.64
County Appropriations	632,564.00
Noncapital Grants Received	207,906.82
Noncapital Gifts Received	5,690.16
	<hr/>
Cash Provided by Noncapital Financing Activities	7,427,926.62

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	505,006.36
Capital Grants Received	11,853.03
Proceeds from Insurance on Capital Assets	5,834.37
Acquisition and Construction of Capital Assets	(304,107.57)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	218,586.19

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	7,704.33
	<hr/>
Cash Provided by Investing Activities	7,704.33

Net Increase in Cash and Cash Equivalents	120,953.21
Cash and Cash Equivalents, July 1, 2007	407,384.56
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 528,337.77

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (7,874,624.76)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	278,878.29
Changes in Assets and Liabilities:	
Receivables, Net	145,246.71
Inventories	(9,205.07)
Accounts Payable and Accrued Liabilities	(193,254.42)
Unearned Revenue	10,047.43
Funds Held for Others	16,166.38
Compensated Absences	93,481.51
	<hr/>
Net Cash Used by Operating Activities	\$ (7,533,263.93)

***Bladen Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008***

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	398,164.57
Restricted Cash and Cash Equivalents		<u>130,173.20</u>

Total Cash and Cash Equivalents - June 30, 2008	\$	<u><u>528,337.77</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	\$	65,629.30
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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 Condition
June 30, 2008

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	463,554.00
Loan Receivable		19,030.00
Miscellaneous Receivable		1,700.00
Property and Equipment, Net		<u>2,925.00</u>
Total Assets	\$	<u>487,209.00</u>

LIABILITIES AND NET ASSETS

Liabilities	\$	0.00
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NET ASSETS

Unrestricted		250,959.00
Temporarily Restricted		45,706.00
Permanently Restricted		<u>190,544.00</u>

Total Liabilities and Net Assets	\$	<u>487,209.00</u>
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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 Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues, Gains, and Other Support:	
Contributions	\$ 27,830.00
Investment Earnings	9,529.00
Fundraising Revenue	25,106.00
Net Assets Released from Restrictions	16,661.00
Miscellaneous Revenue	364.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	79,490.00
	<hr/>
Expenses and Losses:	
Contributions to Bladen Community College for:	
Program Expense	33,815.00
Management and General	9,879.00
Fund Raising	17,285.00
	<hr/>
Total Expenses	60,979.00
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Increase in Unrestricted Net Assets	18,511.00
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Revenues, Gains, and Other Support:	
Contributions	3,765.00
Investment Earnings	1,047.00
Net Assets Released from Restrictions	(8,411.00)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(3,599.00)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues, Gains, and Other Support:	
Contributions	6,492.00
Investment Earnings	6,520.00
Net Assets Released from Restrictions	(8,250.00)
	<hr/>
Increase in Permanently Restricted Net Assets	4,762.00
	<hr/>
Increase in Net Assets	19,674.00
Net Assets at Beginning of Year	467,535.00
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Net Assets at End of Year	\$ 487,209.00
	<hr/> <hr/>

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

BLADEN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 responsible. The College's component unit, 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 reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation is a legally separate, tax-exempt, not-for-profit corporation. 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.

As a private not-for-profit organization the Bladen Community College Foundation, Inc., reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the Foundation distributed \$60,979.00 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, money market accounts and cash on deposit with private banks.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** – Inventories, consisting of expendable supplies 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. All internal sales activities to College departments from auxiliary operations 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 totaling \$1,425.00 and deposits in private financial institutions with a carrying value of \$526,912.77 and a bank balance of \$639,493.34.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, 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, 2008, were as follows:

	Gross Receivables	Less: Allowance for Uncollectibles	Net Receivables
Current Receivables:			
Students	\$ 312,989.28	\$ 187,131.73	\$ 125,857.55
Accounts	79,307.43		79,307.43
Intergovernmental	55,759.69		55,759.69
Total Current Receivables	\$ 448,056.40	\$ 187,131.73	\$ 260,924.67

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 78,163.55	\$ 0.00	\$ 0.00	\$ 78,163.55
Construction in Progress		246,448.00		246,448.00
Total Capital Assets, Nondepreciable	78,163.55	246,448.00		324,611.55
Capital Assets, Depreciable:				
Buildings	6,799,654.16			6,799,654.16
Machinery and Equipment	930,927.55	57,659.57	65,629.30	922,957.82
General Infrastructure	537,750.06			537,750.06
Total Capital Assets, Depreciable	8,268,331.77	57,659.57	65,629.30	8,260,362.04
Less Accumulated Depreciation:				
Buildings	3,380,579.27	173,003.40		3,553,582.67
Machinery and Equipment	382,056.92	94,855.53	65,629.30	411,283.15
General Infrastructure	358,341.06	11,019.36		369,360.42
Total Accumulated Depreciation	4,120,977.25	278,878.29	65,629.30	4,334,226.24
Total Capital Assets, Depreciable, Net	4,147,354.52	(221,218.72)		3,926,135.80
Capital Assets, Net	\$ 4,225,518.07	\$ 25,229.28	\$ 0.00	\$ 4,250,747.35

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 5,980.15
Accrued Payroll	21,003.10
Intergovernmental Payables	2,445.50
Total Accounts Payable and Accrued Liabilities	\$ 29,428.75

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	\$ 253,476.91	\$ 345,069.47	\$ 251,587.96	\$ 346,958.42	\$ 26,922.39

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consists of the following at June 30, 2008:

Fiscal Year	Amount
2009	\$ 55,813.80
2010	25,999.75
2011	4,704.00
2012	4,704.00
2013	392.00
Total Minimum Lease Payments	\$ 91,613.55

Rental expense for all operating leases during the year was \$60,587.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2008:

Fiscal Year	<u>Amount</u>
2009	\$ 22,060.00
2010	22,060.00
2011	22,060.00
2012	22,060.00
2013	22,060.00
2014-2018	110,300.00
2019-2023	110,300.00
2024-2028	110,300.00
2029-2033	110,300.00
2034-2036	<u>66,180.00</u>
Total Minimum Lease Payments	<u>\$ 617,680.00</u>

Rental revenue for all operating leases during the year was \$22,060.00.

NOTE 9 - 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>\$ 1,369,571.48</u>	<u>\$ 0.00</u>	<u>\$ 789,045.08</u>	<u>\$ 187,131.73</u>	<u>\$ 393,394.67</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 903,870.42	\$ 5,410.36	\$ 589,624.31	\$ 0.00	\$ 308,835.75
Vending	10,418.18				10,418.18
Other	<u>1,310.00</u>				<u>1,310.00</u>
Total Sales and Services	<u>\$ 915,598.60</u>	<u>\$ 5,410.36</u>	<u>\$ 589,624.31</u>	<u>\$ 0.00</u>	<u>\$ 320,563.93</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 4,389,160.74	\$ 424,605.58	\$ 142,698.92	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,956,465.24
Public Service	4,370.60	2,723.23	16,752.90				23,846.73
Academic Support	675,180.35	38,479.00	16,206.72				729,866.07
Student Services	532,376.06	10,316.58	36,166.96				578,859.60
Institutional Support	1,714,190.85	74,652.51	369,979.16				2,158,822.52
Operations and Maintenance of Plant	263,396.51	57,979.02	80,115.23		182,009.79		583,500.55
Student Financial Aid	266,049.60	1,284.09	146,092.56	1,822,823.54			2,236,249.79
Auxiliary Enterprises	64,423.96	668,971.16	38,060.04				771,455.16
Depreciation						278,878.29	278,878.29
Total Operating Expenses	<u>\$ 7,909,148.67</u>	<u>\$ 1,279,011.17</u>	<u>\$ 846,072.49</u>	<u>\$ 1,822,823.54</u>	<u>\$ 182,009.79</u>	<u>\$ 278,878.29</u>	<u>\$ 12,317,943.95</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$6,470,042.74, of which \$5,315,926.12 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$162,135.75 and \$318,955.57, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$162,135.75, \$152,456.55, and \$120,874.26, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.ncosc.net/> 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. No costs are incurred by the College. The voluntary contributions by employees amounted to \$106,290.00 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$217,952.97, \$217,795.07, and \$196,247.69, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$27,642.82, \$29,803.54, and \$26,854.95, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,000,000 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 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 with a \$75,000 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.

The College also purchased a general liability policy with an aggregate limit of \$2,000,000 and an errors and omissions and employment practices liability policy with an aggregate limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$916,072 at June 30, 2008.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB

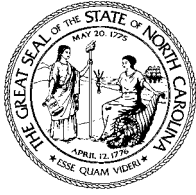
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 9,174,873.90
Restatements to Correct Estimated Useful Life of Capital Assets	<u>32,442.72</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 9,207,316.62</u></u>



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 4, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in

**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 (CONTINUED)**

internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the finding in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**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)**

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

June 4, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Bladen Community College contained significant misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted in our audit included:

- a. The College did not recognize an allowance for uncollectible accounts for their student receivables. As a result, student receivables and tuition and fees were overstated by approximately \$187,000.
- b. The College did not capitalize expenditures related to construction projects. As a result, nondepreciable capital assets were understated and supplies and materials expenses were overstated by approximately \$246,000.
- c. The College accrued payroll expenses that had already been paid to employees as of June 30, 2008. This resulted in personal services expenses and accounts payable and accrued liabilities being overstated by approximately \$150,000.
- d. The College inappropriately reported approximately \$122,000 of state grants and contracts as other operating revenues.
- e. The College mistakenly reported approximately \$315,800 of unrestricted cash as restricted cash. Also, the College did not properly reclassify negative restricted cash balances of approximately \$29,500 to reduce the reported amount of unrestricted cash. The net effect of these errors resulted in an understatement of unrestricted cash and overstatement of restricted cash by approximately \$286,300.
- f. The College did not properly classify net asset balances. As a result, restricted net assets were understated and unrestricted net assets were overstated by approximately \$279,750.
- g. The College omitted the required note disclosures for lease obligations and outstanding commitments on construction projects.

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.

College Response: The College accepts and agrees with the deficiencies and the finding found during the audit of the College's financial reporting. In response to the

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

recommendation, the College employed, in early May, a financial services consultant to assist the College staff with the mechanisms and requirements of the year-end financial reporting process. The consultant is on site three days a week and will continue to be employed to assure that year-end financial reporting is accurate and complete and that the College's financial statements are correct. The consultant has established financial reporting procedures for the College to ensure compliance with State financial guidelines. The consultant is a person with forty years previous experience with a large North Carolina community college. The consultant has the master's in business administration and last held the position of Chief Financial Officer at the Community College.

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