



STATE OF NORTH CAROLINA

RICHMOND COMMUNITY COLLEGE

HAMLET, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

RICHMOND COMMUNITY COLLEGE

HAMLET, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Richmond Community College

We have completed a financial statement audit of Richmond Community College for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	8
A-3 Statement of Cash Flows	9
Component Unit Exhibits	
B-1 Statement of Financial Position	11
B-2 Statement of Activities	12
Notes to the Financial Statements	13
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 <i>GOVERNMENT AUDITING STANDARDS</i>	29
AUDIT FINDINGS AND RESPONSES	33
ORDERING INFORMATION	35



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INDEPENDENT AUDITOR'S REPORT

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, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Richmond Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the component unit are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

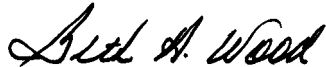
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Richmond Community College and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, based on clarification issued by the Governmental Accounting Standards Board, the College changed the reporting of federal financial aid revenue during the year ended June 30, 2009.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

May 19, 2010

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, 2009, with comparative data for the fiscal year ending June 30, 2008. This 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 to Financial Statements.

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 payroll costs. 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. The Notes to Financial Statements 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 2008 financial statements and those from the fiscal year 2009, 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 Assets is designed to be a snapshot of the financial condition at a point in time. 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)

Summarized Comparative Financial Analysis

Condensed Statement of Net Assets

Fiscal Years Ended June 30, 2009 and June 30, 2008

	<u>2009</u>	<u>2008 (Restated)</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 1,495,841.62	\$ 1,378,327.15	\$ 117,514.47
Noncurrent Assets	1,115,882.17		1,115,882.17
Capital Assets, Net	<u>19,043,559.92</u>	<u>18,947,351.52</u>	<u>96,208.40</u>
Total Assets	<u>21,655,283.71</u>	<u>20,325,678.67</u>	<u>1,329,605.04</u>
Current Liabilities	670,151.72	734,992.23	(64,840.51)
Noncurrent Liabilities	<u>703,676.40</u>	<u>640,132.77</u>	<u>63,543.63</u>
Total Liabilities	<u>1,373,828.12</u>	<u>1,375,125.00</u>	<u>(1,296.88)</u>
Net Assets:			
Invested in Capital Assets	19,043,559.92	18,947,351.52	96,208.40
Restricted	1,226,279.84	16,510.31	1,209,769.53
Unrestricted	<u>11,615.83</u>	<u>(13,308.16)</u>	<u>24,923.99</u>
Total Net Assets	<u>\$ 20,281,455.59</u>	<u>\$ 18,950,553.67</u>	<u>\$ 1,330,901.92</u>

Analysis of Assets, Liabilities, and Net Assets

The College's total assets increased by \$1,329,605, or 6.54%, due to a significant increase in noncurrent assets. The increase in noncurrent assets is comprised of restricted funds due from the North Carolina Community College System for upcoming construction projects. Capital assets have increased over the last two years due to major roof replacement and renovation projects being completed on the main campus.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Fiscal Years Ended June 30, 2009 and June 30, 2008

	<u>2009</u>	<u>2008 (Restated)</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 632,878.77	\$ 784,194.88	\$ (151,316.11)
Other Operating Revenues	442,754.75	428,974.65	13,780.10
Total Operating Revenues	<u>1,075,633.52</u>	<u>1,213,169.53</u>	<u>(137,536.01)</u>
Nonoperating Revenues (Expenses)			
State Aid	10,102,356.44	9,829,251.70	273,104.74
County Appropriations	1,554,656.00	1,491,872.00	62,784.00
Noncapital Grants	3,737,124.93	3,337,817.38	399,307.55
Other Nonoperating Revenues (Expenses)	328,324.08	538,930.47	(210,606.39)
Total Nonoperating Revenues	<u>15,722,461.45</u>	<u>15,197,871.55</u>	<u>524,589.90</u>
Capital Contributions:			
State Capital Aid	1,723,160.00	499,251.71	1,223,908.29
County Capital Aid	124,774.84	1,297,789.28	(1,173,014.44)
Capital Grants	159,478.35	12,964.01	146,514.34
Total Capital Contributions	<u>2,007,413.19</u>	<u>1,810,005.00</u>	<u>197,408.19</u>
Total Revenues	<u>18,805,508.16</u>	<u>18,221,046.08</u>	<u>584,462.08</u>
Operating Expenses:			
Personal Services	11,918,850.03	11,574,381.77	344,468.26
Supplies and Materials	1,048,312.69	1,129,226.70	(80,914.01)
Services	1,156,207.94	1,398,278.65	(242,070.71)
Scholarships and Fellowships	2,325,763.60	2,100,885.32	224,878.28
Utilities	392,422.81	395,017.10	(2,594.29)
Depreciation	633,049.17	591,227.53	41,821.64
Total Operating Expenses	<u>17,474,606.24</u>	<u>17,189,017.07</u>	<u>285,589.17</u>
Change in Net Assets	1,330,901.92	1,032,029.01	298,872.91
Net Assets, Beginning			
Net Assets - July 1, as Restated	<u>18,950,553.67</u>	<u>17,918,524.66</u>	<u>1,032,029.01</u>
Net Asset - June 30	<u>\$ 20,281,455.59</u>	<u>\$ 18,950,553.67</u>	<u>\$ 1,330,901.92</u>

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

The College's operating revenues decreased by 11.34% in 2009 despite a 2.6% increase in curriculum enrollment for the 2008-2009 academic year. This overall decrease was due to an increased percentage of financial aid received and applied as a scholarship discount against student tuition and fees.

Nonoperating revenues remained flat due to a 4% reversion in the state aid allocation even though noncapital grants reflects a 12% increase in federal financial aid revenue.

The 53% increase in total capital contributions was due to construction funds made available by the State in fiscal 2009 for campus renovations and the construction of the Honeycutt Center in Laurinburg and funds from the Department of Education for academic programs. The reduction in County Capital Aid was because most of the funding for the campus'

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

recently completed roof and other renovation projects was received in fiscal 2008. The reduction in the Other Nonoperating Revenues was due to gifts received by the College in fiscal 2008 but not in fiscal 2009.

The most significant decrease in operating expenses was in expenditures for services. The largest decline was in institutional support expenditures for advertising, travel and service contracts due to reduced availability of state funding. Also affected were travel and advertising expenses for instructional support as well as expenses for the Cole Auditorium Series.

Expectations for Richmond Community College's Financial Position in 2009-10

As the State endures its worst recession in over 50 years, the economic forecast for North Carolina as a whole is projected to continue to decline in fiscal 2010, though at a slightly slower rate than experienced in 2009. Unemployment is projected to peak at 13% in early 2010, and is expected to drop at a faster rate than the rest of the country.

Tax revenues for North Carolina in 2010 are expected to be flat at best, with the North Carolina Community College System requiring immediate budget reversions of 5%, combined with budget cuts approaching 4%. The projection for Richmond Community College's state budget, which makes up over 82% of its total budget, is over \$800,000 less than the initial 2009 state allocation. If the economic recovery does begin in early 2010 as projected, state revenues could stabilize and prevent the College from having to revert additional state budget funds.

The Southeast Economic Development Region, which includes Richmond and Scotland Counties, is expected to have one of the highest unemployment rates in the State in 2010. Richmond and Scotland Counties are both projected to continue to be at or near the highest unemployment rates in the State, as they endure the adjustments from a textile and manufacturing economy to one based on service and distribution businesses. With flat tax bases, populations and spending levels, tax revenues for these counties are expected to decline, and this will have a negative impact on county budget allocations.

Enrollment projections for 2010 indicate significant growth, due to high unemployment, new programs in Welding and Entrepreneurship, and the third year of the two Early College High Schools. The new students, combined with an expected 19% increase in state tuition, should cause a sharp increase in tuition and fees revenues.

With the main campus renovations complete, the next capital project is the Honeycutt Center, located in Laurinburg and scheduled for completion in June 2010. This \$4.2 million facility is being constructed by the city and will be deeded to the College upon completion. As a result, capital assets will be increased and the new facility will give the College an opportunity to expand nursing education as well as job training and redevelopment programs at the Scotland County campus.

There are no outstanding legal issues or potential lawsuits facing the College. A new strategic plan has been developed, with long term emphasis on new instructional programs and improving student retention and success rates.

Richmond Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 997,567.17
Restricted Cash and Cash Equivalents	238,215.80
Receivables, Net (Note 3)	218,270.19
Inventories	41,788.46
	<hr/>
Total Current Assets	1,495,841.62

Noncurrent Assets:

Restricted Cash and Cash Equivalents	56,972.99
Restricted Due from Primary Government	1,058,909.18
Capital Assets - Nondepreciable (Note 4)	697,419.12
Capital Assets - Depreciable, Net (Note 4)	18,346,140.80
	<hr/>
Total Noncurrent Assets	20,159,442.09

Total Assets	<hr/> <hr/> 21,655,283.71
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	527,664.07
Unearned Revenue	68,405.18
Funds Held for Others	8,124.83
Long-Term Liabilities - Current Portion (Note 6)	65,957.64
	<hr/>
Total Current Liabilities	670,151.72

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 703,676.40
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Total Liabilities	<hr/> <hr/> 1,373,828.12
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NET ASSETS

Invested in Capital Assets	19,043,559.92
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Restricted for:

Expendable:

Scholarships and Fellowships	58,673.02
Capital Projects	955,429.97
Restricted for Specific Programs	197,951.73
Other	14,225.12

Unrestricted	<hr/> 11,615.83
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Total Net Assets	<hr/> <hr/> <hr/> \$ 20,281,455.59
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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, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 632,878.77
State and Local Grants and Contracts	170,790.08
Sales and Services	208,547.45
Other Operating Revenues	63,417.22
	<hr/>
Total Operating Revenues	1,075,633.52
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	11,918,850.03
Supplies and Materials	1,048,312.69
Services	1,156,207.94
Scholarships and Fellowships	2,325,763.60
Utilities	392,422.81
Depreciation	633,049.17
	<hr/>
Total Operating Expenses	17,474,606.24
	<hr/>
Operating Loss	(16,398,972.72)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	9,657,991.02
State Aid - Federal Recovery Funds	444,365.42
County Appropriations	1,554,656.00
Noncapital Grants - Federal Student Financial Aid	3,589,253.93
Noncapital Grants	147,871.00
Noncapital Gifts	312,661.82
Investment Income	20,937.08
Other Nonoperating Expenses	(5,274.82)
	<hr/>
Net Nonoperating Revenues	15,722,461.45
	<hr/>
Income Before Other Revenues	(676,511.27)
	<hr/>

State Capital Aid	1,723,160.00
County Capital Aid	124,774.84
Capital Grants	159,478.35
	<hr/>
Increase in Net Assets	1,330,901.92
	<hr/>

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 15)	18,950,553.67
	<hr/>
Net Assets, June 30, 2009	\$ 20,281,455.59
	<hr/> <hr/>

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, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,112,544.00
Payments to Employees and Fringe Benefits	(11,905,218.91)
Payments to Vendors and Suppliers	(2,633,605.63)
Payments for Scholarships and Fellowships	(2,325,763.60)
Other Receipts	<u>7,900.47</u>
Net Cash Used by Operating Activities	<u>(15,744,143.67)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,657,991.02
State Aid - Federal Recovery Funds	444,365.42
County Appropriations	1,554,656.00
Noncapital Grants - Federal Student Financial Aid	3,595,895.48
Noncapital Grants Received	147,871.00
Noncapital Gifts Received	<u>312,661.82</u>
Cash Provided by Noncapital Financing Activities	<u>15,713,440.74</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	664,250.82
County Capital Aid	124,774.84
Capital Grants Received	63,432.70
Proceeds from Sale of Capital Assets	1,522.12
Acquisition and Construction of Capital Assets	<u>(748,006.28)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>105,974.20</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>20,937.08</u>
Cash Provided by Investing Activities	<u>20,937.08</u>

Net Increase in Cash and Cash Equivalents	96,208.35
Cash and Cash Equivalents, July 1, 2008	<u>1,196,547.61</u>
Cash and Cash Equivalents, June 30, 2009	<u><u>\$ 1,292,755.96</u></u>

Richmond Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (16,398,972.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	633,049.17
Miscellaneous Nonoperating Income	11,951.54
Changes in Assets and Liabilities:	
Receivables, Net	18,066.92
Inventories	(6,941.70)
Accounts Payable and Accrued Liabilities	(66,619.71)
Unearned Revenue	20,098.58
Funds Held for Others	(5,306.09)
Compensated Absences	50,530.34
Net Cash Used by Operating Activities	<u><u>\$ (15,744,143.67)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 997,567.17
Restricted Cash and Cash Equivalents	238,215.80
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>56,972.99</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 1,292,755.96</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 1,156,123.97
Capital Asset Write-Offs	18,748.71

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, 2009

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	699,133.00
Investments		554,650.00
Unconditional Promises to Give, Net		89,199.00
Other Receivables		687.00
Endowment Investments		1,331,763.00
Property and Equipment, Net		791.00
Long-term Unconditional Promises to Give, Net		487,820.00
Cash Value of Life Insurance		44,742.00
		<hr/>
Total Assets		3,208,785.00
		<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses		<hr/>
		11,198.00
		<hr/>

NET ASSETS

Unrestricted		62,063.00
Temporarily Restricted		1,785,411.00
Permanently Restricted		1,350,113.00
		<hr/>

Total Net Assets		<hr/>
		3,197,587.00
		<hr/>

Total Liabilities and Net Assets	\$	<hr/> <hr/>
		3,208,785.00

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, 2009

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenue	
Contributions	\$ 16,200.00
Special Event	13,855.00
Interest Income	740.00
Miscellaneous	1,404.00
	<hr/>
Total Support and Revenue	32,199.00
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payment	408,976.00
	<hr/>
Total Support, Revenue, and Reclassifications	441,175.00
	<hr/>
Expenses	
Program Services	423,924.00
Supporting Services	30,556.00
	<hr/>
Total Expenses	454,480.00
	<hr/>
Transfer to Temporarily Restricted	(6,884.00)
	<hr/>
Decrease in Unrestricted Net Assets	(20,189.00)
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	266,916.00
Interest Income	8,092.00
Investment Income	(240,663.00)
	<hr/>
Total Support and Revenue	34,345.00
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payments	(408,976.00)
	<hr/>
Total Support, Revenue and Reclassifications	(374,631.00)
Transfers from Unrestricted	6,884.00
	<hr/>
Decrease in Temporarily Restricted Net Assets	(367,747.00)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	100,317.00
	<hr/>
Increase in Permanently Restricted Net Assets	100,317.00
	<hr/>
Decrease in Net Assets	(287,619.00)
Net Assets at Beginning of Year	3,485,206.00
	<hr/>
Net Assets at End of Year	\$ 3,197,587.00
	<hr/> <hr/>

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

RICHMOND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 its component unit. 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 unit for which the College's Board of Trustees is financially accountable. The College's component unit is 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 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. 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Richmond Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2009, the Foundation distributed \$423,924.00 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. The short-term investment fund 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 40 to 50 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 or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Restricted Net Assets – Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *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 AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,140.00, and deposits in private financial institutions with a carrying value of \$694,694.67, and a bank balance of \$834,808.75.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2009, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - 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 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 (STIF); 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 and banker's acceptances; 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$596,921.29, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (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 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund 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 Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Investments of the College's 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.

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

	Temporarily Restricted	Permanently Restricted	Total
Investments held by Wachovia Securities, Inc.	\$ 554,650	\$ 1,331,763	\$ 1,886,413

Wachovia Securities, Inc. holds funds for various nonprofit organizations. Specifically for Richmond Community College Foundation, Inc. as of June 30, 2009, most of the above were invested in government securities, growth stocks, and investors trust. These investments potentially subject Richmond Community College Foundation, Inc. to a concentration of market risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Uncollectibles	Net Receivables
Current Receivables:			
Students	\$ 193,052.31	\$ 75,000.00	\$ 118,052.31
Intergovernmental	100,217.88		100,217.88
Total Current Receivables	\$ 293,270.19	\$ 75,000.00	\$ 218,270.19

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 163,519.00	\$ 0.00	\$ 0.00	\$ 163,519.00
Art, Literature, and Artifacts	8,500.00			8,500.00
Construction in Progress	1,254,413.93	525,400.12	1,254,413.93	525,400.12
Total Capital Assets, Nondepreciable	1,426,432.93	525,400.12	1,254,413.93	697,419.12
Capital Assets, Depreciable:				
Buildings	21,195,862.80	1,287,275.79		22,483,138.59
Machinery and Equipment	1,859,547.39	189,744.30	72,368.81	1,976,922.88
General Infrastructure	480,160.68			480,160.68
Total Capital Assets, Depreciable	23,535,570.87	1,477,020.09	72,368.81	24,940,222.15
Less Accumulated Depreciation/Amortization for:				
Buildings	5,120,979.44	455,670.60		5,576,650.04
Machinery and Equipment	774,333.20	168,519.11	53,620.10	889,232.21
General Infrastructure	119,339.64	8,859.46		128,199.10
Total Accumulated Depreciation	6,014,652.28	633,049.17	53,620.10	6,594,081.35
Total Capital Assets, Depreciable, Net	17,520,918.59	843,970.92	18,748.71	18,346,140.80
Capital Assets, Net	\$ 18,947,351.52	\$ 1,369,371.04	\$ 1,273,162.64	\$ 19,043,559.92

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 98,519.24
Accrued Payroll	429,144.83
Total Accounts Payable and Accrued Liabilities	\$ 527,664.07

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 719,103.70	\$ 490,610.73	\$ 440,080.39	\$ 769,634.04	\$ 65,957.64

NOTE 7 - LEASE OBLIGATIONS

Operating Lease Obligations - The College entered into an operating lease for copier equipment. Future minimum lease payments under the noncancelable operating lease consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	\$ 17,214.78
2011	17,214.78
2012	17,214.78
2013	17,214.78
Total Minimum Lease Payments	\$ 68,859.12

Rental expense for all operating leases during the year was \$24,145.32.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues: Student Tuition and Fees	\$ 1,548,406.97	\$ 890,528.20	\$ 25,000.00	\$ 632,878.77

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,380,708.13	\$ 688,549.12	\$ 378,571.54	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,447,828.79
Academic Support	1,045,382.24	65,526.29	26,309.56				1,137,218.09
Student Services	756,126.48	45,983.94	43,845.07				845,955.49
Institutional Support	1,877,631.15	93,735.87	362,402.38				2,333,769.40
Operations and Maintenance of Plant	824,548.22	143,770.81	161,016.17		392,422.81		1,521,758.01
Student Financial Aid				2,325,763.60			2,325,763.60
Auxiliary Enterprises	34,453.81	10,746.66	184,063.22				229,263.69
Depreciation						633,049.17	633,049.17
Total Operating Expenses	<u>\$ 11,918,850.03</u>	<u>\$ 1,048,312.69</u>	<u>\$ 1,156,207.94</u>	<u>\$ 2,325,763.60</u>	<u>\$ 392,422.81</u>	<u>\$ 633,049.17</u>	<u>\$ 17,474,606.24</u>

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,778,563.56, of which \$8,649,599.90 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$290,626.56 and \$518,976.83, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$290,626.56, \$254,587.61, and \$209,504.53, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and 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 \$359,570.00 for the year ended June 30, 2009.

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 \$5,159.00 for the year ended June 30, 2009.

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$354,633.60, \$342,232.52, and \$296,888.16, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$44,977.92, \$45,405.10, and \$40,626.80, 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 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by 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 community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction projects were \$966,473.54 at June 30, 2009.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

Beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2008, the net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 17,618,720.59
Restatement:	
To Correct Error in Reporting Revenues Earned in Prior Fiscal Years	1,331,833.08
	<u> </u>
July 1, 2008 Net Assets as Restated	<u>\$ 18,950,553.67</u>

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Trustees
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, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 19, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, based on clarification issued by the Governmental Accounting Standards Board, the College changed the reporting of federal financial aid revenue during the year ended June 30, 2009.

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

Internal Control Over Financial Reporting

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

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

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

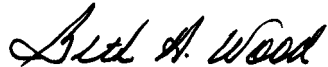
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

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



Beth A. Wood, CPA
State Auditor

May 19, 2010

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Richmond Community College contained significant misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. The misstatements noted during our audit included:

- a. The College reported \$1.3 million in capital gifts earned in a prior fiscal year as current year nonoperating revenue.
- b. Various capital and noncapital revenues were not properly classified in the financial statements. As a result, the College reported approximately \$380,000 of nonoperating revenues as operating revenues.
- c. The College incorrectly capitalized approximately \$130,000 of expenditures related to renovation projects. In relation to this capital asset, the College also overstated depreciation expense by approximately \$14,000. As a result, the net overstatement of capital assets was approximately \$116,000.
- d. The College did not report a capital asset and a related accounts payable for costs incurred prior to year-end on a construction project. As a result, capital assets and accounts payable were understated by approximately \$70,000.
- e. The College did not properly classify net asset balances. As a result, restricted net assets were overstated and unrestricted net assets were understated by approximately \$75,000, and adjustments of over \$366,000 were made to reclassify net assets across the various net asset categories.

For the fiscal year ended June 30, 2007, we reported deficiencies in internal control due to net asset and other classification errors that were corrected as a result of our 2007 audit.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the completeness and accuracy of the financial statements.

College's Response: Richmond Community College concurs with the finding. We have a new CFO who will lead the effort to improve our compliance with your reporting requirements and standards in future audits.

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