STATE OF NORTH CAROLINA

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses 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.

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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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, 2010, 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2011, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

June 22, 2011

Introduction

The information in this section is intended to provide an overview of Bladen Community College's financial statements for the fiscal year ended June 30, 2010, with comparative data for the fiscal year ended June 30, 2009, 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, it should be read 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 Colleges and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements and their financial focus are discussed below.

The Statement of Net Assets presents the financial position of the College at year-end. It includes all of the College's assets and liabilities with the difference reported as net assets. Over time, increases 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 Statement of Cash Flows.

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 during the fiscal year ended June 30, 2010, was the completion of the Student Resource Center construction project. The facility, which was completed and occupied in March 2010, includes a new library, student lounge area, and classroom space. The project was completed at a total cost of approximately $3.4 million and was funded by state and institutional funds. With the addition of this facility, the College is able to begin plans to renovate the existing library area to help meet the classroom and lab needs necessary to accommodate enrollment increases.

Financial Analysis

Analysis of Current Assets, Liabilities, and Net Assets

The College had no significant changes in current assets. Restricted due from primary government decreased by $2.04 million due to the completion of the Student Resource Center project. The completion of this project was also the primary cause for the $1.39 million decrease in restricted expendable net assets, as well as the $1.37 million increase in net assets invested in capital assets. Current liabilities decreased by 66.40% due to decreases in payables outstanding on construction projects as compared to the prior period. Noncurrent liabilities consist solely of accrued vacation and bonus leave. This amount will fluctuate each year as employees retire and\or make personal decisions about accrued leave.

Condensed Statement of Net Assets

	June 30, 2010	June 30, 2009 (As Restated)	Change	Percent Change
Assets				
Current Assets	$ 1,178,495.85	$ 1,261,188.73	$ (82,692.88)	-6.56%
Noncurrent Assets:				
Restricted Due from Primary Government	413,062.50	2,448,112.15	(2,035,049.65)	-83.13%
Capital Assets, Net of Depreciation	8,035,763.87	6,664,156.89	1,371,606.98	20.58%
Total Assets	9,627,322.22	10,373,457.77	(746,135.55)	-7.19%
Liabilities				
Current Liabilities	382,597.01	1,138,850.71	(756,253.70)	-66.40%
Noncurrent Liabilities	311,780.77	248,903.76	62,877.01	25.26%
Total Liabilities	694,377.78	1,387,754.47	(693,376.69)	-49.96%
Net Assets				
Invested in Capital Assets	8,035,763.87	6,664,156.89	1,371,606.98	20.58%
Restricted Expendable	322,204.50	1,710,161.31	(1,387,956.81)	-81.16%
Unrestricted	574,976.07	611,385.10	(36,409.03)	-5.96%
Total Net Assets	$ 8,932,944.44	$ 8,985,703.30	$ (52,758.86)	-0.59%

Analysis of Net Capital Assets

The categories of the College's capital assets and related accumulated depreciation are shown in the schedule below. It is prepared on the accrual basis of accounting whereby assets are capitalized and depreciated. As stated above, buildings and construction in progress changes are due to the completion of the Student Resource Center. General infrastructure changes are primarily due to the installation of a campus wide alarm system, which was funded by local funds. The College was able to utilize state funds to upgrade and replace computer technology on campus and increase instructional equipment in the areas of continuing education and nursing to better meet the needs of faculty and students.

	June 30, 2010	June 30, 2009 (As Restated)	Change	Percent Change
Capital Assets:				
Land	$ 78,163.55	$ 78,163.55	$ 0.00	0.00%
Construction in Progress	33,243.85	2,262,417.81	(2,229,173.96)	-98.53%
Buildings	11,142,627.82	7,767,056.36	3,375,571.46	43.46%
Machinery and Equipment	1,134,499.30	1,024,492.99	110,006.31	10.74%
General Infrastructure	818,740.06	537,750.06	280,990.00	52.25%
Total	13,207,274.58	11,669,880.77	1,537,393.81	13.17%
Less: Accumulated Depreciation	5,171,510.71	5,005,723.88	165,786.83	3.31%
Net Capital Assets	$ 8,035,763.87	$ 6,664,156.89	$ 1,371,606.98	20.58%

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

	June 30, 2010	June 30, 2009 (As Restated)	Change	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 364,668.02	$ 496,522.50	$ (131,854.48)	-26.56%
Sales and Services, Net	336,878.04	270,094.11	66,783.93	24.73%
Other Operating Revenues	135,807.75	162,932.11	(27,124.36)	-16.65%
Total Operating Revenues	837,353.81	929,548.72	(92,194.91)	-9.92%
Operating Expenses:				
Salaries and Benefits	8,213,948.19	8,453,109.86	(239,161.67)	-2.83%
Supplies and Materials	1,991,154.17	1,567,433.43	423,720.74	27.03%
Services	933,284.49	827,034.88	106,249.61	12.85%
Scholarships and Fellowships	4,030,931.79	2,358,630.72	1,672,301.07	70.90%
Utilities	193,932.57	197,429.18	(3,496.61)	-1.77%
Depreciation	283,662.79	274,629.14	9,033.65	3.29%
Total Operating Expenses	15,646,914.00	13,678,267.21	1,968,646.79	14.39%
Operating Loss	(14,809,560.19)	(12,748,718.49)	(2,060,841.70)	16.17%
Nonoperating Revenues:				
State Aid	5,760,241.70	6,995,621.12	(1,235,379.42)	-17.66%
County Appropriations	686,541.00	656,541.00	30,000.00	4.57%
Noncapital Grants - Federal Student Financial Aid	6,218,308.01	3,648,471.09	2,569,836.92	70.44%
Noncapital Grants	1,407,547.62	1,349,672.32	57,875.30	4.29%
Other Nonoperating Revenues	26,893.88	17,885.47	9,008.41	50.37%
Nonoperating Revenues	14,099,532.21	12,668,191.00	1,431,341.21	11.30%
Other Revenues:				
State Capital Aid	483,622.46	358,598.86	125,023.60	34.86%
County Capital Aid	152,689.47		152,689.47	
Capital Grants	20,957.19	25,681.00	(4,723.81)	-18.39%
Increase (Decrease) in Net Assets	(52,758.86)	303,752.37	(356,511.23)	-117.37%
Net Assets - July 1, as Restated	8,985,703.30	8,681,950.93	303,752.37	3.50%
Net Assets - June 30	$ 8,932,944.44	$ 8,985,703.30	$ (52,758.86)	-0.59%

During the fiscal year ended June 30, 2010, the College experienced an increase in enrollment as is customary during times of economic down turn. The number enrolled increased by

540 students to 3,474 students, while the budgeted full time equivalency (FTE) increased by 265 to 1,520 FTE. As a result of the enrollment increase, more students received financial aid through the Department of Education's Pell Grant Award and various grants through North Carolina College Foundation. Total state aid decreased by 17.66 percent because of budget restrictions placed on state agencies. Restrictions limited travel and hiring for nonessential personnel. Ironically, supplies and materials increased because most purchases were made prior to the budget constraints placed on the College.

Economic Outlook and Effects on Financial Reporting

The economy of the United States and North Carolina continued to decline during the 2009-2010 fiscal year. Unemployment rose to the highest levels since the Great Depression and remained high throughout the year, which led to unprecedented enrollment growth at Bladen Community College and in the North Carolina Community College System. Bladen and surrounding counties experienced job losses due to plant closings and downsizings. Job growth was virtually nonexistent in all sectors of the economy. Bladen County's major industry continues to be a large pork processing facility and agri-businesses, most of which are associated with pork and timber. Other primary employers include a chemical plant, retail, and the public sector. One factor that is expected to positively affect the future of the local economy is the expansion of the military complex in neighboring Cumberland County as a result of BRAC (Base Realignment and Closure). This is leading to more industrial clients looking at the possibility of locating facilities in Bladen County.

Bladen Community College's enrollment has historically correlated with increases and decreases in the area's unemployment rate. In fiscal year 2009-2010, Bladen Community College's enrollment grew by 17 percent while the State System of Community Colleges grew by 15 percent. The number of high school students and out of county students continues to increase, contributing to the enrollment growth. State funding of $6.2 million provided the major source of funding for the College. It is expected that despite the State's economic outlook, the realized growth of the Community College System will be fully funded for fiscal year 2010-2011. Equipment funding for the year is also expected to be restored. By contrast, funding for the following fiscal years is uncertain. Current projections are that the Community College System can expect state funding reduction of 5 to 15 percent for fiscal year 2011-2012. The College will need to plan for adjustments in scheduling and operations to accommodate the expected funding reductions.

With $686,541 in county appropriations, the College continued to lag behind the state average in local funding for operations and maintenance. Funding remains flat despite the increase in costs associated with enrollment growth such as maintenance supplies and utilities. The escalating cost of energy and maintenance material, combined with the addition of a new 15,800 square-foot building, has also placed increased demands on the limited local funding. Local capital funding has been inadequate over the past six years. In earlier years, the College received $275,000 to install a new campus-wide fire alarm system, a project that is currently underway. This level of capital funding is not expected to continue, as local funding is no longer available. The College is hopeful that this funding will be restored as the economy improves over time.

Bladen Community College
Statement of Net Assets
June 30, 2010 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	608,114.42
Restricted Cash and Cash Equivalents		246,222.71
Receivables, Net (Note 3)		121,750.86
Inventories		144,797.66
Prepaid Items		57,610.20
Total Current Assets		1,178,495.85
Noncurrent Assets:		
Restricted Due from Primary Government		413,062.50
Capital Assets - Nondepreciable (Note 4)		111,407.40
Capital Assets - Depreciable, Net (Note 4)		7,924,356.47
Total Noncurrent Assets		8,448,826.37
Total Assets		9,627,322.22
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		300,747.00
Unearned Revenue		63,052.62
Funds Held for Others		804.03
Long-Term Liabilities - Current Portion (Note 6)		17,993.36
Total Current Liabilities		382,597.01
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		311,780.77
Total Liabilities		694,377.78
NET ASSETS		
Invested in Capital Assets		8,035,763.87
Restricted for:		
Expendable:		
Scholarships and Fellowships		12,101.02
Capital Projects		161,455.04
Restricted for Specific Programs		81,357.60
Other		67,290.84
Unrestricted		574,976.07
Total Net Assets	$	8,932,944.44

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, 2010 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	364,668.02
Sales and Services, Net (Note 9)		336,878.04
Other Operating Revenues		135,807.75
Total Operating Revenues		837,353.81
EXPENSES		
Operating Expenses:		
Salaries and Benefits		8,213,948.19
Supplies and Materials		1,991,154.17
Services		933,284.49
Scholarships and Fellowships		4,030,931.79
Utilities		193,932.57
Depreciation		283,662.79
Total Operating Expenses		15,646,914.00
Operating Loss		(14,809,560.19)
NONOPERATING REVENUES		
State Aid		5,760,241.70
County Appropriations		686,541.00
Noncapital Grants - Federal Student Financial Aid		6,218,308.01
Noncapital Grants		1,407,547.62
Noncapital Gifts		5,985.00
Investment Income		5,067.96
Other Nonoperating Revenues		15,840.92
Nonoperating Revenues		14,099,532.21
Loss Before Other Revenues		(710,027.98)
State Capital Aid		483,622.46
County Capital Aid		152,689.47
Capital Grants		20,957.19
Decrease in Net Assets		(52,758.86)
NET ASSETS		
Net Assets, July 1, 2009 as Restated (Note 16)		8,985,703.30
Net Assets, June 30, 2010	$	8,932,944.44

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, 2010 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,047,942.33
Payments to Employees and Fringe Benefits	(8,258,668.50)
Payments to Vendors and Suppliers	(3,320,565.54)
Payments for Scholarships and Fellowships	(4,030,931.79)
Other Receipts	7,450.86
Net Cash Used by Operating Activities	(14,554,772.64)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	5,760,241.70
County Appropriations	686,541.00
Noncapital Grants - Federal Student Financial Aid	6,231,016.49
Noncapital Grants Received	1,428,789.08
Noncapital Gifts	5,985.00
Cash Provided by Noncapital Financing Activities	14,112,573.27
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,518,672.11
County Capital Aid	152,689.47
Capital Grants Received	20,957.19
Proceeds from Sale of Capital Assets	6,117.03
Acquisition and Construction of Capital Assets	(2,207,478.98)
Net Cash Provided by Capital and Related Financing Activities	490,956.82
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	5,067.96
Cash Provided by Investing Activities	5,067.96
Net Increase in Cash and Cash Equivalents	53,825.41
Cash and Cash Equivalents, July 1, 2009	800,511.72
Cash and Cash Equivalents, June 30, 2010	$ 854,337.13

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(14,809,560.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		283,662.79
Miscellaneous Nonoperating Income		9,723.89
Changes in Assets and Liabilities:		
Receivables, Net		181,220.13
Inventories		(20,840.43)
Prepaid Items		(57,610.20)
Accounts Payable and Accrued Liabilities		(183,288.20)
Unearned Revenue		29,368.39
Funds Held for Others		(2,273.03)
Compensated Absences		14,824.21
Net Cash Used by Operating Activities	$	(14,554,772.64)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	608,114.42
Restricted Cash and Cash Equivalents		246,222.71
Total Cash and Cash Equivalents - June 30, 2010	$	854,337.13

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	253,729.44
Capital Asset Write-Offs		88,925.96

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, 2010

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	488,796
Loans Receivable		22,213
Miscellaneous Receivable		913
Property and Equipment, Net		1,625
Total Assets		513,547
LIABILITIES		
Accounts Payable		2,650
Total Liabilities		2,650
NET ASSETS		
Unrestricted		274,785
Temporarily Restricted		44,035
Permanently Restricted		192,077
Total Net Assets	$	510,897

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, 2010 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Support:		
Contributions	$	1,705
Fundraising		24,930
Net Assets Released from Restrictions		63,256
Interest and Dividends		346
Total Unrestricted Revenues and Other Support		90,237
Expenses:		
Program Expenses		43,576
Fundraising Expenses		9,800
General and Administration Expenses		7,350
Total Expenses		60,726
Increase in Unrestricted Net Assets		29,511
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Other Support:		
Contributions		37,107
Net Assets Released from Restrictions		(48,305)
Interest and Dividends		11,567
Increase in Temporarily Restricted Net Assets		369
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Other Support:		
Contributions		7,115
Net Assets Released from Restrictions		(14,951)
Decrease in Permanently Restricted Net Assets		(7,836)
Increase in Net Assets		22,044
Net Assets at Beginning of Year		488,853
Net Assets at End of Year	$	510,897

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

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

Discretely Presented Component Unit - The 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 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 22 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The 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 the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed $79,980.61 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Vice President of Finance 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

E. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. Inventories - Inventories, consisting of expendable supplies, are valued at cost using either first-in, first-out, or last invoice cost. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater. 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 100 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

H. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement

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

Invested in Capital Assets - 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 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 and (2) sales and services of auxiliary enterprises. 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. 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 totaling $1,425.00, and deposits in private financial institutions with a carrying value of $852,912.13, and a bank balance of $919,179.12.

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, 2010, 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, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 291,311.76	$ 262,767.34	$ 28,544.42
Accounts	86,431.47		86,431.47
Intergovernmental	6,774.97		6,774.97
Total Current Receivables	$ 384,518.20	$ 262,767.34	$ 121,750.86

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (As Restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	$ 78,163.55	$ 0.00	$ 0.00	$ 78,163.55
Construction in Progress	2,262,417.81	1,427,387.50	3,656,561.46	33,243.85
Total Capital Assets, Nondepreciable	2,340,581.36	1,427,387.50	3,656,561.46	111,407.40
Capital Assets, Depreciable:				
Buildings	7,767,056.36	3,375,571.46		11,142,627.82
Machinery and Equipment	1,024,492.99	227,882.27	117,875.96	1,134,499.30
General Infrastructure	537,750.06	280,990.00		818,740.06
Total Capital Assets, Depreciable	9,329,299.41	3,884,443.73	117,875.96	13,095,867.18
Less Accumulated Depreciation				
Buildings	4,125,050.16	200,807.37		4,325,857.53
Machinery and Equipment	500,293.94	71,836.06	117,875.96	454,254.04
General Infrastructure	380,379.78	11,019.36		391,399.14
Total Accumulated Depreciation	5,005,723.88	283,662.79	117,875.96	5,171,510.71
Total Capital Assets, Depreciable, Net	4,323,575.53	3,600,780.94		7,924,356.47
Capital Assets, Net	$ 6,664,156.89	$ 5,028,168.44	$ 3,656,561.46	$ 8,035,763.87

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	$ 286,147.92
Accrued Payroll	1,982.37
Intergovernmental Payables	12,616.71
Total Accounts Payable and Accrued Liabilities	$ 300,747.00

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	$ 314,950.00	$ 221,719.50	$ 206,895.37	$ 329,774.13	$ 17,993.36

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 37,015.00
2012	72,571.00
2013	72,571.00
2014	37,340.00
Total Minimum Lease Payments	$ 219,497.00

Rental expense for all operating leases during the year was $63,227.64.

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenues under noncancelable operating leases related to wireless broadband services are recorded when earned. Minimum future revenues under noncancelable agreements treated as operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2010	$ 22,060.00
2011	22,060.00
2012	22,060.00
2013	22,060.00
2014	22,060.00
2015-2016	44,120.00
Total Minimum Lease Payments	$ 154,420.00

Rental Revenue for all operating leases during the year was $20,221.63.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,238,568.47	$ 0.00	$ 1,690,508.36	$ 183,392.09	$ 364,668.02
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,334,992.83	8,671.05	$ 999,370.75	$ 0.00	$ 326,951.03
Vending	8,597.01				8,597.01
Other	1,330.00				1,330.00
Total Sales and Services	$ 1,344,919.84	$ 8,671.05	$ 999,370.75	$ 0.00	$ 336,878.04

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,764,840.84	$ 619,616.06	$ 99,799.18	$ 0.00	$ 0.00	$ 0.00	$ 5,484,256.08
Public Service		186.62	1,892.17				2,078.79
Academic Support	700,017.65	51,049.96	34,803.40				785,871.01
Student Services	533,048.76	16,040.04	50,467.07	28,723.38			628,279.25
Institutional Support	1,499,475.74	81,896.72	296,404.09	5,000.00			1,882,776.55
Operations and Maintenance of Plant	255,374.66	54,597.56	142,095.44		193,932.57		646,000.23
Student Financial Aid	370,210.92	3,524.86	287,450.49	3,997,208.41			4,658,394.68
Auxiliary Enterprises	90,979.62	1,164,242.35	20,372.65				1,275,594.62
Depreciation						283,662.79	283,662.79
Total Operating Expenses	$ 8,213,948.19	$ 1,991,154.17	$ 933,284.49	$ 4,030,931.79	$ 193,932.57	$ 283,662.79	$ 15,646,914.00

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$6,816,910.55, of which \$5,455,666.28 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$194,767.29 and \$327,339.98, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$194,767.29, \$203,783.55, and \$162,135.75, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Supplemental Retirement Income Plan - 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 \$109,041.00 for the year ended June 30, 2010.

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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $245,504.98, $248,664.45, and $217,952.97, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $28,369.46, $31,537.93, and $27,642.82, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the $10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $43,495.01 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported were restated as follows:

	Amount
July 1, 2009 Net Assets as Previously Reported	$ 9,382,571.80
Correct Erroneous Prior Period Journal Entries to Accumulated Depreciation	(396,868.50)
July 1, 2009 Net Assets as Restated	$ 8,985,703.30

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 22, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. 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 opinions 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.

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)

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 2 and 3 in the Audit Findings and Responses section of this report to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 1 and 4 in the Audit Findings and Responses section of this report to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in finding 5 in the Audit Findings and Responses section of this report.

The College's responses to the findings identified in our audit are 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

June 22, 2011

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting or Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants.

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College did not maintain adequate internal control over information system access to its financial accounting system. This increases the risk that error or fraud could occur and not be detected.

We identified employees who had access rights that were incompatible with their job functions. Duties should be segregated so that employees, in the normal course of performing their assigned functions, can prevent or detect errors on a timely basis. We noted the following deficiencies:

a. Three employees in the business office were assigned access rights to all critical screens within the cash receipting process without having a business need for the access. One of these employees also performed the institutional fund bank reconciliation for five months of the audit year.

b. Two employees in the business office had the ability to reverse cash receipts and to post cash receipts to the general ledger. One of these employees also prepared the bank reconciliation and the other was a cashier.

c. One employee in the business office was assigned access rights to all critical screens in the accounts receivable process. This gave the employee the ability to process payments from third parties, which is a cashiering process and should not be completed by someone with total access to accounts receivable.

d. Four employees in the business office had system access rights, which allowed them to create and edit vendors, receive and enter invoices, and print checks. In addition, two of these employees had the ability to enter and post journal entries to the general ledger.

e. Three employees in the business office were assigned inappropriate access rights that allowed them to add employees to payroll, enter/edit employee salary information, and process payroll.

f. Five employees in the business office with no financial aid related job responsibilities had access rights that allowed them to enter or adjust student's financial aid award amounts.

Recommendation: The College should establish appropriate controls over granting, managing, and monitoring access to its financial accounting system to ensure employees are assigned access privileges that are appropriate and necessary for their job duties.

College Response: The College agrees with this recommendation and has taken the necessary steps to develop templates that establish proper access and internal controls by business office personnel. Security classes for all business office personnel are being reviewed and the implementation of access control will be based on job function to better segregate duties and enhance internal controls.

2. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included the following:

a. The College's net assets reported on the Statement of Net Assets did not agree to the net assets reported on the Statement of Revenues, Expenses, and Changes in Net Assets because supplies and materials expenses totaling $158,159 were inadvertently omitted from the latter statement.

b. The College incorrectly accrued liabilities for items that had not been received at June 30, 2010, causing accounts payable, depreciable capital assets, and supplies and materials to be overstated by $129,561, $22,579, and $106,982, respectively.

c. The College completed and capitalized the Student Resource Center project during the year but failed to reclassify $213,834 in related costs from construction-in-progress to the depreciable capital assets caption. This resulted in an overstatement of nondepreciable capital assets and understatement of net depreciable capital assets by this amount.

d. The College overstated accounts receivable and student tuition and fees by a net amount of $71,566 because of errors made when coding and posting journal entries to record the allowance for doubtful accounts.

e. The College incorrectly reported $605,245 of nonoperating noncapital grants revenues as operating federal grants and contracts revenues.

f. The College incorrectly included unearned revenue in the accounts payable and accrued liabilities account, causing this account to be overstated by $63,053 and the unearned revenue account to be understated by the same amount.

g. The College incorrectly reported county capital funds totaling $152,689 as state and local operating grants. Other funds totaling $83,466 were incorrectly reported as operating revenues when they should have been reported as nonoperating grants.

h. The College did not account for interfund borrowing, causing current restricted cash to be understated by $138,726 and current unrestricted cash to be overstated by the same amount.

i. Our review of the capital asset subsidiary ledger revealed numerous errors, including that the accumulated depreciation for three assets exceeded the actual cost of the assets. Other errors were detected in the calculation of depreciation. Based on a reconstruction of the subsidiary ledger, we determined that the beginning accumulated depreciation account was understated by a net of $396,869.

j. The College did not correctly report its net assets. For example, unrestricted net assets were overstated by $76,065, while the amount restricted for other expendable net assets was understated by $67,291. Adjustments were made to other net asset accounts as well.

k. The College did not report required financial information for its discretely presented component unit.

During our audit, we noted specific control deficiencies related to journal entries. Several journal entries prepared during the year-end closing and financial reporting processes were initiated by one individual without appropriate approval. We also noted a lack of documentation to support several of the journal entries.

We also noted specific deficiencies related to accounting for capital assets. The amounts reported for capital assets on the financial statements were not supported by schedules or the subsidiary ledger. In addition, the College did not review the capital asset subsidiary ledger to ensure that it was correct.

Significant aspects of this finding have been reported for at least three consecutive financial audits since fiscal year ended June 30, 2005.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy and completeness of the financial statements. This process should include an independent review of supporting journal entries and a reconciliation of reported capital assets to detailed records. The College also needs to have effective controls in place to ensure the accuracy of its capital assets subsidiary ledger. Finally, the College should consider whether its accounting staff could benefit from additional training on financial reporting matters.

College Response: The College agrees with this finding and has put in place the process to ensure the accuracy of the end of year financial statements. The year-end financial reporting processes have been modified so that the controller is responsible for all year-end reporting and journal entries with the vice president for finance providing an independent review. The College now requires the accounting staff to attend pertinent financial training sessions sponsored by the North Carolina Community College System and other training that is available.

3. BANK RECONCILIATIONS NOT PERFORMED TIMELY OR REVIEWED

The College did not ensure that the bank reconciliations for its institutional funds were performed timely or were adequately reviewed. As a result, there was an increased risk of error or fraud occurring without detection. Specifically, we noted the following:

- There was no documented review for the July 2009 and August 2009 bank reconciliations. The September 2009 bank reconciliation was not reviewed until seven months later in April 2010.
- There was no evidence that the October 2009 through February 2010 bank reconciliations were reviewed and approved by someone other than the preparer.
- The March 2010 through June 2010 bank reconciliations evidenced the preparer and reviewer signatures; however, these reconciliations were completed in January 2011, over halfway through the following fiscal year.

Recommendation: The College should ensure that all bank accounts are reconciled completely, accurately, and timely. These reconciliations should be reviewed and approved by someone other than the preparer.

College Response: The College concurs with this finding and has implemented adequate controls and processes to ensure monthly bank reconciliations are prepared by the controller completely, accurately, timely, and will be reviewed by the vice president for finance.

4. CASH AND CHECKS NOT ADEQUATELY SAFEGUARDED

The College did not ensure that cash or checks were adequately safeguarded. As a result, there is an increased risk of error or fraud occurring without detection. Specifically we noted the following:

- Obsolete blank check stock was stored in open view within the cashiering room. After our observation and discussion, management shredded the obsolete check stock.
- The vault containing the check printer signature plate, as well as cash, was not kept locked at all times.

Recommendation: The College should strengthen internal controls over the safeguarding of cash and checks.

College Response: The College concurs with this finding and has strengthened internal controls over the safeguarding of cash and checks. An electronic programmable combination lock has been installed on the vault, a door with a programmable lock has also been installed in the room with the check printer, and the obsolete check stock has been shredded. The vault door is kept locked at all times and all locks in the cashier's office have limited access by the business office staff and president of the College.

5. NONCOMPLIANCE IN PAYMENT OF EMPLOYEE BONUSES

The College used state funds and bookstore funds to give faculty and staff bonuses during the year, which is inconsistent with state policies. The one-time bonus payments were an attempt to offset an increase in health insurance premiums.

The College paid 44 full-time faculty bonuses totaling $22,000 during the 2009-2010 fiscal year using state funds. The North Carolina Community College System Office Fiscal Year 2009-2010 State Aid Allocations and Budget Policies, Section II A-5 state, "Colleges may not make any 'bonus payments' (other than Performance Funding bonus payments authorized by G.S. 115D-31.3, if applicable) or salary supplements to either presidents, faculty, or staff from State funds in FY 2009-2010."

The College paid two full-time bookstore employees bonuses totaling $1,000 during the 2009-2010 fiscal year using bookstore receipts. The North Carolina Community College's Accounting Procedures Manual Section 4.I.C-3 states "bookstore funds should not be used for supplemental salaries or bonuses of any personnel."

Recommendation: We recommend the College pay back state funds for $22,000 and reimburse the bookstore fund for $1,000. In the future, the College should follow guidance given to them by the North Carolina Community College System Office.

College Response: The College concurs with this finding and has reimbursed the state account $22,000 and has also reimbursed the bookstore account $1,000 on May 19, 2011.

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