

Richmond Community College
Audited Financial Statements
Hamlet, North Carolina
As of and for the Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

	Pages
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
College Exhibits	
A-1 Statement of Net Position	8-9
A-2 Statement of Revenues, Expenses and Changes in Net Position	10
A-3 Statement of Cash Flows	11-12
B-1 Richmond Community College Foundation, Inc. - Statement of Financial Position	13
B-2 Richmond Community College Foundation, Inc. - Statement of Activities	14
Notes to the Financial Statements	15-30
Independent Auditors' Report on Internal Control	31-33



INDEPENDENT AUDITORS' REPORT

Members of the Board of Trustees
Richmond Community College
Hamlet, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Richmond Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Richmond Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Richmond Community College Foundation, Inc., is based solely on the report of 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 from material misstatement. The financial statements of Richmond Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 financial position of Richmond Community College and the Richmond Community College Foundation, Inc., as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LB&A, Certified Public Accountants, PLLC

Matthews, North Carolina
January 19, 2015

RICHMOND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Richmond Community College's financial statements presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2014, with comparative data for the fiscal year ending June 30, 2013. Management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, and should be read in conjunction with the College's basic financial statements and the notes.

Overview of the Financial Statements

The College's financial statements consist of three primary statements. The Statement of Net Position, when compared with the prior year, indicates how effective the College has managed its overall assets in comparison to its liabilities, with the difference in the two being the College's net Position. Changes in current assets may measure, among other things, cash management, collections of accounts receivable, or fluctuations in inventories. Changes in noncurrent assets indicate improvements in buildings, equipment inventory, and depreciation, while the College's liabilities are primarily comprised of accrued employee vacation. The Statement of Revenues, Expenses, and Changes in Net Position helps the reader understand the financial resources available to the College, how those resources were used, and how those expenses affected the net assets. The Statement of Cash Flows reflects to the reader the College's position in cash, overall liquidity, and financial stability and continuity. The notes included in the statements should be referenced in order to provide detailed explanation of particular elements and activities. Through a summarized comparison of the fiscal year 2012-13 financial statements and those from the fiscal year 2013-14, the reader may gain a contextual understanding of the College's overall financial position.

Using the Annual Financial Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Position is designed to be a snapshot of the financial condition at a point in time. The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross and net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. The financial statements summarize and simplify the user's analysis of the cost of various College services to students and the public.

Summarized Comparative Financial Analysis

Condensed Statement of Net Position
Fiscal Years Ended June 30, 2014 and June 30, 2013

	FY 2013-14	Restated FY 2012-13	Increase (Decrease)
Current Assets	\$ 3,603,315.84	\$ 2,211,151.63	\$ 1,392,164.21
Noncurrent Assets	-	210,000.00	(210,000.00)
Capital Assets, Net	23,831,406.04	22,108,541.91	1,722,864.13
Total Assets	27,434,721.88	24,529,693.54	2,905,028.34
Current Liabilities	1,106,992.74	1,158,829.13	(51,836.39)
Noncurrent Liabilities	647,556.98	651,936.04	(4,379.06)
Total Liabilities	1,754,549.72	1,810,765.17	(56,215.45)
Net Position:			
Invested in Capital Assets	23,831,406.04	22,108,541.91	1,722,864.13
Restricted	751,784.01	419,601.76	332,182.25
Unrestricted	1,096,982.11	190,784.70	906,197.41
Total Net Position	\$ 25,680,172.16	\$ 22,718,928.37	\$ 2,961,243.79

Analysis of Assets, Liabilities, and Net Position

The College's total assets increased \$2,905,028.34, or 11.84%, due to a significant increase in both current assets and net capital assets. Both of these changes are predominantly tied to the Forte Building construction project, with \$1,028,529.00 of the increase in current assets classified as due from federal agencies and an increase in net capital assets comprised of an increase of \$2,044,702.25 classified as construction in progress and a decrease in depreciable net total capital assets totaling \$375,065.56. The increase in unrestricted net assets was also primarily due to the on-going construction project. Funds were received to offset unrestricted assets that were used during the early phases of construction. Total liabilities decreased slightly at 3.1%, which was mainly attributed to a decrease in accounts payable and accrued liabilities of \$50,012.72.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>FY 2013-14</u>	<u>FY 2012-13</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,005,273.19	\$ 1,194,582.50	\$ (189,309.31)
Other Operating Revenues	<u>1,235,264.46</u>	<u>484,346.53</u>	<u>750,917.93</u>
Total Operating Revenues	<u>2,240,537.65</u>	<u>1,678,929.03</u>	<u>561,608.62</u>
Nonoperating Revenues:			
State Aid	11,575,794.53	11,065,524.30	510,270.23
County Appropriations	1,980,785.00	1,950,073.00	30,712.00
Noncapital Grants	7,355,140.66	7,816,691.31	(461,550.65)
Other Nonoperating Revenues (Expenses)	<u>171,038.35</u>	<u>130,041.91</u>	<u>40,996.44</u>
Total Nonoperating Revenues	<u>21,082,758.54</u>	<u>20,962,330.52</u>	<u>120,428.02</u>
Capital Contributions:			
State Capital Aid	733,751.37	665,011.20	68,740.17
Capital Gifts	776,380.96	-	776,380.96
Capital Grants	<u>2,038,364.00</u>	<u>-</u>	<u>2,038,364.00</u>
Total Capital Contributions	<u>3,548,496.33</u>	<u>665,011.20</u>	<u>2,883,485.13</u>
Total Revenues	<u>26,871,792.52</u>	<u>23,306,270.75</u>	<u>3,565,521.77</u>
Operating Expenses:			
Salaries and Benefits	15,240,942.92	14,902,621.62	338,321.30
Supplies and Materials	1,551,564.51	1,312,911.59	238,652.92
Services	1,288,748.34	1,466,766.63	(178,018.29)
Scholarships and Fellowships	4,644,238.35	4,622,113.05	22,125.30
Utilities	400,722.23	372,304.77	28,417.46
Depreciation	<u>784,332.38</u>	<u>674,640.52</u>	<u>109,691.86</u>
Total Operating Expenses	<u>23,910,548.73</u>	<u>23,351,358.18</u>	<u>559,190.55</u>
Change in Net Position	<u>\$ 2,961,243.79</u>	<u>\$ (45,087.43)</u>	<u>\$ 3,006,331.22</u>

Analysis of Statement of Revenues, Expenses, and Changes in Net Position

The College's total operating revenues had a significant increase of 33.45% for FY 13-14 totaling \$561,608.62. While large increases in years' past have been directly correlated to an increase in enrollment, the College's enrollment was flat this year with a slight decrease in tuition and fees, net, which shows other operating revenues provided the source of the increase. The increase in other operating revenues was attributed to the receipt of several equipment grant awards which increased State/local grants & contracts, and the reclassification decreasing noncapital grants resulting in an increase in Federal grants & contracts. Non-operating revenues had a very slight increase of \$120,428.02, or .57%. Total operating expenses increased by \$559,190.55, which was primarily due to an increase in salaries and supplies. Overall, net position increased by \$3,006,331.22, which was driven by an increase over \$2.8 million for capital gifts and grants.

Expectations for Richmond Community College's Financial Position in 2014-2015

While the College will receive an increase in funding from 2013-14, the increase was due to the growth of FTE generated in the Workforce and Economic Development division, as Curriculum FTE (full-time equivalent) was down slightly from the prior year. RCC's enrollment has seen much smaller percentages of overall growth the last two years. The College has continued to invest these associated budget increases in expanding existing programs and investing in new programs. With smaller enrollment increases, the College is now able to more accurately focus on our program offerings in an attempt to maintain the enrollment and provide training in fields that can immediately put our students to work. An example of this activity is the new Dialysis Technology diploma that was added for the Fall 2014 semester. This field was identified as having rapid growth and the area providing promising job opportunities. While the State Legislature has not fully funded the Community College System's request, they did increase performance funding for the Colleges, which resulted in a net overall increase. RCC's focus on providing training that matches with the job growth sectors which provides additional rationale to the College's funding providers to continue to ensure adequate resources.

RCC has expanded class offerings in Scotland County by partnering with Scotland High School in offering Career Technical Education classes directly to high school students located at the high school campus. This action has resulted in an increase of students in Scotland County and has potential to see additional growth, providing students a jump start to their college education and a student base already familiar with the college.

The unemployment rate for Richmond County has decreased, but Scotland County still has the unfortunate position of having the highest percentage of unemployment in the State. The College has continued to maintain steady enrollment even though unemployment has seen a cumulative decline over the last several years. The College continues to focus on increasing our appeal and availability to recent high school graduates choosing to attend RCC versus other area colleges, in addition to current high school students that are able to take dual credit courses while they are still in high school. RCC has worked to increase capacity in our engineering and technical programs to continue to provide for the needs of local industry and employers by providing a trained workforce with sufficient job skills to immediately provide value on the job. The College continues to efficiently schedule our facilities to accommodate this growth and to utilize our space in both counties to satisfy the overall demand for classes and programs.

There are no outstanding legal issues or potential lawsuits facing the College. The College's executive management remained constant for the past year with only one change in employment for a Vice-Presidents' positions. The renovation and addition to the Forte Building is substantially complete, with finishing renovations being finalized by the beginning of the Fall semester.

Richmond Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	1,333,502.29
Restricted Cash and Cash Equivalents		777,621.23
Receivables, Net (Note 3)		1,448,094.61
Inventories		44,097.71

Total Current Assets 3,603,315.84

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)		3,657,680.94
Capital Assets - Depreciable, Net (Note 4)		20,173,725.10

Total Noncurrent Assets 23,831,406.04

Total Assets 27,434,721.88

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources		<u>0.00</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Richmond Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	875,729.17
Unearned Revenue	86,048.42
Funds Held for Others	9,373.90
Long-Term Liabilities - Current Portion (Note 6)	135,841.25

Total Current Liabilities 1,106,992.74

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	647,556.98
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Total Noncurrent Liabilities 647,556.98

Total Liabilities 1,754,549.72

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources 0.00

NET POSITION

Net Investment in Capital Assets 23,831,406.04

Restricted for:

Nonexpendable:

Expendable:

Scholarships and Fellowships	38,549.89
RCC Nursing Support Funds	206,333.21
Restricted for Specific Programs	411,690.70
Other	95,210.21

Unrestricted 1,096,982.11

Total Net Position \$ 25,680,172.16

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

***Richmond Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net	\$ 1,005,273.19
Federal Grants and Contracts	451,772.00
State and Local Grants and Contracts	360,638.46
Sales and Services, Net (Note 8)	418,163.17
Other Operating Revenues	4,690.83

Total Operating Revenues	2,240,537.65
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EXPENSES

Operating Expenses:

Salaries and Benefits	15,240,942.92
Supplies and Materials	1,551,564.51
Services	1,288,748.34
Scholarships and Fellowships	4,644,238.35
Utilities	400,722.23
Depreciation/Amortization	784,332.38

Total Operating Expenses	23,910,548.73
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Operating Loss	(21,670,011.08)
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NONOPERATING REVENUES

State Aid	11,575,794.53
County Appropriations	1,980,785.00
Noncapital Grants - Student Financial Aid	7,355,140.66
Noncapital Grants	167,550.00
Investment Income, Net	2,736.92
Other Nonoperating Revenues (Expenses)	751.43

Net Nonoperating Revenues	21,082,758.54
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(Loss) Before Other Revenues, Expenses, Gains, and Losses	(587,252.54)
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State Capital Aid	733,751.37
Capital Grants	2,038,364.00
Capital Gifts, Net	776,380.96

Increase (Decrease) in Net Position	2,961,243.79
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NET POSITION

Net Position, July 1, 2013 as Restated	22,718,928.37
Net Position, June 30, 2014	\$ 25,680,172.16

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

Richmond Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,065,515.75
Payments to Employees and Fringe Benefits	(15,240,942.92)
Payments to Vendors and Suppliers	(3,470,864.09)
Payments for Scholarships and Fellowships	(4,644,238.35)
Other Receipts	75,011.60
	<hr/>
Net Cash (Used) by Operating Activities	(21,215,518.01)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,575,794.53
County Appropriations	1,980,785.00
Noncapital Grants - Student Financial Aid	7,355,140.66
Noncapital Gifts and Endowments	167,550.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	21,079,270.19

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	733,751.37
Capital Grants	2,038,364.00
Capital Gifts	776,380.96
Acquisition and Construction of Capital Assets	(3,139,639.60)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	408,856.73

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	2,736.92
	<hr/>
Net Cash Provided by Investing Activities	2,736.92

Net Increase in Cash and Cash Equivalents	275,345.83
Cash and Cash Equivalents, July 1, 2013	1,835,777.69
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 2,111,123.52

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

Richmond Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (21,670,011.08)
Adjustments to Reconcile Operating Loss to Net Cash (Used) by Operating Activities:	
Depreciation/Amortization Expense	784,332.38
Nonoperating Other Income (Expenses)	751.43
Changes in Assets and Liabilities:	
Receivables, Net	(96,152.99)
Inventories	14,018.24
Accounts Payable and Accrued Liabilities	(242,253.26)
Unearned Revenue	(7,363.38)
Funds Held for Others	2,754.64
Compensated Absences	(1,593.99)
	<hr/>
Net Cash (Used) by Operating Activities	<u><u>\$ (21,215,518.01)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,333,502.29
Restricted Cash and Cash Equivalents	777,621.23
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Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 2,111,123.52</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 174,933.83
Assets Acquired through a Gift	(56,112.06)
Increase in Receivables Related to Nonoperating Income	1,034,683.63
Gain/Loss on Disposal of Capital Assets	1,638.33

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

Richmond Community College Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

	Totals
ASSETS	
Cash and Cash Equivalents	\$ 359,106.00
Investments	1,311,476.00
Accounts receivable:	
Net Unconditional promises to give	85,250.00
Other	428,224.00
	<hr/>
Total Current Assets	2,184,056.00
	<hr/>
ENDOWMENT INVESTMENTS	1,700,534.00
PROPERTY AND EQUIPMENT, net	132.00
OTHER ASSETS	
Long-term net unconditional promises to give	352,713.00
Cash value of life insurance	72,572.00
Total Other Assets	<hr/> 425,285.00 <hr/>
Total Assets	4,310,007.00
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	<hr/> 44,446.00
NET ASSETS	
Unrestricted	84,859.00
Temporarily Restricted	2,480,168.00
Permanently Restricted	<hr/> 1,700,534.00
Total Net Assets	<hr/> <hr/> \$ 4,265,561.00 <hr/> <hr/>

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

Richmond Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2014 Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
CHANGES IN UNRESTRICTED NET ASSETS				
Revenues and Gains:				
Contributions	\$ 60,305.00	\$ 535,301.00	\$ 14,545.00	\$ 610,151.00
Special event	20,170.00	8,541.00	-	28,711.00
Interest income	24.00	114.00	-	138.00
Investment Income	1.00	415,284.00	-	415,285.00
Miscellaneous	1,911.00	-	-	1,911.00
Total Support and Revenue	82,411.00	959,240.00	14,545.00	1,056,196.00
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	382,457.00	(382,457.00)	-	-
Total Support, Revenue, and Reclassifications	464,868.00	576,783.00	14,545.00	1,056,196.00
EXPENSES				
Program services	413,743.00	-	-	413,743.00
Supporting services	40,003.00	-	-	40,003.00
Total Expenses	453,746.00	-	-	453,746.00
TRANSFERS	(2,838.00)	2,065.00	773.00	-
Change in Net Assets	8,284.00	578,848.00	15,318.00	602,450.00
NET ASSETS, beginning of year	76,575.00	1,901,320.00	1,685,216.00	3,663,111.00
NET ASSETS, end of year	\$ 84,859.00	\$ 2,480,168.00	\$ 1,700,534.00	\$ 4,265,561.00

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

RICHMOND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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. Richmond 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 units for which the College's Board of Trustees is financially accountable. The College's component units are discretely presented in the College's financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Richmond 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 38 directors and is not controlled by College employees or trustees. 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 on the following page.

The Richmond Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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, 2014, the Foundation distributed \$167,550.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Richmond Community College, P.O. Box 1189, Hamlet, NC 28345.

- 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 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.

- 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, include 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 deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 25 to 75 years for buildings, and 5 to 40 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, 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 January 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 December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar 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 Position** - The College's net position is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

N. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 Position as cash and cash equivalents includes cash on hand totaling \$1,030.00, and deposits in private financial institutions with a carrying value of \$2,111,123.52 and a bank balance of \$2,186,675.04.

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.

- B. Investments** - 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, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$622,730.90 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- C. Component Units** - Investments of the College's discretely presented component unit, Richmond Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Richmond Community College Foundation, Inc., reports under the FASB reporting model, disclosures of the various investment risks are not required.

Investments are presented in the financial statements of Richmond Community College Foundation, Inc. at their fair values. Investments are composed of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments held by				
Wells Fargo Advisors	<u>\$ 13,709</u>	<u>\$ 1,297,767</u>	<u>\$ 1,700,534</u>	<u>\$ 3,012,010</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 608,870.76	\$ 215,000.00	\$ 393,870.76
Student Sponsors	19,540.22	-	19,540.22
Intergovernmental	1,034,683.63	-	1,034,683.63
Total Current Receivables	<u>\$ 1,663,094.61</u>	<u>\$ 215,000.00</u>	<u>\$ 1,448,094.61</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 407,679.00	\$ -	\$ -	\$ 407,679.00
Art, Literature, and Artifacts	8,500.00	-	-	8,500.00
Construction in Progress	1,214,361.40	2,044,702.25	-	3,259,063.65
Total Capital Assets, Nondepreciable	<u>1,630,540.40</u>	<u>2,044,702.25</u>	<u>-</u>	<u>3,675,242.65</u>
Capital Assets, Depreciable:				
Buildings	25,848,874.13	-	-	25,848,874.13
Machinery and Equipment	549,573.51	-	-	549,573.51
General Infrastructure	3,156,188.24	463,740.55	26,597.47	3,593,331.32
Total Capital Assets, Depreciable	<u>29,554,635.88</u>	<u>463,740.55</u>	<u>26,597.47</u>	<u>29,991,778.96</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	7,636,275.62	552,976.80	-	8,189,252.42
Machinery and Equipment	1,218,069.75	277,348.40	25,351.19	1,470,066.96
General Infrastructure	169,061.56	10,119.24	2,884.61	176,296.19
Total Accumulated Depreciation/Amortization	<u>9,023,406.93</u>	<u>840,444.44</u>	<u>28,235.80</u>	<u>9,835,615.57</u>
Total Capital Assets, Depreciable, Net	<u>20,531,228.95</u>	<u>(376,703.89)</u>	<u>(1,638.33)</u>	<u>20,156,163.39</u>
Capital Assets, Net	<u>\$ 22,161,769.35</u>	<u>\$ 1,667,998.36</u>	<u>\$ (1,638.33)</u>	<u>\$ 23,831,406.04</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 108,573.87
Accrued Payroll	592,221.47
Other-Capital Assets	174,933.83
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 875,729.17</u>

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Compensated Absences	\$ 812,434.35	\$ 550,599.23	\$ 579,635.35	\$ 783,398.23	\$ 135,841.25
Total Long-Term Liabilities	<u>\$ 812,434.35</u>	<u>\$ 550,599.23</u>	<u>\$ 579,635.35</u>	<u>\$ 783,398.23</u>	<u>\$ 135,841.25</u>

NOTE 7 - LEASE OBLIGATIONS

A. Operating Lease Obligations - The College entered into operating leases for copier equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 19,626.68
2016	19,626.68
2017	19,626.68
Total Minimum Lease Payments	<u>\$ 58,880.04</u>

Rental expense for all operating leases during the year was \$19,626.68.

NOTE 8 - 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	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	<u>\$ 3,778,745.09</u>	<u>\$ -</u>	<u>\$ 2,773,471.90</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,273.19</u>
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Other	\$ 418,163.17	\$ -	\$ -	\$ -	\$ -	\$ 418,163.17
Total Sales and Services	<u>\$ 418,163.17</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 418,163.17</u>

NOTE 9 - 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/ Amortization	Total
Instruction	\$ 9,203,113.32	\$ 695,657.88	\$ 132,620.23	\$ -	\$ -	\$ -	\$ 10,031,391.43
Public Service	23,290.92	21.35	-	-	-	-	23,312.27
Academic Support	1,704,575.53	86,236.99	215,497.44	-	-	-	2,006,309.96
Student Services	1,101,102.23	138,062.75	81,015.88	-	-	-	1,320,180.86
Institutional Support	2,328,844.02	186,367.86	570,411.73	-	-	-	3,085,623.61
Operations and Maintenance of Plant	619,843.84	431,217.84	151,229.81	-	400,722.23	-	1,603,013.72
Student Financial Aid	-	-	-	4,644,238.35	-	-	4,644,238.35
Auxiliary Enterprises	260,173.06	13,999.84	137,973.25	-	-	-	412,146.15
Depreciation/ Amortization	-	-	-	-	-	784,332.38	784,332.38
Total Operating Expenses	<u>\$ 15,240,942.92</u>	<u>\$ 1,551,564.51</u>	<u>\$ 1,288,748.34</u>	<u>\$ 4,644,238.35</u>	<u>\$ 400,722.23</u>	<u>\$ 784,332.38</u>	<u>\$ 23,910,548.73</u>

NOTE 10 - PENSION PLANS

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,636,366.05, of which \$10,393,677.26 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$902,171.19 and \$623,623.44, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$903,210.55 \$836,697.01, and \$680,848.63, respectively.

Effective January 1, 2014, the Qualified Excess Benefit Arrangement (QEBA) was established and placed under the management of the Board of Trustees of the TSERS. Per North Carolina General Statute 135-151, the purpose of the QEBA is solely to provide the part of a retirement allowance or benefit that would otherwise have been payable to TSERS except for the limitations under section 415(b) of the Internal Revenue Code. For the year ended June 30, 2014, the employer contribution for the supplemental benefit payable to members of the TSERS was .01% of covered payroll, or \$1,039.36.

The TSERS 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$561,258.57, \$532,352.24, and \$457,559.57, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$45,732.18, \$44,195.28, and \$47,586.20, 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 12 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College tracks its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$174,933.83 at June 30, 2014.

- B. Contingencies** – Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

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 contracts with private insurance companies. 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 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.

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 - SUBSEQUENT EVENTS

The college has evaluated subsequent events through January 19, 2015, which is the date the financial statements were available to be issued.

NOTE 15 - AUDIT SERVICES

The number of hours used in conducting the audit and in preparation of the of the audit report were approximately 295 hours, and the total cost of conducting the audit and preparing the audit report was \$21,000.



**INDEPENDENT AUDITORS' 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**

Members of the Board of Trustees
Richmond Community College
Hamlet, North Carolina

We have audited, in accordance with the 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, the financial statements of Richmond Community College ("the College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 19, 2015. Our report includes a reference to other auditors who audited the financial statements of Richmond Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Richmond Community College Foundation, Inc. were not audited in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Richmond Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. The significant deficiency we identified is presented in the Exhibit attached to this letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LB&A, Certified Public Accountants, PLLC

Matthews, North Carolina
January 19, 2015

Exhibit

I. SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL

Observation

As part of our audit testing process, LB&A, Certified Public Accountants, PLLC ("LB&A") considered the reasonableness of the College's capital asset and expense accounts. Detailed testing procedures in these areas proved that the supplies and materials expense category was materially overstated as a result of a misclassification. Management has continued to advance in its progress and sophistication of the Datatel Software Accounting Module. During the year ended June 30, 2014, management worked carefully to implement a more advanced functionality of its accounting software than what had been used by the College in the past. The goal of this process was to automate the capital asset recording process to provide for more timely and accurate reporting. This procedure is performed at the year-end closing of the books and records. During this process, a misstatement occurred as a result of incorrect financial statement groupings performed as part of the automated process. As a result of the timing of the financial year end, and the beginning of the audit, management had not yet resolved this matter.

When brought to the attention of management, considerable and immediate attention and resources were devoted to ultimately resolve the misclassification. During this process, key financial management personnel worked diligently with both LB&A and external consultants to not only resolve the automated grouping protocol, but also to evaluate the integrity of the Datatel Software reporting process.

Management has informed LB&A of its plan to continue to utilize Datatel consultants as needed in order to prevent similar issues in the future. Management has also indicated that the extensive analysis and evaluation of the software grouping error by the College's financial staff has provided a unique and advanced degree of technical training specific to the Datatel software, for the long term benefit of the College.

Risk

When College's general ledger accounts are not properly grouped within the financial statements, the College's financial statements could fail to align accounts in accordance with their nature and purpose, leading to misstated financial statements.

Recommendation

We recommended that management ensures proper grouping of their financial statement line items prior to submission of their comprehensive annual financial report (CAFR) to the State of North Carolina.