STATE OF NORTH CAROLINA

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

BLADEN COMMUNITY COLLEGE

DUBLIN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011, 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.

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, 2011, 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012 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, CPA
State Auditor

January 23, 2012

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, 2011, with comparative data for the fiscal year ended June 30, 2010, and is based upon the information contained in the financial statements accompanying this discussion and analysis. Because 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 to the 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 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 and 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 the financial statements provide additional information that is essential to a full understanding of the data provided.

Financial Highlights

The College is in the advanced planning stage of a continuing education building. This building is estimated to cost approximately $5,963,949 with 29,582 square feet. The College has received $115,000 from the North Carolina Community College System (NCCCS) to begin the planning stage of this building.

The College received a federal energy efficiency grant on April 26, 2010, in the amount of $200,000 which was used for adding energy efficient lighting and controls, weatherization, programmable thermostats, and HVAC units for several buildings on campus.

The College was also awarded a Golden Leaf grant in the amount of $215,000 to assist in the efforts to sustain and expand the College's technical and vocational programs. The goal is to prepare a minimum of 300 skilled workers to fill positions where there is a demonstrated need in the local workforce demand, such as healthcare, carpentry, welding, plumbing, and public safety. Funds will be spent to provide instructional salaries (including fringe benefits), equipment, and supplies to support the programs. This grant requires institutional contributions of $80,000 which will provide a total $295,000 for the project. Of this amount, $87,000 has been allotted for equipment purchases, $167,500 for instructional salaries and benefits, and $40,500 for supplies. The College will start using these funds July 1, 2011.

Financial Analysis

Analysis of Current Assets, Liabilities and Net Assets

The College's current assets increased 23.33% from the prior year due to the recognition of a receivable related to a Golden Leaf grant in the amount of $215,000, as well as an increase in student accounts receivable. Student accounts receivable increased primarily as a result of increased enrollment as well as increased tuition and fee rates. Other noncurrent assets decreased 40.01% due to a reduction in restricted due from primary government that occurred as a result of a decrease in the number of active capital projects. Current liabilities increased by 14.33%. This increase was primarily due to an increase in accrued payroll which was caused by the ten-month faculty of the College electing to receive payments over a twelve month period, partially offset by a reduction in construction related payables at year end. Restricted for specific programs - expendable net assets increased by 254.54% due primarily to recording of the Golden Leaf grant receivable mentioned above. Total net assets of the College remained consistent with the prior year, increasing by 0.50%.

Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010 (As Restated)	Change	Percent Change
Assets				
Current Assets	$ 1,453,483.41	$ 1,178,495.85	$ 274,987.56	23.33%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	7,967,333.40	8,035,763.87	(68,430.47)	-0.85%
Other	247,815.54	413,062.50	(165,246.96)	-40.01%
Total Assets	9,668,632.35	9,627,322.22	41,310.13	0.43%
Liabilities				
Current Liabilities	437,415.37	382,597.01	54,818.36	14.33%
Noncurrent Liabilities	286,783.32	311,780.77	(24,997.45)	-8.02%
Total Liabilities	724,198.69	694,377.78	29,820.91	4.29%
Net Assets				
Investment in Capital Assets	7,967,333.40	8,002,520.02	(35,186.62)	-0.44%
Restricted for:				
Expendable:				
Scholarships and Fellowships	28,629.47	12,101.02	16,528.45	136.59%
Capital Projects	265,640.44	161,455.04	104,185.40	64.53%
Restricted for Specific Programs	288,448.99	81,357.60	207,091.39	254.54%
Other	104,933.41	67,290.84	37,642.57	55.94%
Unrestricted	289,447.95	574,976.07	(285,528.12)	-49.66%
Total Net Assets	$ 8,944,433.66	$ 8,899,700.59	$ 44,733.07	0.50%

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. The 15.48% increase in machinery and equipment was due to the College's utilization of state funds and funds received from technology fees to upgrade and replace computer technology and other related equipment on campus.

	June 30, 2011	June 30, 2010 (As Restated)	Change	Percent Change
Capital Assets:				
Land	$ 78,163.55	$ 78,163.55	$ 0.00	0.00%
Construction in Progress	452.76	0.00	452.76	100.00%
Buildings	11,142,627.82	11,142,627.82		
Machinery and Equipment	1,310,114.47	1,134,499.30	175,615.17	15.48%
General Infrastructure	818,740.06	818,740.06		
Total	13,350,098.66	13,174,030.73	176,067.93	1.34%
Less: Accumulated Depreciation	5,382,765.26	5,171,510.71	211,254.55	4.08%
Net Capital Assets	$ 7,967,333.40	$ 8,002,520.02	$ (35,186.62)	-0.44%

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

	June 30, 2011	June 30, 2010 (As Restated)	Change	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 851,748.53	$ 364,668.02	$ 487,080.51	133.57%
Sales and Services, Net	292,725.29	336,878.04	(44,152.75)	-13.11%
Other Operating Revenues	50,858.21	135,807.75	(84,949.54)	-62.55%
Total Operating Revenues	1,195,332.03	837,353.81	357,978.22	42.75%
Operating Expenses:				
Salaries and Benefits	9,242,511.65	8,213,948.19	1,028,563.46	12.52%
Supplies and Materials	2,275,453.88	1,991,154.17	284,299.71	14.28%
Services	1,045,542.21	933,284.49	112,257.72	12.03%
Scholarships and Fellowships	4,010,606.04	4,030,931.79	(20,325.75)	-0.50%
Utilities	192,500.92	193,932.57	(1,431.65)	-0.74%
Depreciation	305,321.92	283,662.79	21,659.13	7.64%
Total Operating Expenses	17,071,936.62	15,646,914.00	1,425,022.62	9.11%
Operating Loss	(15,876,604.59)	(14,809,560.19)	(1,067,044.40)	7.21%
Nonoperating Revenues:				
State Aid	6,671,443.81	5,760,241.70	911,202.11	15.82%
County Appropriations	638,884.88	686,541.00	(47,656.12)	-6.94%
Noncapital Grants - Student Financial Aid	6,645,245.26	6,218,308.01	426,937.25	6.87%
Noncapital Grants	1,126,659.05	1,407,547.62	(280,888.57)	-19.96%
Other Nonoperating Revenues	5,836.42	26,893.88	(21,057.46)	-78.30%
Nonoperating Revenues	15,088,069.42	14,099,532.21	988,537.21	7.01%
Other Revenues:				
State Capital Aid	526,922.05	483,622.46	43,299.59	8.95%
County Capital Aid	47,656.15	152,689.47	(105,033.32)	-68.79%
Capital Grants	258,690.04	20,957.19	237,732.85	1134.37%
Increase (Decrease) in Net Assets	44,733.07	(52,758.86)	97,491.93	-184.79%
Net Assets - July 1, As Restated	8,899,700.59	8,952,459.45	(52,758.86)	-0.59%
Net Assets - June 30	$ 8,944,433.66	$ 8,899,700.59	$ 44,733.07	0.50%

During the fiscal year ended June 30, 2011, the College experienced an increase in enrollment as is customary during times of economic downturn. The annual increases in enrollment are beginning to level off and the large student enrollment increases as were seen in the prior fiscal year have diminished. The number enrolled increased by 98 students to 3,572 students, while the budgeted full time equivalency (FTE) increased by 55 to 1,575 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 Foundation.

The College also experienced decreases in student waivers and the change in allowance for doubtful accounts of $322,845 and $297,134, respectively from the 2010 fiscal year. These changes contributed to the increase of student tuition and fees, net over the prior year.

Total state aid increased by 15.82% or $911,202. Salaries and benefits expense increased 12.52% due to a 2% salary increase awarded to faculty, the accrual of 10-month faculty contracts noted above, and the addition of additional faculty positions not filled in the prior year. The 1134.37% increase in capital grants was due to the receipt of a $200,000 federal energy efficiency grant.

Economic Outlook and Effects on Financial Reporting

The economy of the United States and North Carolina continued to experience the effects of the nation's recession during the fiscal year ended June 30, 2011. On June 30, 2011, the unemployment percentage for Bladen County was 12.5% while the state of North Carolina's unemployment percentage was 10.4%. The high percentage of unemployment in the Bladen County area contributed to the unprecedented enrollment growth experienced at Bladen Community College and in other colleges in the NCCCS. 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 industries continue to be a large pork processing facility and other agri-businesses related industries. Other primary employers include a chemical plant, retailers, 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 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 ended June 30, 2011, the College's enrollment grew by 3% while the NCCCS as a whole experienced enrollment growth of 12%. The number of high school and out-of-county students continues to increase, contributing to the enrollment growth. State funding of $7.2 million provided the major source of funding for the College, and despite the State's economic outlook the realized growth of the NCCCS will be fully funded for fiscal year ending June 30, 2012. The NCCCS has however sustained a management flexibility reduction of $79.7 million. The College's enrollment outlook for future years remains uncertain. The first semester of the 2012 fiscal year has shown a decrease of approximately 300 students. Equipment funding for the 2012 fiscal year has been fully funded. Therefore, the funding for the College's following fiscal years is uncertain. Current projections are that the NCCCS can expect a state funding reduction of five to 15 percent for the 2013 fiscal year. The College will need to plan for adjustments in scheduling and operations to accommodate the expected funding reductions.

With $686,541 in county funding, the College continued to lag behind the state average in local funding for operations and maintenance. Funding remains flat despite the increase in costs of maintenance and utilities associated with enrollment growth. These escalating costs combined with the addition of a library building have placed increased demands on the limited local funding. Local capital funding has not been sufficient to make vital capital improvements over the past seven years, but the College is hopeful that this funding will be increased as the economy improves over time.

Request of Information

This information is designed to provide a general overview of Bladen Community College's finances for all those with an interest in the College's finances. Questions concerning any of this information should be addressed to Jay Stanley, Vice President for Finance, Bladen Community College, 7418 NC Highway 41W, Dublin, NC 28332, (910) 879-5503.

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Bladen Community College
Statement of Net Assets
June 30, 2011 *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 516,007.77
Restricted Cash and Cash Equivalents	222,154.58
Receivables, Net (Note 3)	354,698.17
Due from State of North Carolina Component Units	215,000.00
Inventories	145,622.89
Total Current Assets	1,453,483.41
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	11,515.44
Restricted Due from Primary Government	236,300.10
Capital Assets - Nondepreciable (Note 4)	78,616.31
Capital Assets - Depreciable, Net (Note 4)	7,888,717.09
Total Noncurrent Assets	8,215,148.94
Total Assets	9,668,632.35
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	343,062.34
Unearned Revenue	52,155.90
Funds Held for Others	2,117.08
Long-Term Liabilities - Current Portion (Note 6)	40,080.05
Total Current Liabilities	437,415.37
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	286,783.32
Total Noncurrent Liabilities	286,783.32
Total Liabilities	724,198.69
NET ASSETS	
Invested in Capital Assets	7,967,333.40
Restricted for:	
Expendable:	
Scholarships and Fellowships	28,629.47
Capital Projects	265,640.44
Restricted for Specific Programs	288,448.99
Other	104,933.41
Unrestricted	289,447.95
Total Net Assets	$ 8,944,433.66

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, 2011 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	851,748.53
Sales and Services, Net (Note 9)		292,725.29
Other Operating Revenues		50,858.21
Total Operating Revenues		1,195,332.03
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,242,511.65
Supplies and Materials		2,275,453.88
Services		1,045,542.21
Scholarships and Fellowships		4,010,606.04
Utilities		192,500.92
Depreciation		305,321.92
Total Operating Expenses		17,071,936.62
Operating Loss		(15,876,604.59)
NONOPERATING REVENUES		
State Aid		6,671,443.81
County Appropriations		638,884.88
Noncapital Grants - Student Financial Aid		6,645,245.26
Noncapital Grants		1,126,659.05
Noncapital Gifts		1,215.00
Investment Income		2,876.44
Other Nonoperating Revenues		1,744.98
Net Nonoperating Revenues		15,088,069.42
Loss Before Other Revenues		(788,535.17)
State Capital Aid		526,922.05
County Capital Aid		47,656.15
Capital Grants		258,690.04
Increase in Net Assets		44,733.07
NET ASSETS		
Net Assets, July 1, 2010 as Restated (Note 15)		8,899,700.59
Net Assets, June 30, 2011	$	8,944,433.66

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

Bladen Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 966,421.17
Payments to Employees and Fringe Benefits	(9,245,422.41)
Payments to Vendors and Suppliers	(3,414,396.70)
Payments for Scholarships and Fellowships	(4,010,606.04)
Other Receipts	20,563.47
Net Cash Used by Operating Activities	(15,683,440.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	6,671,443.81
County Appropriations	638,884.88
Noncapital Grants - Federal Student Financial Aid	6,645,245.26
Noncapital Grants Received	896,725.88
Noncapital Gifts Received	1,215.00
Cash Provided by Noncapital Financing Activities	14,853,514.83
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	703,684.45
County Capital Aid	47,656.15
Capital Grants Received	258,690.04
Acquisition and Construction of Capital Assets	(287,640.74)
Net Cash Provided by Capital and Related Financing Activities	722,389.90
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	2,876.44
Cash Provided by Investing Activities	2,876.44
Net Decrease in Cash and Cash Equivalents	(104,659.34)
Cash and Cash Equivalents, July 1, 2010	854,337.13
Cash and Cash Equivalents, June 30, 2011	$ 749,677.79

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (15,876,604.59)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	305,321.92
Miscellaneous Nonoperating Income	19,250.42
Changes in Assets and Liabilities:	
Receivables, Net	(218,014.14)
Inventories	(825.23)
Prepaid Items	57,610.20
Accounts Payable and Accrued Liabilities	42,315.34
Unearned Revenue	(10,896.72)
Funds Held for Others	1,313.05
Compensated Absences	(2,910.76)
Net Cash Used by Operating Activities	$ (15,683,440.51)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 516,007.77
Restricted Cash and Cash Equivalents	222,154.58
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	11,515.44
Total Cash and Cash Equivalents - June 30, 2011	$ 749,677.79

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$ 229,933.17
Loss on Disposal of Capital Assets	17,505.44

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, 2011 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	516,440
Loans Receivable		4,866
Miscellaneous Receivable		633
Property and Equipment, Net		975
Total Assets		522,914
LIABILITIES		
Accounts Payable		1,500
Total Liabilities		1,500
NET ASSETS		
Unrestricted		177,846
Temporarily Restricted		48,730
Permanently Restricted		294,838
Total Net Assets	$	521,414

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, 2011 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Support:		
Contributions	$	6,520
Fundraising		20,654
Net Assets Released from Restrictions		34,497
Interest and Dividends		2,064
Total Unrestricted Revenues and Other Support		63,735
Expenses:		
Program Expenses		45,535
Fundraising Expenses		9,633
General and Administration Expenses		3,991
Total Expenses		59,159
Increase in Unrestricted Net Assets		4,576
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Other Support:		
Contributions		35,689
Net Assets Released from Restrictions		(34,497)
Interest and Dividends		3,503
Increase in Temporarily Restricted Net Assets		4,695
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Other Support:		
Interest and Dividends		1,246
Increase in Permanently Restricted Net Assets		1,246
Increase in Net Assets		10,517
Net Assets at Beginning of Year		510,897
Net Assets at End of Year	$	521,414

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, 2011, the Foundation distributed $25,791.37 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Vice President for 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.

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. 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, and 2 to 30 years for equipment.

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

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

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

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

K. 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 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 $1,075.00, and deposits in private financial institutions with a carrying value of $748,602.79 and a bank balance of $823,349.48.

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, 2011, 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, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 409,335.04	$ 149,025.01	$ 260,310.03
Accounts	72,680.00		72,680.00
Intergovernmental	21,708.14		21,708.14
Total Current Receivables	$ 503,723.18	$ 149,025.01	$ 354,698.17

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	$ 78,163.55	$ 0.00	$ 0.00	$ 78,163.55
Construction in Progress	0.00	452.76		452.76
Total Capital Assets, Nondepreciable	78,163.55	452.76	0.00	78,616.31
Capital Assets, Depreciable:				
Buildings	11,142,627.82			11,142,627.82
Machinery and Equipment	1,134,499.30	287,187.98	111,572.81	1,310,114.47
General Infrastructure	818,740.06			818,740.06
Total Capital Assets, Depreciable	13,095,867.18	287,187.98	111,572.81	13,271,482.35
Less Accumulated Depreciation for:				
Buildings	4,325,857.53	226,174.84		4,552,032.37
Machinery and Equipment	454,254.04	63,792.00	94,067.37	423,978.67
General Infrastructure	391,399.14	15,355.08		406,754.22
Total Accumulated Depreciation	5,171,510.71	305,321.92	94,067.37	5,382,765.26
Total Capital Assets, Depreciable, Net	7,924,356.47	(18,133.94)	17,505.44	7,888,717.09
Capital Assets, Net	$ 8,002,520.02	$ (17,681.18)	$ 17,505.44	$ 7,967,333.40

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 20,508.03
Accrued Payroll	320,420.23
Intergovernmental Payables	2,134.08
Total Accounts Payable and Accrued Liabilities	$ 343,062.34

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	$ 329,774.13	$ 200,326.44	$ 203,237.20	$ 326,863.37	$ 40,080.05

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under non cancelable operating leases consist of the following at June 30, 2011:

Fiscal Year		Amount
2012	$	74,928.84
2013		39,822.42
2014		4,716.00
2015		2,358.00
Total Minimum Lease Payments	$	121,825.26

Rental expense for all operating leases during the year was $83,387.05.

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, 2011:

Fiscal Year		Amount
2012	$	22,060.00
2013		22,060.00
2014		22,060.00
2015		22,060.00
2016		22,060.00
Total Minimum Lease Payments	$	110,300.00

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	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,611,693.53	$ 0.00	$ 1,873,687.33	$ (113,742.33)	$ 851,748.53
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,331,657.13	$ 6,714.95	$ 1,065,531.55	$ 0.00	$ 259,410.63
Vending	11,643.93				11,643.93
Patron Fees	15,657.20				15,657.20
Other	6,013.53				6,013.53
Total Sales and Services	$ 1,364,971.79	$ 6,714.95	$ 1,065,531.55	$ 0.00	$ 292,725.29

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	$ 5,692,690.61	$ 784,651.76	$ 187,095.31	$ 0.00	$ 0.00	$ 0.00	$ 6,664,437.68
Public Service			4,772.66				4,772.66
Academic Support	774,410.85	44,775.08	21,476.56				840,662.49
Student Services	582,585.16	14,470.12	70,587.08	28,775.05			696,417.41
Institutional Support	1,476,211.26	88,085.75	440,601.00	5,000.00			2,009,898.01
Operations and Maintenance of Plant	340,124.39	298,138.83	87,190.39		192,500.92		917,954.53
Student Financial Aid	262,914.02	2,627.91	167,843.90	3,976,830.99			4,410,216.82
Auxiliary Enterprises	113,575.36	1,042,704.43	65,975.31				1,222,255.10
Depreciation						305,321.92	305,321.92
Total Operating Expenses	$ 9,242,511.65	$ 2,275,453.88	$ 1,045,542.21	$ 4,010,606.04	$ 192,500.92	$ 305,321.92	$ 17,071,936.62

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $7,771,820.14 of which $5,862,709.68 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $289,031.59 and $351,762.58, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $289,031.59, $194,767.29, and $203,783.55, 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 $126,166.00 for the year ended June 30, 2011.

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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $287,272.77, $245,504.98, and $248,664.45, 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, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $30,486.09, $28,369.46, and $31,537.93, 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.

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

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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 $53,329.25 at June 30, 2011.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported were restated as follows:

	Amount
July 1, 2010 Net Assets as Previously Reported	$ 8,932,944.44
Remove Construction in Progress Recorded in Error in Prior Period	(33,243.85)
July 1, 2010 Net Assets as Restated	$ 8,899,700.59

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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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated January 23, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. 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 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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 deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

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*.

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

January 23, 2012

Matters Related to Financial Reporting

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

INAPPROPRIATE INFORMATION SYSTEM ACCESS

In our prior audit we noted a weakness with internal controls over access rights to the College's financial accounting system. This increases the risk that errors or fraud could occur and not be detected. Management has taken action to correct the weakness; however, the condition continued to exist during a significant portion of the current audit period.

Employees 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. The specific deficiencies are noted below:

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. 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.

c. 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.

d. 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.

e. 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.

This finding is resolved. Once notified of these deficiencies the College took action to mitigate the inappropriate access. In June 2011, management developed templates which established proper access and internal controls by business office personnel. Security classes for all business office personnel were reviewed and changes to access were made based on the employees' business need as well as ensuring that duties were segregated.

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