

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**RICHMOND COMMUNITY COLLEGE**

**HAMLET, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**RICHMOND COMMUNITY COLLEGE**

**HAMLET, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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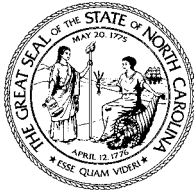
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Richmond Community College

This report presents the results of our financial statement audit of Richmond Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Richmond Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Richmond Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Richmond Community College.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** – The following significant deficiencies in internal control over financial reporting were noted as a result of our audit:

### Findings

1. Financial Statement Presentation
2. Internal Controls Over Bank Reconciliations

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

3. **Objective** – To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

**Results** – Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance which require disclosure herein under *OMB Circular A-133*.

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

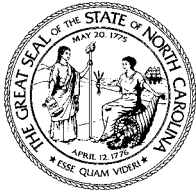


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Richmond Community College  
Hamlet, North Carolina

We have audited the accompanying financial statements of Richmond 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, 2004, which collectively comprise Richmond Community 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 the Richmond Community College Foundation, Inc., which represents 100% of 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 opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Richmond 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 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 provides 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 Richmond Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Leslie W. Merritt, Jr.*

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

May 13, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Richmond Community College's (RCC's) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2004, and June 30, 2003. Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently know facts. Please read it 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 Assets, 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 assets. 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 and outstanding capital debt. The Statement of Revenues, Expenses, and Changes in Net Assets 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. For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Since this statement amends GASB Statement No. 14, the College discretely presented Richmond Community College Foundation, Inc. as a component unit. The notes included in the statements should be referenced in order to provide detailed explanations of particular elements and activities. Through a summarized comparison of the fiscal year 2002-03 financial statements and those from the fiscal year 2003-04, the reader may gain a contextual understanding of the College's overall financial position.

### **Using This Annual 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 Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term expendable resources) with capital assets. 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 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Highlights

Unemployment in Richmond and Scotland Counties remained high, though Richmond County improved during the fiscal year, from 12.8% unemployment in June 2003 to 9.3% in June 2004. Scotland County went from 9.9% to 10.8% during the same time frame.

The State's economy improved; however budget reversions of \$228,762 from State funds were requested by the North Carolina Community College System Office.

Despite the economy, both Richmond and Scotland Counties were able to meet the previous year's level of financial support with the respective county budgets of \$1,076,166 and \$101,953.

A tuition increase of 3.6%, from \$34.25 to \$35.50 per semester hour, was implemented for North Carolina residents.

### Summarized Comparative Financial Analysis

Condensed Statement of Net Assets  
Fiscal Years Ended June 30, 2004, and June 30, 2003

	<u>FY 2003-04</u>	<u>FY 2002-03</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 850,395.60	\$ 895,941.49	\$ (45,545.89)
Noncurrent Assets	1,201,655.13	832,185.80	369,469.33
Capital Assets, Net	<u>12,276,266.77</u>	<u>11,579,978.39</u>	<u>696,288.38</u>
<b>Total Assets</b>	<u>14,328,317.50</u>	<u>13,308,105.68</u>	<u>1,020,211.82</u>
Current Liabilities	295,582.41	273,396.11	22,186.30
Noncurrent Liabilities	<u>520,780.31</u>	<u>520,801.07</u>	<u>(20.76)</u>
<b>Total Liabilities</b>	<u>816,362.72</u>	<u>794,197.18</u>	<u>22,165.54</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	12,226,081.41	11,512,594.41	713,487.00
Restricted	1,211,876.33	835,622.20	376,254.13
Unrestricted	<u>73,997.04</u>	<u>165,691.89</u>	<u>(91,694.85)</u>
<b>Total Net Assets</b>	<u>\$ 13,511,954.78</u>	<u>\$ 12,513,908.50</u>	<u>\$ 998,046.28</u>

### Analysis of Assets, Liabilities, and Net Assets

A comparison of the statements indicates an increase in net assets of \$998,046.28, which is mainly attributed to a construction project where the funding has been approved and the funds are recorded in the Restricted Due from Primary Government account in the amount

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

of \$1,164,468.02. Capital assets increased from the prior year due to construction in progress. The increase in total liabilities is caused by increased accrued vacation of employees, a reflection of the College's low turnover rate. The increase in total net assets is due to the approved funding of the Grimsley Health/Science Building, for which groundbreaking is scheduled during early November 2004, but funds were approved and recorded as a receivable in fiscal year ended June 30, 2004. Given the context of these issues, the College's net asset position has been stable and consistent within the administration's expectations.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets Fiscal Years Ended June 30, 2004, and June 30, 2003

	<u>FY 2003-04</u>	<u>FY 2002-03</u>	<u>Increase (Decrease)</u>
<b>Operating Revenues:</b>			
Student Tuition and Fees, Net	\$ 364,265.13	\$ 589,366.33	\$ (225,101.20)
Federal Grants and Contracts	2,762,882.79	3,081,490.31	(318,607.52)
Other Operating Revenues	330,576.94	390,573.85	(59,996.91)
<b>Net Operating Revenues</b>	<u>3,457,724.86</u>	<u>4,061,430.49</u>	<u>(603,705.63)</u>
<b>Nonoperating Revenues (Expenses):</b>			
State Aid	7,215,260.75	6,875,353.40	339,907.35
County Appropriations	1,163,119.00	1,049,153.00	113,966.00
Noncapital Grants	496,730.64	634,410.98	(137,680.34)
Other Nonoperating Revenues (Expenses)	(20,790.86)	97,419.15	(118,210.01)
<b>Total Nonoperating Revenues</b>	<u>8,854,319.53</u>	<u>8,656,336.53</u>	<u>197,983.00</u>
<b>Capital Contributions:</b>			
State Capital Aid	2,810,876.48	355,230.68	2,455,645.80
County Capital Appropriations	15,000.00	52,750.00	(37,750.00)
<b>Total Capital Contributions</b>	<u>2,825,876.48</u>	<u>407,980.68</u>	<u>2,417,895.80</u>
<b>Net Revenues</b>	<u>15,137,920.87</u>	<u>13,125,747.70</u>	<u>2,012,173.17</u>
<b>Total Operating Expenses</b>	<u>14,139,874.59</u>	<u>13,467,126.96</u>	<u>672,747.63</u>
<b>Change in Net Assets</b>	<u>\$ 998,046.28</u>	<u>\$ (341,379.26)</u>	<u>\$ 1,339,425.54</u>

### Analysis of Statement of Revenues, Expenses, and Changes in Net Assets Comparison

A comparison of the statement from the past two years indicates a decrease in operating revenues of \$603,705.63. This is due to a decrease in federal grants and contracts from the fiscal year ended June 30, 2003.

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

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State capital allocations increased from the fiscal year ended June 30, 2003, by \$2,455,645.80 because of the upcoming construction project where State funds of \$3,542,287.00 have been allocated.

### **Economic Forecast**

On a national level, there have been proposals for increases in the Pell Grant funding and a continuation of the Perkins Vocational Education funds, each of which would directly benefit Richmond Community College.

According to the Office of State Budget and Management, Statewide employment in professional and business services, as well as construction and finance, is expected to grow, while manufacturing jobs in traditional industries will continue to decline. This growth in jobs is expected to fuel increases in State revenues that, barring natural disaster relief expenses, should preclude the need for State level budget cuts or reversions.

The North Carolina Community College Systems Office is submitting an aggressive expansion budget which would improve funding for instruction and support at Richmond Community College. The College's enrollment is expected to remain at current levels based on available demographic information.

Despite the State's economic growth, the outlook for the counties in RCC's service area is less positive, though showing some signs of improvement. Richmond County has a new plant moving in with 250-400 high-paying jobs, which should lower the June 2004 unemployment rate of 9.3%. Scotland County is aggressively pursuing new jobs, especially in the fabrication and biotechnology industries.

This outlook has several implications for RCC in the upcoming year. New jobs could reduce the number of unemployed workers now enrolled in College programs. However, the plant openings and expansions present opportunities for increased occupational training. Based on the information available, the overall financial position of the College should not be negatively affected.

***Richmond Community College***  
***Statement of Net Assets***  
***June 30, 2004***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 720,526.58
Restricted Cash and Cash Equivalents	14,545.15
Receivables (Note 3)	67,578.67
Due from State of North Carolina Component Units	5,072.02
Inventories	42,673.18
	<hr/>
Total Current Assets	850,395.60
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	37,187.11
Restricted Due from Primary Government	1,164,468.02
Capital Assets - Nondepreciable (Note 4)	1,680,888.25
Capital Assets - Depreciable, Net (Note 4)	10,595,378.52
	<hr/>
Total Noncurrent Assets	13,477,921.90
	<hr/>
Total Assets	14,328,317.50
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	217,374.96
Due to State of North Carolina Component Units	69.49
Funds Held for Others	6,548.39
Long-Term Liabilities - Current Portion (Note 6)	71,589.57
	<hr/>
Total Current Liabilities	295,582.41

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	520,780.31
	<hr/>
Total Liabilities	816,362.72
	<hr/>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	12,226,081.41
Restricted for Expendable:	
Scholarships and Fellowships	7,689.99
Capital Projects	1,204,186.34
Unrestricted	73,997.04
	<hr/>
Total Net Assets	\$ 13,511,954.78
	<hr/> <hr/>

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 Assets  
For the Fiscal Year Ended June 30, 2004***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 364,265.13
Federal Grants and Contracts	2,762,882.79
State and Local Grants and Contracts	101,569.96
Nongovernmental Grants and Contracts	26,821.27
Sales and Services	142,235.19
Other Operating Revenues	59,950.52
	<hr/>
Net Operating Revenues	3,457,724.86
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	9,511,949.36
Supplies and Materials	1,070,727.58
Services	1,018,990.30
Scholarships and Fellowships	1,801,318.94
Utilities	250,636.52
Depreciation	486,251.89
	<hr/>
Total Operating Expenses	14,139,874.59
	<hr/>
Operating Loss	(10,682,149.73)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	7,215,260.75
County Appropriations	1,163,119.00
Noncapital Grants	496,730.64
Noncapital Gifts	23,880.00
Investment Income	12,111.40
Other Nonoperating Expenses	(56,782.26)
	<hr/>
Total Nonoperating Revenues	8,854,319.53
	<hr/>
Loss Before Other Revenues	(1,827,830.20)
	<hr/>
State Capital Aid	2,810,876.48
County Capital Appropriations	15,000.00
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Increase in Net Assets	998,046.28

**NET ASSETS**

Net Assets, July 1, 2003 as Restated (Note 15)	12,513,908.50
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Net Assets, June 30, 2004	\$ 13,511,954.78
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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, 2004***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,472,535.56
Payments to Employees and Fringe Benefits	(9,450,705.24)
Payments to Vendors and Suppliers	(2,336,033.76)
Payments for Scholarships and Fellowships	(1,802,802.33)
Other Payments	(16,984.52)

Net Cash Used by Operating Activities	(10,133,990.29)
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	7,215,260.75
County Appropriations	1,163,119.00
Noncapital Grants Received	491,658.62
Noncapital Gifts Received	23,880.00

Cash Provided by Noncapital Financing Activities	8,893,918.37
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	2,417,742.43
County Capital Appropriations	15,000.00
Acquisition and Construction of Capital Assets	(1,239,322.53)
Principal Paid on Capital Debt	(17,198.62)

Net Cash Provided by Capital and Related Financing Activities	1,176,221.28
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	12,111.40
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Net Decrease in Cash and Cash Equivalents	(51,739.24)
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Cash and Cash Equivalents, July 1, 2003	823,998.08
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Cash and Cash Equivalents, June 30, 2004	\$ 772,258.84
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**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (10,682,149.73)
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Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation Expense	486,251.89
Changes in Assets and Liabilities:	
Receivables	13,864.77
Inventories	8,678.62
Accounts Payable and Accrued Liabilities	(4,427.47)
Due to State of North Carolina Component Units	69.49
Funds Held for Others	(17,521.98)
Compensated Absences	61,244.12

Net Cash Used by Operating Activities	\$ (10,133,990.29)
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***Richmond Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2004***

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

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	720,526.58
Restricted Cash and Cash Equivalents		14,545.15
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>37,187.11</u>
Total Cash and Cash Equivalents - June 30, 2004	\$	<u><u>772,258.84</u></u>

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

Increase in Receivables Related to Nonoperating Income	\$	398,206.07
Capital Asset Write-Offs		141,930.90

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, 2004***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	1,896,946
Investments		606,789
Accounts Receivable:		
Unconditional Promises to Give, Net		459,701
Accrued Interest		103,678
Other		796
Endowment Investments		986,482
Long-Term Unconditional Promises to Give, Net		806,339
Cash Value of Life Insurance		25,599
		<hr/>
Total Assets		4,886,330

**NET ASSETS**

Unrestricted		35,335
Temporarily Restricted		3,864,513
Permanently Restricted		986,482
		<hr/>
Total Net Assets	\$	4,886,330

See Note 1 in the Notes to the Financial Statements



***Richmond Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2004***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Support and Revenue:	
Contributions	\$ 11,653
Special Event	23,054
Interest Income	17
Miscellaneous	<u>1,388</u>
Total Support and Revenue	36,112
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payments	<u>43,889</u>
Total Unrestricted Support, Revenue, and Reclassifications	<u>80,001</u>
Expenses:	
Program Services	51,128
Supporting Services	<u>26,029</u>
Total Expenses	77,157
Transfers	<u>(1,737)</u>
Total Expenses and Transfers	<u>78,894</u>
Increase in Unrestricted Net Assets	<u>1,107</u>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Support and Revenue:	
Contributions	140,637
Interest Income	41,979
Investment Income	<u>87,318</u>
Total Support and Revenue	269,934
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payments	<u>(43,889)</u>
Total Temporarily Restricted Support, Revenue, and Reclassifications	226,045
Transfers	<u>1,737</u>
Increase in Temporarily Restricted Net Assets	<u>227,782</u>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Support:	
Contributions	<u>24,467</u>
<b>Increase in Net Assets</b>	253,356
Net Assets at Beginning of Year	<u>4,632,974</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 4,886,330</u></u>

See Note 1 in the Notes to the Financial Statements

**RICHMOND COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

**Discretely Presented Component Unit** - The Richmond Community College Foundation, Inc. (the Foundation) 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 is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 40 directors and is not controlled by College employees or trustees. The Executive Director and the College President serve as directors based on their positions. There are currently five College trustees also serving as Foundation directors, with the Foundation bylaws requiring a minimum of three. No College employee or trustee serves as an officer of the Foundation. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Foundation 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 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, 2004, the Foundation distributed \$77,157.00 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 Governmental Accounting Standards Board (GASB).

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 portfolio. The short-term investment portfolio 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 charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and two to 25 years for equipment.
- H. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

**Invested in Capital Assets, Net of Related Debt** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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 are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

**M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *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 appropriation and county capital appropriation do not revert and are available for future use by the College.

### NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$500.00. The carrying amount of cash on deposit was \$771,758.84 and the bank balance was \$828,795.38.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 331,803.51	\$ 331,803.48
Cash on Deposit with Private Financial Institutions	439,955.33	496,991.90
	<u>\$ 771,758.84</u>	<u>\$ 828,795.38</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2004, \$100,000.00 of the bank balance was covered by federal depository insurance and \$396,991.90 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Amount
<b>Current Receivables:</b>	
Students	\$ 53,572.20
Accounts	1,552.97
Other	12,453.50
<b>Total Current Receivables</b>	<b>\$ 67,578.67</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 163,519.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 163,519.00
Art, Literature, and Artifacts		8,500.00			8,500.00
Construction in Progress	412,950.76		1,095,918.49		1,508,869.25
<b>Total Capital Assets, Nondepreciable</b>	<b>576,469.76</b>	<b>8,500.00</b>	<b>1,095,918.49</b>		<b>1,680,888.25</b>
Capital Assets, Depreciable:					
Buildings	14,457,417.63				14,457,417.63
Machinery and Equipment	1,214,232.49		143,404.04	141,930.90	1,215,705.63
Art, Literature, and Artifacts	8,500.00	(8,500.00)			
General Infrastructure	402,741.53				402,741.53
<b>Total Capital Assets, Depreciable</b>	<b>16,082,891.65</b>	<b>(8,500.00)</b>	<b>143,404.04</b>	<b>141,930.90</b>	<b>16,075,864.79</b>
Less Accumulated Depreciation:					
Buildings	4,141,273.25		361,309.32		4,502,582.57
Machinery and Equipment	740,501.37		109,514.53	85,148.64	764,867.26
General Infrastructure	197,608.40		15,428.04		213,036.44
<b>Total Accumulated Depreciation</b>	<b>5,079,383.02</b>		<b>486,251.89</b>	<b>85,148.64</b>	<b>5,480,486.27</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>11,003,508.63</b>	<b>(8,500.00)</b>	<b>(342,847.85)</b>	<b>56,782.26</b>	<b>10,595,378.52</b>
<b>Capital Assets, Net</b>	<b>\$ 11,579,978.39</b>	<b>\$ 0.00</b>	<b>\$ 753,070.64</b>	<b>\$ 56,782.26</b>	<b>\$ 12,276,266.77</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accrued Payroll	\$ 216,176.43
Other	1,198.53
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 217,374.96</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 67,383.98	\$ 0.00	\$ 17,198.62	\$ 50,185.36	\$ 18,058.74
Compensated Absences	480,940.40	473,570.74	412,326.62	542,184.52	53,530.83
<b>Total Long-Term Liabilities</b>	<b>\$ 548,324.38</b>	<b>\$ 473,570.74</b>	<b>\$ 429,525.24</b>	<b>\$ 592,369.88</b>	<b>\$ 71,589.57</b>

**B. Notes Payable** - The College was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2004	Principal Outstanding 06/30/2004
Guaranteed	Branch Banking & Trust	4.89%	02/03/2007	\$ 132,947.00	\$ 82,761.64	\$ 50,185.36

The annual requirements to pay principal and interest on the notes payable at June 30, 2004, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 18,058.74	\$ 2,052.90
2006	18,961.88	1,149.76
2007	13,164.74	243.02
Total Requirements	<b>\$ 50,185.36</b>	<b>\$ 3,445.68</b>

### NOTE 7 - OPERATING LEASE OBLIGATIONS

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Amount
Total Minimum Lease Payments	<b>\$ 9,417.59</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - REVENUES

Student tuition and fees net of scholarship discounts is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 1,452,011.68	\$ 1,087,746.55	\$ 364,265.13

### 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	Total
Instruction	\$ 5,893,228.61	\$ 404,679.70	\$ 197,388.66	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,495,296.97
Academic Support	796,985.51	55,858.51	43,607.22				896,451.24
Student Services	657,523.38	34,125.36	41,439.18				733,087.92
Institutional Support	1,588,335.55		362,289.14				1,950,624.69
Operations and Maintenance of Plant	566,563.68	570,471.01	209,928.50		250,636.52		1,597,599.71
Student Financial Aid			7,725.00	1,801,318.94			1,809,043.94
Auxiliary Enterprises	9,312.63	5,593.00	156,612.60				171,518.23
Depreciation						486,251.89	486,251.89
<b>Total Operating Expenses</b>	<b>\$ 9,511,949.36</b>	<b>\$ 1,070,727.58</b>	<b>\$ 1,018,990.30</b>	<b>\$ 1,801,318.94</b>	<b>\$ 250,636.52</b>	<b>\$ 486,251.89</b>	<b>\$ 14,139,874.59</b>

### NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$7,391,676.93, of which \$6,441,679.94 was covered under the Teachers'

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$386,500.80 and \$14,171.70, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,171.70, \$0.00, and \$121,002.71, respectively.

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

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$195,807.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$15,880.00 for the year ended June 30, 2004.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$206,133.76. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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 - 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

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

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required 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 13 - COMMITMENTS AND CONTINGENCIES**

- A. 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 \$144,906.73 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$2,431,916.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### **NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2003, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2003, Net Assets as Previously Reported	\$ 11,763,417.77
Restatement - Correction of Prior Year Accounts	<u>750,490.73</u>
July 1, 2003, Net Assets as Restated	<u><u>\$ 12,513,908.50</u></u>

***Richmond Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2004***

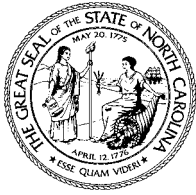
***Schedule 1***

<b>Capital Improvement Projects</b>	<b>Original Projected Start Date</b>	<b>Revised/ Actual Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Original Expected Completion Date</b>	<b>Revised/ Actual Completion Date</b>
<b><i>Projects Approved by the State Board</i></b>									
HVAC Renovations in 3 Buildings - #1089	Mar 2001	Mar 2001	\$ 890,000.00	\$ 0.00	\$ 890,000.00	\$ 863,518.32	97.02%	Jul 2003	Jun 2005
Health Sciences Building - #1088	Dec 2003	Dec 2003	3,542,287.00	2,320,000.00	5,862,287.00	283,485.00	4.84%	Jun 2006	Jan 2006
Acquire Building in Scotland County - #1282	Aug 2002	Aug 2002	137,272.00		137,272.00	137,272.00	100.00%	Sep 2002	Sep 2002
Multiple Renovations less than \$100,000 each - #1283	Aug 2002	Aug 2002	358,389.00		358,389.00	352,354.00	98.32%	Jun 2004	Jun 2005
<b><i>Projects Pending Approval by the State Board</i></b>									
Purchase New Facility near Rockingham Center	Jul 2005	Jul 2005	295,672.00		295,672.00			Dec 2005	Dec 2005
<b>Total All Projects</b>			<b>\$ 5,223,620.00</b>	<b>\$ 2,320,000.00</b>	<b>\$ 7,543,620.00</b>	<b>\$ 1,636,629.32</b>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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Board of Trustees  
Richmond Community College  
Hamlet, North Carolina

We have audited the financial statements of Richmond 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, 2004, which collectively comprise Richmond Community College's basic financial statements, and have issued our report thereon dated May 13, 2005. We did not audit the financial statements of the Richmond Community College Foundation, Inc., which represents 100% of 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 opinion, insofar as it relates to the amounts included for the component unit, is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

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

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Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

**Findings**

1. Financial Statement Presentation
2. Internal Controls Over Bank Reconciliations

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

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 the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

May 13, 2005

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

#### 1. FINANCIAL STATEMENT PRESENTATION

The College's June 30, 2004, financial statements contained material and other misstatements and did not agree with the College's general ledger balances. Overstatements and understatements in the financial statements were not detected and corrected by the College prior to submitting their financial package to the Office of the State Controller. The most significant issues include:

- The College did not capitalize construction in progress expenses totaling \$1,095,918.49, resulting in the understatement of capital assets – nondepreciable;
- The College miscalculated student tuition and fees and the associated discounts;
- The College did not correctly record revenue adjustments as directed by the North Carolina Community College System; and
- Revenue balances were miscalculated among the revenue accounts.

The net affect of all audit adjustments increased total revenues by \$1,034,389.78. Scholarships and fellowships expenses were understated by \$615,221.49 as a result of the miscalculation of tuition discounts. Sound internal controls require the assignment of responsibilities and related oversight to ensure accurate reporting.

*Recommendation:* We recommend that the College implement controls to ensure that the financial statements are reviewed and agree with the accounting records and material misstatements and presentation errors are detected and corrected prior to submission of the statements to the Office of the State Controller.

*College's Response:* The College recognizes that errors were made in the presentation of the statements as originally submitted to the Office of the State Controller, and appreciates the cooperation of the State Auditor's Office in correcting the statements. However, controls were in place to recognize that errors were made and extensive efforts were made towards their correction.

A new controller began work in June of 2004 and the Vice President for Administration worked with him in the preparation of the statements. Prior to submission of the

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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statements, the State Auditor's office was informed by the Vice President that there were mistakes and that corrected statements would be prepared and delivered prior to the beginning of audit field work.

Despite written directions and deadlines from the vice president, the Controller failed to produce the corrected financial statements prior to the beginning of audit fieldwork. As a result of this problem and other performance issues identified by the vice president through internal controls and reviews, the controller's employment was terminated in February 2005. In an effort to correct the financial statements, a private CPA was contracted and worked with the vice president throughout the fieldwork. The College is taking every available action to prevent these serious problems from reoccurring. A new controller with established experience in the development of accurate financial statements was employed in May 2005. Internal review procedures have been documented and will be included in employee training. The vice president will remain active in day to day financial operations as the new controller is acclimated to the College's system. In addition, the College is requesting a full audit of the 2004-2005 financial statements, rather than the scheduled review.

### 2. INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The College did not properly complete bank reconciliations for county funds and institutional funds bank accounts at June 30, 2004. Interest income and bank charges in these accounts were not consistently and properly posted to the general ledger during the 2003-2004 fiscal year. Outstanding amounts that could not be explained were recorded as reconciling items. In addition, interest earnings in the State Treasurer's Investment Fund (STIF) account were not posted timely for three months during the fiscal year. The review process was not sufficient to detect and correct errors in the bank reconciliation process. This condition increases the risk of unrecorded transactions and transactions recorded in error.

*Recommendation:* For adequate controls over cash, we recommend that the College reconcile bank statements and post reconciling items each month, as bank reconciliations are prepared. Any variances with the general ledger cash balances should be investigated and reconciled in a timely manner. Internal controls should include a review process to ensure that bank reconciliations are prepared properly and timely.

*College's Response:* As with the problems associated with financial statements, the issues related to the bank reconciliation stem from the transition of controllers and the new controller's performance. In November, incorrect reconciliations were submitted to the vice president. On November 16, the vice president sent the controller an e-mail setting a deadline for the correction and completion of all reconciliations.

While there were mistakes made both in process and procedure in relation to the bank reconciliations, internal controls were in place to monitor cash management, as evidenced by the actions taken by senior management.

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

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Recognizing that both the process and controls for bank reconciliations can be strengthened, the College is implementing the following changes:

- The bank reconciliations will be completed within 2 weeks of receipt of the statements.
- The vice president will document his review by signing off on all reconciliations.
- On-line banking services will be utilized to verify all reconciliations by the controller.

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## DISTRIBUTION OF AUDIT REPORT

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Richard H. Moore  
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Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
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President, Richmond Community College  
Vice President for Administration  
Richmond Community College  
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Mr. James D. Johnson

Director, Fiscal Research Division

June 20, 2005



## ORDERING INFORMATION

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