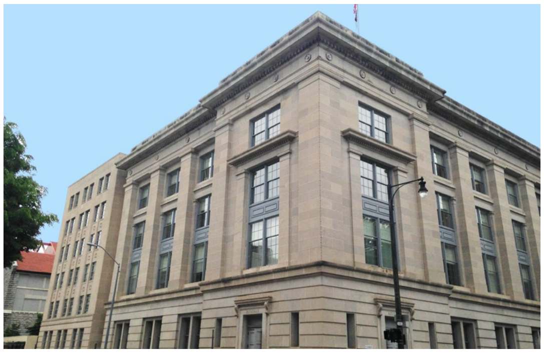
# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



# RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2020

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

STATE OF NORTH CAROLINA
Office of the State Auditor

**Beth A. Wood, CPA**
State Auditor

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# AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Randolph Community College

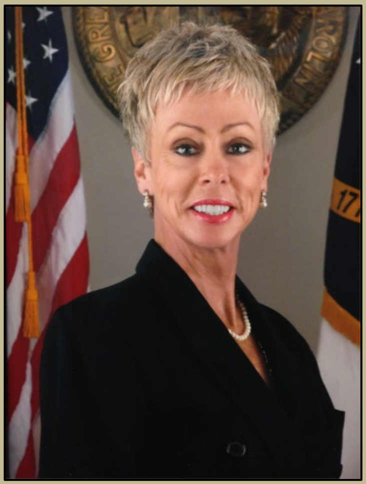
We have completed a financial statement audit of Randolph Community College for the year ended June 30, 2020, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



**Beth A. Wood, CPA**
**State Auditor**

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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

# Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Randolph Community College
Asheboro, North Carolina

## Report on the Financial Statements

We have audited the accompanying financial statements of Randolph Community College (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, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Randolph Community College, and its discretely presented component unit, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2021 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 10, 2021

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Randolph Community College's Annual Financial Report presents the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2020, and comparisons with June 30, 2019. College management has prepared this discussion, along with the financial statements and related notes to the financial statements. It should be read in conjunction with, and is qualified in its entirety by the financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

**Using the Annual Report/Overview of Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* Randolph Community College Foundation, Inc. is a discretely presented component unit of the College. The financial statements presented focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked about College finances is whether the College as a whole is better or worse off as a result of the year's activities. The keys to understanding this question are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The College's net position is one indicator of the College's financial health. Over time, increases or decreases in net position indicate the improvement or challenges of the College's financial health when considered with nonfinancial facts such as enrollment levels and the need for additional programs.

The Statement of Net Position includes all assets plus deferred outflows of resources and liabilities plus deferred inflows of resources with the difference reported as net position. The Statement of Net Position is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies state and county appropriations and gifts as nonoperating revenues. Student financial aid is presented as nonoperating revenue. Public colleges' dependency on state and county aid and gifts usually results in an operating deficit under governmental accounting standards. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information detailing the sources and uses of cash from operating activities, noncapital financing activities, capital-related financing activities, and investing activities.

In addition to the College's financial statements and accompanying notes, information for a component unit is presented. The Statement of Financial Position, Statement of Activities, and certain notes for Randolph Community College Foundation, Inc. (Foundation) are discretely presented alongside the College financial statements; however, the component unit is not included in management's discussion and analysis. More information describing the relationship between the College and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

### Financial Highlights

The following are highlights of financial activity of Randolph Community College for fiscal year 2020:

- The assets and deferred outflows of Randolph Community College exceeded its liabilities and deferred inflows at June 30, 2020, by $22,137,830.65 (net position). Net position from 2020 operations increased by $7,475,260.02 from the prior year of 2019. This increase is attributable mainly to the construction in progress for the Allied Health Center.
- Operating revenues at June 30, 2020, increased from June 30, 2019, by $145,836.98.
- Net nonoperating revenues at June 30, 2020, increased from June 30, 2019, by $184,768.87.
- Operating expenses at June 30, 2020, increased from June 30, 2019, by $1,226,138.92.
- Capital assets at June 30, 2020, increased from June 30, 2019, by $8,433,864.61.

### Financial Analysis of the College's Funds

**Condensed Statement of Net Position:** This schedule is prepared from the College's Statement of Net Position, which is presented on the accrual basis of accounting, for the years ended June 30, 2020 and June 30, 2019.

**Condensed Statement of Net Position**

| | 2020 | 2019 | Change |
|---|---|---|---|
| Current Assets | $ 6,178,933.05 | $ 5,859,234.11 | $ 319,698.94 |
| Noncurrent Assets | | | |
| Capital Assets, Net of Depreciation | 48,740,338.01 | 40,306,473.40 | 8,433,864.61 |
| Other | 927,749.16 | 2,701,635.66 | (1,773,886.50) |
| Total Assets | 55,847,020.22 | 48,867,343.17 | 6,979,677.05 |
| Total Deferred Outflows of Resources | 5,257,534.06 | 5,460,969.06 | (203,435.00) |
| Current Liabilities | 1,144,854.45 | 1,861,004.63 | (716,150.18) |
| Long-Term Liabilities | 29,410,364.18 | 27,655,590.97 | 1,754,773.21 |
| Total Liabilities | 30,555,218.63 | 29,516,595.60 | 1,038,623.03 |
| Total Deferred Inflows of Resources | 8,411,505.00 | 10,149,146.00 | (1,737,641.00) |
| Net Position | | | |
| Net Investment in Capital Assets | 48,179,556.25 | 39,006,228.03 | 9,173,328.22 |
| Restricted | 2,297,411.91 | 3,619,265.71 | (1,321,853.80) |
| Unrestricted | (28,339,137.51) | (27,962,923.11) | (376,214.40) |
| Total Net Position | $ 22,137,830.65 | $ 14,662,570.63 | $ 7,475,260.02 |

Net position at June 30, 2020, increased by $7,475,260.02 over the prior fiscal year 2019. The increase in net position is due mostly to an increase in construction in progress of $8,705,338.13 and related activity for the Allied Health Center. This was offset by a decrease in restricted net position of $1,321,853.80 primarily resulting from a decrease in funds restricted for capital projects as they are used to fund ongoing construction.

**Assets:** The College's assets at June 30, 2020 are comprised of cash and cash equivalents, receivables, inventory, the asset associated with the overfunded Disability Income Plan of North Carolina, and capital assets. Total assets increased $6,979,677.05 primarily due to an increase in capital assets, nondepreciable, in the amount of $8,704,131.61, offset by a decrease of $1,773,886.50 in other noncurrent assets. This increase is primarily reflective of the increase of construction in progress and decrease in noncurrent intergovernmental receivables for the Allied Health Center. See the Capital Assets section below for further discussion of capital related activity.

**Liabilities:** Randolph Community College's liabilities at June 30, 2020, are comprised of accounts payable and payroll accruals, unearned revenue, funds held for others, compensated absences for employee leave, net pension liability, and net other postemployment benefits liability. Total liabilities increased by $1,038,623.03 from the prior year. This was due to a decrease in current liabilities of $716,150.18, and an increase in long-term liabilities of $1,754,773.21. The decrease in current liabilities was due primarily to a decrease in accounts payable for construction invoices payable at June 30th. The increase in long-term liabilities was due to an increase in the net OPEB liability, net pension liability, and the liability associated with employee leave accrued by the College. The College's proportionate share of the Teachers' and State Employees' Retirement System net pension liability is recorded as a long-term liability as required by GASB No. 68, *Accounting and Financial Reporting for Pensions.* For 2020, the College's share increased to $7,759,667.00 from $7,722,938.00 in 2019, an increase of $36,729.00. The College's share in 2020 was more due to worse than expected earnings for the retirement system investments; the plan is funded at 87.56%. The College's proportionate share of the Retiree Health Benefit Fund (other postemployment benefit associated with TSERS) is recorded as a long-term liability as required by GASB No. 75. For 2020, the College's share increased to $20,652,286.00 from $19,056,518.00 in 2019, an increase of $1,595,768.00. The College's liability in 2020 was more due to a combination of worse than expected earnings on plan investments, but offset somewhat by an increase in the contribution rate paid by state agencies on their employees' behalf. The Retiree Health Benefit Fund is only funded at 4.40%, the same as 2019.

**Deferred Outflows and Inflows of Resources**: Collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan and other postemployment benefits (OPEB) investment earnings in different measurement periods are to be aggregated and included as a net collective deferred outflow of resources related to pensions and OPEB, or a net collective deferred inflow of resources related to pensions and OPEB. The decrease in deferred outflows related to pensions of $1,144,953.00 was primarily the result of negative differences between actual and projected earnings on investments and changes in actuarial assumptions. The increase to deferred outflows related to OPEB of $941,518.00 and decrease to deferred inflows related to OPEB of $1,811,784.00 were primarily due to changes to actuarial assumptions. See Notes 12 and 13 of the Notes to the Financial Statements for more information about the College's deferred outflows and inflows related to pensions and OPEB.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position:** This schedule is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position, which is presented on an accrual basis of accounting, for the years ended June 30, 2020 and June 30, 2019. State and local appropriations are not classified as operating revenue per GASB Statement No. 35; therefore, the College will usually show a significant operating loss.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

| | 2020 | 2019 | Change |
|---|---|---|---|
| Operating Revenues | | | |
| Student Tuition and Fees, Net | $ 1,499,804.47 | $ 1,158,448.65 | $ 341,355.82 |
| Sales and Services, Net | 1,075,070.45 | 1,199,147.17 | (124,076.72) |
| Other Operating Revenues | 211,098.24 | 282,540.36 | (71,442.12) |
| Total Operating Revenues | 2,785,973.16 | 2,640,136.18 | 145,836.98 |
| Operating Expenses | | | |
| Salaries and Benefits | 18,653,446.24 | 17,587,970.37 | 1,065,475.87 |
| Supplies and Services | 4,564,578.25 | 5,212,175.91 | (647,597.66) |
| Scholarships and Fellowships | 3,234,406.68 | 2,431,318.94 | 803,087.74 |
| Utilities | 568,274.15 | 605,806.43 | (37,532.28) |
| Depreciation | 1,291,981.02 | 1,249,275.77 | 42,705.25 |
| Total Operating Expenses | 28,312,686.34 | 27,086,547.42 | 1,226,138.92 |
| Operating Loss | (25,526,713.18) | (24,446,411.24) | (1,080,301.94) |
| Nonoperating Revenues | | | |
| State Aid | 14,327,566.15 | 14,449,848.81 | (122,282.66) |
| County Appropriations | 2,618,000.04 | 2,585,561.58 | 32,438.46 |
| Student Financial Aid | 4,844,162.98 | 4,880,942.73 | (36,779.75) |
| Federal Aid - COVID-19 | 432,088.05 | - | 432,088.05 |
| Noncapital Contributions | 1,233,801.33 | 1,261,536.77 | (27,735.44) |
| Investment Income | 33,365.35 | 33,483.13 | (117.78) |
| Other Nonoperating Revenues (Expenses) | (861.52) | 91,980.49 | (92,842.01) |
| Net Nonoperating Revenues | 23,488,122.38 | 23,303,353.51 | 184,768.87 |
| Loss Before Other Revenues | (2,038,590.80) | (1,143,057.73) | (895,533.07) |
| Other Revenues | | | |
| Total Capital Aid and Contributions | 9,513,850.82 | 6,371,758.24 | 3,142,092.58 |
| Increase in Net Position | 7,475,260.02 | 5,228,700.51 | 2,246,559.51 |
| Net Position, Beginning of Year | 14,662,570.63 | 9,433,870.12 | 5,228,700.51 |
| Net Position, End of Year | $ 22,137,830.65 | $ 14,662,570.63 | $ 7,475,260.02 |
| Reconciliation of Changes in Net Position | | | |
| Total Revenues | $ 35,788,807.88 | $ 32,315,247.93 | $ 3,473,559.95 |
| Less: Total Expenses | 28,313,547.86 | 27,086,547.42 | 1,227,000.44 |
| Increase in Net Position | $ 7,475,260.02 | $ 5,228,700.51 | $ 2,246,559.51 |

Randolph Community College's total revenues increased by $3,473,559.95 from $32,315,247.93 in 2019 to $35,788,807.88 in 2020. The increase is related to the changes in operating, nonoperating, and other revenues, discussed below. The major contributor was an increase of $3,142,092.58 in other revenues primarily in the form of county capital aid for the construction of the Allied Health Center.

The College's total expenses increased by $1,227,000.44 from $27,086,547.42 in 2019 to $28,313,547.86 in 2020. The major contributors were from increases in salaries and benefits and scholarships and fellowships, offset by a decrease in supplies and services discussed below.

Operating revenues increased by $145,836.98. Student tuition and fees increased by $341,355.82 due to a reduction in scholarship discounts as compared to the prior year. This increase was offset by a decrease in sales and services as a result of limited sales in the Campus Store and Campus Café due to closure in March as a result of COVID-19. Operating expenses for fiscal year 2020 increased by $1,226,138.92 over fiscal year 2019. This overall increase was due to an increase in employee benefits because there was a significant increase in expense associated with the pension plan this year. As discussed earlier, the plan performed worse than expected for the year, causing the overall liability to increase. Each state agency was allocated their portion of this increase, which resulted in an increase in net pension expense for the year of $968,000.00. Additionally, scholarships and fellowships expense increased by $803,087.74 over fiscal year 2019 primarily due to Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received for students. Supplies and services expense decreased by $647,597.66 as a result of decreased spending on supplies and the cancellation of service contracts and travel for the last four months of the fiscal year as a result of the COVID-19 pandemic.

Net nonoperating revenues increased by $184,768.87 in fiscal year 2020 over fiscal year 2019. This increase was primarily due to $432,088.05 in federal aid received as a result of the CARES Act, offset by a decrease in state aid of $122,282.66, and a decrease to other nonoperating revenues of $92,842.01. The decrease to state aid was primarily due to a reversion of available budget by the College in strategic areas that could be rolled forward to fiscal year 2021. The decrease in other nonoperating revenues is primarily due to the fact that in the prior fiscal year, the College received proceeds from the settlement of an insurance claim.

Other revenues increased $3,142,092.58 and is comprised entirely of capital aid and contributions. This increase is primarily due to an increase in county capital aid, offset by a decrease in state capital aid. State capital aid decreased by $4,142,744.24 due to the fact that all Connect NC Bond Funds for the construction of the Allied Health Center were expended and received in the prior fiscal year. The increase in county capital aid of $7,032,794.47 was due to the fact that funding for the Allied Health Center for the current fiscal year was entirely from Randolph County given that the Connect NC Bond Funds were exhausted in fiscal year 2019.

**Capital Assets:** Randolph Community College's net investment in capital assets as of June 30, 2020, was $48,179,556.25. This investment in capital assets includes land, art, construction in progress, buildings, infrastructure, equipment, and vehicles, net of accumulated depreciation. The total increase in Randolph Community College's net investment in capital assets was $9,173,328.22 net of depreciation. There were equipment purchases of $530,406.38, capitalization of a building renovation of $579,526.17, as well as the addition for construction in progress mentioned earlier. Outstanding commitments on construction contracts were $1,060,708.62 at June 30, 2020. These commitments are for contracts for the Allied Health Project, as well as the HVAC renovations taking place in the Administration/Education building and Vocational/Technical building. For additional information on capital assets, see Note 5 of the Notes to the Financial Statements.

**Capital Assets, Net**
**As of June 30**

| | 2020 | 2019 | Change |
|---|---|---|---|
| Capital Assets | | | |
| Land and Permanent Easements | $ 1,283,806.58 | $ 1,285,013.10 | $ (1,206.52) |
| Art | 10,000.00 | 10,000.00 | - |
| Construction in Progress | 14,538,466.04 | 5,833,127.91 | 8,705,338.13 |
| Buildings | 37,449,794.91 | 36,870,268.74 | 579,526.17 |
| Machinery and Equipment | 10,474,165.95 | 10,145,498.32 | 328,667.63 |
| General Infrastructure | 2,456,545.87 | 2,456,545.87 | - |
| Total | 66,212,779.35 | 56,600,453.94 | 9,612,325.41 |
| Less Accumulated Depreciation | 17,472,441.34 | 16,293,980.54 | 1,178,460.80 |
| Capital Assets, Net | $ 48,740,338.01 | $ 40,306,473.40 | $ 8,433,864.61 |

## Economic and Other Factors Impacting Future Periods

The economic position of Randolph Community College is closely tied to that of the State of North Carolina. State aid and state capital aid for higher education comprise 42.11% of total revenues and are the largest sources of funding for the College. North Carolina's Governor is mandated by State statute to balance the State's budget, and has directed the Office of State Budget and Management to take the necessary steps to ensure this. In prior fiscal years, community colleges were required to utilize a management flexibility reduction to the overall budget before submitting the 2-1 Budget document to the North Carolina Community College System Office (System Office). For fiscal year 2020, this process changed such that the System Office incorporated this reduction into the formula budget, and individual colleges no longer had to determine where this budget reduction would be incorporated. For fiscal year 2021, it is expected that community colleges will again receive a management flexibility reduction of the formula budget allotment, as determined by the System Office, and be required to hold reserves for possible future mid-year reversions. The College has a reserve fund budgeted in case of a mid-year reversion. Randolph Community College has been able to manage funding well in spite of management flexibility and other reversions. The College will continue to implement sound fiscal management.

Enrollment across programs at Randolph Community College decreased slightly over 2018-2019, while the Community College System as a whole experienced more of a down turn. The State Legislature implemented a budget for the 2019-2020 fiscal year that included cuts for community colleges in general, along with no funding for salary increases for the year. The general economic forecast for fiscal year 2021 is somewhat unknown; due to the COVID-19 pandemic and associated economic downturn, the College is expecting enrollment to further decline in the short-run. North Carolina has seen unemployment rise significantly. This is historically when community colleges' enrollment shows an increase; however, given the unprecedented impact of COVID-19 on the way in which learning is delivered to students, it is not known if the trend of increased enrollment in times of economic downturn will continue. Even with a potential decrease in enrollment, and therefore budget availability in the coming year, Randolph Community College has developed a comprehensive contingency plan to proactively manage the budget. The College has a conservative budget in place and will consider all purchases carefully.

The College continues to form relationships in order to provide training for employees to fit the needs of local industry. The College President's 2020-2021 initiatives institute a plan for working with the community to act as a change agent to help the community rebound from the pandemic. The focus will be on tapping into the College's Small Business Center resources to aid small businesses in their recovery efforts, update the College website to better keep the community and prospective students apprised of opportunities available to them, and utilize community input to identify new emerging training/educational needs in response to COVID-19. The College has received multiple grants from the state and federal government to boost the impact of these targeted areas of the College, including additional funding for the Small Business Center, virtual student tutoring, and additional resources for college and career counseling for students. In addition, as part of the CARES Act, the College has also received both state and federal funds to be awarded directly to students in the form of scholarships and direct payments.

The President's initiatives also focus on a quality education by taking online learning from good to great. Given the impact of COVID-19 on the community, education must still be available to help individuals learn new skills or further their education for entry into a field that will weather the economic downturn. Delivering this quality education online has never been more important as the College has moved nearly all instruction online to comply with social distancing and keeping the safety of students, faculty, and staff as the top priority. The President's initiative seeks to employ the best technology, latest innovations, and ongoing professional development to enhance student-centric approaches to online instruction. Funding for this initiative is being made possible from state Coronavirus Relief Funds, as well as federal funding through the CARES Act. The College continues to actively seek additional funding through grants.

The biggest challenges facing the College are the following:

- Need for additional federal, state, and local support including capital needs;
- Meeting student needs for class offerings that will prepare them for the changing economic climate of Randolph County and North Carolina, in addition to changes arising from the COVID-19 pandemic;
- Need for additional funding for equipment purchases;
- Need for additional funding for renovations of existing buildings and new buildings;
- Need for additional funding for new programs;
- Need for additional funding for high cost programs such as Health Occupations;
- Need for additional funding to increase wages for employees in order for salaries to be competitive, which is a growing need in the current economy.

**Requests for Information**

This financial report is designed to provide a general overview of Randolph Community College's finances for those with an interest in the College's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Randolph Community College, 629 Industrial Park Avenue, Asheboro, NC 27205.

# Financial Statements

# Randolph Community College
# Statement of Net Position
# June 30, 2020



| | |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and Cash Equivalents | $ 3,182,298.45 |
| Restricted Cash and Cash Equivalents | 1,718,909.94 |
| Receivables, Net (Note 4) | 347,086.69 |
| Inventories | 930,637.97 |
| Total Current Assets | 6,178,933.05 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 851,590.37 |
| Receivables | 48,007.79 |
| Net Other Postemployment Benefits Asset | 28,151.00 |
| Capital Assets - Nondepreciable (Note 5) | 15,832,272.62 |
| Capital Assets - Depreciable, Net (Note 5) | 32,908,065.39 |
| Total Noncurrent Assets | 49,668,087.17 |
| Total Assets | 55,847,020.22 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred Outflows Related to Pensions | 3,125,614.06 |
| Deferred Outflows Related to Other Postemployment Benefits (Note 13) | 2,131,920.00 |
| Total Deferred Outflows of Resources | 5,257,534.06 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities (Note 6) | 815,815.93 |
| Unearned Revenue | 156,275.94 |
| Funds Held for Others | 59,941.91 |
| Long-Term Liabilities - Current Portion (Note 7) | 112,820.67 |
| Total Current Liabilities | 1,144,854.45 |
| Noncurrent Liabilities: | |
| Long-Term Liabilities (Note 7) | 29,410,364.18 |
| Total Liabilities | 30,555,218.63 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred Inflows Related to Pensions | 250,909.00 |
| Deferred Inflows Related to Other Postemployment Benefits (Note 13) | 8,160,596.00 |
| Total Deferred Inflows of Resources | 8,411,505.00 |

| | |
|---|---|
| **NET POSITION** | |
| Net Investment in Capital Assets | 48,179,556.25 |
| Restricted: | |
| Expendable | |
| Student Financial Aid | 3,108.75 |
| Restricted for Specific Programs | 1,051,532.38 |
| Capital Projects | 1,242,770.78 |
| Unrestricted | (28,339,137.51) |
| Total Net Position | $ 22,137,830.65 |

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

# *Randolph Community College*
# *Statement of Revenues, Expenses, and Changes in Net Position*
# *For the Fiscal Year Ended June 30, 2020*

***Exhibit A-2***

| | |
|---|---|
| **OPERATING REVENUES** | |
| Student Tuition and Fees, Net (Note 10) | $ 1,499,804.47 |
| Sales and Services, Net (Note 10) | 1,075,070.45 |
| Other Operating Revenues | 211,098.24 |
| Total Operating Revenues | 2,785,973.16 |
| **OPERATING EXPENSES** | |
| Salaries and Benefits | 18,653,446.24 |
| Supplies and Services | 4,564,578.25 |
| Scholarships and Fellowships | 3,234,406.68 |
| Utilities | 568,274.15 |
| Depreciation | 1,291,981.02 |
| Total Operating Expenses | 28,312,686.34 |
| Operating Loss | (25,526,713.18) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State Aid | 14,327,566.15 |
| County Appropriations | 2,618,000.04 |
| Student Financial Aid | 4,844,162.98 |
| Federal Aid - COVID-19 | 432,088.05 |
| Noncapital Contributions | 1,233,801.33 |
| Investment Income | 33,365.35 |
| Other Nonoperating Expenses | (861.52) |
| Net Nonoperating Revenues | 23,488,122.38 |
| Loss Before Other Revenues | (2,038,590.80) |
| State Capital Aid | 742,353.90 |
| County Capital Aid | 8,298,409.38 |
| Capital Contributions | 473,087.54 |
| Total Other Revenues | 9,513,850.82 |
| Increase in Net Position | 7,475,260.02 |
| **NET POSITION** | |
| Net Position - July 1, 2019 | 14,662,570.63 |
| Net Position - June 30, 2020 | $ 22,137,830.65 |

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

# Randolph Community College
# Statement of Cash Flows
# For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 1 of 2

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from Customers | $ 2,842,770.18 |
| Payments to Employees and Fringe Benefits | (18,445,383.77) |
| Payments to Vendors and Suppliers | (5,148,880.47) |
| Payments for Scholarships and Fellowships | (3,234,406.68) |
| Other Receipts | 68,004.07 |
| Net Cash Used by Operating Activities | (23,917,896.67) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Aid | 14,327,566.15 |
| County Appropriations | 2,618,000.04 |
| Student Financial Aid | 4,737,976.62 |
| Federal Aid - COVID-19 | 432,088.05 |
| Noncapital Contributions | 1,347,159.80 |
| Total Cash Provided by Noncapital Financing Activities | 23,462,790.66 |
| **CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES** | |
| State Capital Aid | 1,006,964.90 |
| County Capital Aid | 8,298,409.38 |
| Capital Contributions | 1,707,623.79 |
| Proceeds from Sale of Capital Assets | 15,880.33 |
| Acquisition and Construction of Capital Assets | (10,554,734.29) |
| Net Cash Provided by Capital Financing and Related Financing Activities | 474,144.11 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investment Income | 33,365.35 |
| Net Increase in Cash and Cash Equivalents | 52,403.45 |
| Cash and Cash Equivalents - July 1, 2019 | 5,700,395.31 |
| Cash and Cash Equivalents - June 30, 2020 | $ 5,752,798.76 |

# Randolph Community College
# Statement of Cash Flows — Exhibit A-3
# For the Fiscal Year Ended June 30, 2020 — Page 2 of 2

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

| | |
|---|---|
| Operating Loss | $ (25,526,713.18) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities | |
| Depreciation Expense | 1,291,981.02 |
| Other Nonoperating Income | 72,683.20 |
| Changes in Assets and Deferred Outflows of Resources: | |
| Receivables, Net | 37,404.82 |
| Inventories | (29,656.17) |
| Net Other Postemployment Benefits Asset | (7,477.00) |
| Deferred Outflows Related to Pensions | 1,144,953.00 |
| Deferred Outflows Related to Other Postemployment Benefits | (941,518.00) |
| Changes in Liabilities and Deferred Inflows of Resources: | |
| Accounts Payable and Accrued Liabilities | (7,020.01) |
| Unearned Revenue | 19,392.20 |
| Funds Held for Others | (4,679.13) |
| Net Pension Liability | 36,729.00 |
| Net Other Postemployment Benefits Liability | 1,595,768.00 |
| Compensated Absences | 137,896.58 |
| Deferred Inflows Related to Pensions | 74,143.00 |
| Deferred Inflows Related to Other Postemployment Benefits | (1,811,784.00) |
| Net Cash Used by Operating Activities | $ (23,917,896.67) |

## NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|---|---|
| Assets Acquired through the Assumption of a Liability | $ 560,781.76 |
| Loss on Disposal of Capital Assets | (73,544.72) |

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

## *Randolph Community College Foundation, Inc.*
## *Statement of Financial Position*
## *June 30, 2020*

***Exhibit B-1***

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 207,545 |
| Restricted Cash and Cash Equivalents | | 596,216 |
| Investments Held by Fiscal Agent | | 11,335,229 |
| Accounts Receivable | | 266 |
| Total Current Assets | | 12,139,256 |
| Noncurrent Assets: | | |
| Automobile | | 2,903 |
| Total Assets | $ | 12,142,159 |
| **LIABILITIES** | | |
| Accounts Payable | $ | 1,400 |
| **NET ASSETS** | | |
| Without Donor Restrictions | | 1,771,284 |
| With Donor Restrictions | | 10,369,475 |
| Total Net Assets | | 12,140,759 |
| Total Liabilities and Net Assets | $ | 12,142,159 |

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

## *Randolph Community College Foundation, Inc.*
## *Statement of Activities*
## *For the Fiscal Year Ended June 30, 2020* — *Exhibit B-2*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUES, GAINS, AND OTHER SUPPORT** | | | |
| Contributions | $ 9,251 | $ 409,509 | $ 418,760 |
| Income Earned on Investments | 109,168 | 622,702 | 731,870 |
| Net Realized and Unrealized Gains/(Losses) on Investments | (107,949) | (567,180) | (675,129) |
| Net Assets Released from Restrictions: | | | |
| Satisfaction of Program Restrictions | 844,796 | (844,796) | - |
| Total Revenues, Gains, and Other Support | 855,266 | (379,765) | 475,501 |
| **EXPENSES** | | | |
| Contributions to Randolph Community College for: | | | |
| Scholarships | 179,704 | - | 179,704 |
| Support of Various College Programs | 155,311 | - | 155,311 |
| Grants | 471,339 | - | 471,339 |
| Special Projects | 2,718 | - | 2,718 |
| Management and General | 71,624 | - | 71,624 |
| Total Expenses | 880,696 | - | 880,696 |
| Change in Net Assets | (25,430) | (379,765) | (405,195) |
| **NET ASSETS** | | | |
| Net Assets - Beginning of Year | 1,788,961 | 10,756,993 | 12,545,954 |
| Categorical Restatement from Prior Years | 7,753 | (7,753) | - |
| Net Assets - End of Year | $ 1,771,284 | $ 10,369,475 | $ 12,140,759 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Randolph Community College (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. See below for further discussion of the College's component unit.

**Discretely Presented Component Unit** - Randolph Community College Foundation, Inc. (Foundation) is a legally separate, nonprofit 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 fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of no more than 26 directors, five of which serve by virtue of their position with the College or Board of Trustees. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2020, the Foundation distributed $806,354.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Lisa Wright, Foundation Operations Manager, at (336) 633-0296.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

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

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

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

D. **Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at weighted-average cost using the Courseworks/Booklog Point of Sale (POS) System.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

| Asset Class | Estimated Useful Life |
|---|---|
| Buildings | 10-50 years |
| Machinery and Equipment | 2-40 years |
| General Infrastructure | 10-50 years |

The College does not capitalize the Library and Audio-Visual Collection. This collection adheres to the College's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

K. **Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

L. **Net Position** - The College's net position is classified as follows:

**Net Investment in Capital Assets** - This represents the College's total investment in capital assets, net of outstanding liabilities related to those capital assets.

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

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

**M. 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 Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions 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.

**O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as campus food and campus store. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College or as approved by the county commissioners.

## NOTE 2 - DEPOSITS AND INVESTMENTS

**College** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank, savings and loan association, or trust company whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling $6,200.00, and deposits in private financial institutions with a carrying value of $4,400,455.60 and a bank balance of $4,700,311.42.

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, 2020, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,346,143.16, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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

| | Cost | Carrying Value |
|---|---|---|
| **Investment Type** | | |
| Cash and Cash Alternatives | $ 2,034,272 | $ 2,034,272 |
| Equity Mutual Funds | 3,872,607 | 5,758,088 |
| Fixed Income Funds | 2,468,638 | 3,542,869 |
| **Total Investments Held by Fiscal Agent** | $ 8,375,517 | $ 11,335,229 |

## NOTE 3 - FAIR VALUE MEASUREMENTS

**College** - To the extent available, the College's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

| | |
|---|---|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly. |
| Level 3 | Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment. |

**Short-Term Investment Fund** - At year-end, all of the College's investments valued at $1,346,143.16 were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**Component Unit** - The Foundation considers all highly liquid short-term investments to be cash equivalents. Short-term investments include amounts on deposit held by a fiscal agent. All investments are valued in the financial statements at fair value based on publicly available trading values. The following is the fair value of the investments held by the fiscal agent at June 30, 2020:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| **Investments by Fair Value Level** | | | | |
| Cash and Cash Alternatives | $ 2,034,272 | $ 2,034,272 | $ - | $ - |
| Equity Mutual Funds | 5,758,088 | 5,758,088 | - | - |
| Fixed Income Funds | 3,542,869 | 3,542,869 | - | - |
| **Total Investments Measured at Fair Value** | $ 11,335,229 | $ 11,335,229 | $ - | $ - |

## NOTE 4 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 859,811.18 | $ 683,207.38 | $ 176,603.80 |
| Student Sponsors | 50,820.60 | - | 50,820.60 |
| Accounts | 60,539.63 | - | 60,539.63 |
| Other | 59,122.66 | - | 59,122.66 |
| **Total Current Receivables** | $ 1,030,294.07 | $ 683,207.38 | $ 347,086.69 |

## NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

| | Balance July 1, 2019 | Increases | Decreases | Balance June 30, 2020 |
|---|---|---|---|---|
| Capital Assets, Nondepreciable: | | | | |
| Land and Permanent Easements | $ 1,285,013.10 | $ - | $ 1,206.52 | $ 1,283,806.58 |
| Art, Literature, and Artifacts | 10,000.00 | - | - | 10,000.00 |
| Construction in Progress | 5,833,127.91 | 9,090,936.89 | 385,598.76 | 14,538,466.04 |
| **Total Capital Assets, Nondepreciable** | 7,128,141.01 | 9,090,936.89 | 386,805.28 | 15,832,272.62 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 36,870,268.74 | 579,526.17 | - | 37,449,794.91 |
| Machinery and Equipment | 10,145,498.32 | 530,406.38 | 201,738.75 | 10,474,165.95 |
| General Infrastructure | 2,456,545.87 | - | - | 2,456,545.87 |
| Total Capital Assets, Depreciable | 49,472,312.93 | 1,109,932.55 | 201,738.75 | 50,380,506.73 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 12,380,856.69 | 729,156.18 | - | 13,110,012.87 |
| Machinery and Equipment | 3,285,593.19 | 491,903.64 | 113,520.22 | 3,663,976.61 |
| General Infrastructure | 627,530.66 | 70,921.20 | - | 698,451.86 |
| Total Accumulated Depreciation | 16,293,980.54 | 1,291,981.02 | 113,520.22 | 17,472,441.34 |
| **Total Capital Assets, Depreciable, Net** | 33,178,332.39 | (182,048.47) | 88,218.53 | 32,908,065.39 |
| **Capital Assets, Net** | $ 40,306,473.40 | $ 8,908,888.42 | $ 475,023.81 | $ 48,740,338.01 |

## NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2020, were as follows:

| | Amount |
|---|---|
| **Current Accounts Payable and Accrued Liabilities:** | |
| Accounts Payable | $ 116,544.42 |
| Accounts Payable - Capital Assets | 206,716.09 |
| Accrued Payroll | 138,489.75 |
| Contract Retainage | 354,065.67 |
| **Total Current Accounts Payable and Accrued Liabilities** | $ 815,815.93 |

## NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

| | Balance July 1, 2019 | Additions | Reductions | Balance June 30, 2020 | Current Portion |
|---|---|---|---|---|---|
| Compensated Absences | $ 973,335.27 | $ 827,644.91 | $ 689,748.33 | $ 1,111,231.85 | $ 112,820.67 |
| Net Pension Liability | 7,722,938.00 | 36,729.00 | - | 7,759,667.00 | - |
| Net Other Postemployment Benefits Liability | 19,056,518.00 | 1,595,768.00 | - | 20,652,286.00 | - |
| **Total Long-Term Liabilities** | $ 27,752,791.27 | $ 2,460,141.91 | $ 689,748.33 | $ 29,523,184.85 | $ 112,820.67 |

Additional information regarding the net pension liability is included in Note 12.
Additional information regarding the net other postemployment benefits liability is included in Note 13.

## NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for property rental, copiers, drink dispensing machines, and a mailing system. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

| Fiscal Year | Amount |
|---|---|
| 2021 | $ 46,654.30 |
| 2022 | 33,799.37 |
| 2023 | 29,937.66 |
| 2024 | 28,349.37 |
| 2025 | 15,548.00 |
| **Total Minimum Lease Payments** | $ 154,288.70 |

Rental expense for all operating leases during the year was $49,658.41.

## NOTE 9 - NET POSITION

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

| | Amount |
|---|---|
| Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources | $ (4,884,961.94) |
| Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources | (26,729,126.00) |
| Effect on Unrestricted Net Position | (31,614,087.94) |
| Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities | 3,274,950.43 |
| **Total Unrestricted Net Position** | $ (28,339,137.51) |

See Notes 12 and 13 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

## NOTE 10 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts and Allowances | Less Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|
| **Operating Revenues:** | | | | |
| **Student Tuition and Fees, Net** | $ 3,275,121.11 | $ 1,722,128.38 | $ 53,188.26 | $ 1,499,804.47 |
| **Sales and Services:** | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Dining | $ 153,472.22 | $ - | $ - | $ 153,472.22 |
| Health, Physical Education, and Recreation Services | 22,628.85 | - | - | 22,628.85 |
| Bookstore | 1,261,433.31 | 384,862.29 | - | 876,571.02 |
| Cosmetology | 21,654.36 | - | - | 21,654.36 |
| Sales and Services of Education and Related Activities | 744.00 | - | - | 744.00 |
| **Total Sales and Services, Net** | $ 1,459,932.74 | $ 384,862.29 | $ - | $ 1,075,070.45 |

## NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 9,746,797.17 | $ 1,880,706.43 | $ 4,171.65 | $ - | $ - | $ 11,631,675.25 |
| Academic Support | 2,029,653.99 | 87,036.10 | 11,470.51 | - | - | 2,128,160.60 |
| Student Services | 1,239,250.84 | 134,312.55 | 31,508.01 | - | - | 1,405,071.40 |
| Institutional Support | 3,980,754.29 | 1,184,870.50 | - | - | - | 5,165,624.79 |
| Operations and Maintenance of Plant | 1,301,538.63 | 31,670.31 | - | 568,274.15 | - | 1,901,483.09 |
| Student Financial Aid | - | 116,186.79 | 3,187,256.51 | - | - | 3,303,443.30 |
| Auxiliary Enterprises | 355,451.32 | 1,129,795.57 | - | - | - | 1,485,246.89 |
| Depreciation | - | - | - | - | 1,291,981.02 | 1,291,981.02 |
| **Total Operating Expenses** | $ 18,653,446.24 | $ 4,564,578.25 | $ 3,234,406.68 | $ 568,274.15 | $ 1,291,981.02 | $ 28,312,686.34 |

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of $332,500.00 provided by the CARES Act - Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the College in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 10.

## NOTE 12 - PENSION PLANS

### Defined Benefit Plan

*Plan Administration*: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided*: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions*: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were $683,699.80, and the College's contributions were $1,477,931.07 for the year ended June 30, 2020.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting*: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investment*: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

*Net Pension Liability*: At June 30, 2020, the College reported a liability of $7,759,667.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the College's proportion was 0.07485%, which was a decrease of 0.00272 from its proportion measured as of June 30, 2018, which was 0.07757%.

*Actuarial Assumptions*: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

| | |
|---|---|
| Valuation Date | 12/31/2018 |
| Inflation | 3% |
| Salary Increases* | 3.50% - 8.10% |
| Investment Rate of Return** | 7.00% |

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Fixed Income | 1.4% |
| Global Equity | 5.3% |
| Real Estate | 4.3% |
| Alternatives | 8.9% |
| Opportunistic Fixed Income | 6.0% |
| Inflation Sensitive | 4.0% |

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

*Discount Rate*: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*: The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

| Net Pension Liability | | |
|---|---|---|
| 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
| $ 14,768,805.00 | $ 7,759,667.00 | $ 1,879,894.00 |

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*: For the year ended June 30, 2020, the College recognized pension expense of $2,732,396.00. At June 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Actual and Expected Experience | $ 649,087.00 | $ 15,534.00 |
| Changes of Assumptions | 826,823.00 | - |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 148,741.99 | - |
| Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 23,031.00 | 235,375.00 |
| Contributions Subsequent to the Measurement Date | 1,477,931.07 | - |
| **Total** | $ 3,125,614.06 | $ 250,909.00 |

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

**Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:**

| Year Ended June 30: | Amount |
|---|---|
| 2021 | $ 1,075,086.00 |
| 2022 | 187,697.00 |
| 2023 | 81,958.00 |
| 2024 | 52,032.99 |
| **Total** | $ 1,396,773.99 |

## NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan’s financial information, including all information about the plans’ assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina’s fiscal year 2019 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller’s website at https://www.osc.gov/ or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

## A. Summary of Significant Accounting Policies and Plan Asset Matters

*Basis of Accounting*: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

*Methods Used to Value Plan Investments*: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report.*

## B. Plan Descriptions

### 1. Health Benefits

*Plan Administration:* The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

*Benefits Provided*: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions*: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the

Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The College's contributions to the RHBF were $737,256.29 for the year ended June 30, 2020.

**2. Disability Income**

*Plan Administration*: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

*Benefits Provided*: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

*Contributions*: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The College's contributions to DIPNC were $11,395.00 for the year ended June 30, 2020.

### C. Net OPEB Liability (Asset)

*Net OPEB Liability*: At June 30, 2020, the College reported a liability of $20,652,286.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The College's proportion of the net OPEB liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the College's proportion was 0.06527%, which was a decrease of 0.00162 from its proportion measured as of June 30, 2018, which was 0.06689%.

*Net OPEB Asset*: At June 30, 2020, the College reported an asset of $28,151.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The College's proportion of the net OPEB asset was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the College's proportion was 0.06524%, which was a decrease of 0.00282 from its proportion measured as of June 30, 2018, which was 0.06806%.

*Actuarial Assumptions*: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

| | Retiree Health Benefit Fund | Disability Income Plan of N. C. |
|---|---|---|
| Valuation Date | 12/31/2018 | 12/31/2018 |
| Inflation | 3.00% | 3.00% |
| Salary Increases* | 3.50% - 8.10% | 3.50% - 8.10% |
| Investment Rate of Return** | 7.00% | 3.75% |
| Healthcare Cost Trend Rate - Medical | 6.50% grading down to 5.00% by 2024 | 6.50% grading down to 5.00% by 2024 |
| Healthcare Cost Trend Rate - Prescription Drug | 9.50% grading down to 5.00% by 2028 | 9.50% grading down to 5.00% by 2028 |
| Healthcare Cost Trend Rate - Medicare Advantage | 6.50% grading down to 5.00% by 2024 | N/A |
| Healthcare Cost Trend Rate - Administrative | 3.00% | N/A |

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Fixed Income | 1.4% |
| Global Equity | 5.3% |
| Real Estate | 4.3% |
| Alternatives | 8.9% |
| Opportunistic Fixed Income | 6.0% |
| Inflation Sensitive | 4.0% |

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate*: The discount rate used to measure the total OPEB liability for RHBF was 3.50%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate*: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

| | Net OPEB Liability (Asset) | | |
|---|---|---|---|
| | 1% Decrease (2.50%) | Current Discount Rate (3.50%) | 1% Increase (4.50%) |
| RHBF | $ 24,540,975.00 | $ 20,652,286.00 | $ 17,536,460.00 |
| | 1% Decrease (2.75%) | Current Discount Rate (3.75%) | 1% Increase (4.75%) |
| DIPNC | $ (23,843.00) | $ (28,151.00) | $ (32,337.00) |

*Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates*: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

**Net OPEB Liability (Asset)**

| | 1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%) | Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%) | 1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%) |
|---|---|---|---|
| RHBF | $ 17,004,620.00 | $ 20,652,286.00 | $ 25,445,654.00 |

| | 1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%) | Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%) | 1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%) |
|---|---|---|---|
| DIPNC | $ (28,201.00) | $ (28,151.00) | $ (28,105.00) |

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* For the year ended June 30, 2020, the College recognized OPEB contra-expense of $443,333.00 for RHBF and expense of $26,853.00 for DIPNC, resulting in a total OPEB contra-expense of $416,480.00. At June 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:**

| | RHBF | DIPNC | Total |
|---|---|---|---|
| Differences Between Actual and Expected Experience | $ - | $ 28,758.00 | $ 28,758.00 |
| Changes of Assumptions | 992,646.00 | 3,118.00 | 995,764.00 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 13,752.71 | 5,362.00 | 19,114.71 |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 336,616.00 | 3,016.00 | 339,632.00 |
| Contributions Subsequent to the Measurement Date | 737,256.29 | 11,395.00 | 748,651.29 |
| **Total** | $ 2,080,271.00 | $ 51,649.00 | $ 2,131,920.00 |

**Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification:**

| | RHBF | DIPNC | Total |
|---|---|---|---|
| Differences Between Actual and Expected Experience | $ 1,041,135.00 | $ - | $ 1,041,135.00 |
| Changes of Assumptions | 6,208,982.00 | 2,888.00 | 6,211,870.00 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | - | - |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 906,994.00 | 597.00 | 907,591.00 |
| **Total** | $ 8,157,111.00 | $ 3,485.00 | $ 8,160,596.00 |

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in OPEB Expense:**

| Year Ended June 30: | RHBF | DIPNC |
|---|---|---|
| 2021 | $ (2,116,684.00) | $ 11,563.00 |
| 2022 | (2,116,684.00) | 8,515.00 |
| 2023 | (2,114,696.00) | 6,333.00 |
| 2024 | (527,964.00) | 4,113.00 |
| 2025 | 61,931.71 | 5,527.00 |
| Thereafter | - | 718.00 |
| **Total** | $ (6,814,096.29) | $ 36,769.00 |

## NOTE 14 - 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.

### A. Public Entity Risk Pool

#### Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10,000,000 deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**B. Employee Benefit Plans**

**1. State Health Plan**

College employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

**2. Death Benefit Plan of North Carolina**

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

**3. Disability Income Plan**

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

**C. Other Risk Management and Insurance Activities**

**1. Automobile Insurance**

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College purchased additional property insurance through the North Carolina Department of Instruction. This additional insurance serves as supplemental coverage of property and has a deductible of $2,500.

**2. Public Officers' and Employees' Liability Insurance**

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year 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.

**3. Employee Dishonesty and Computer Fraud**

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. 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 $100,000 deductible.

The College is protected for losses from employees paid from county and institutional funds by a policy purchased from a local insurance company. Coverage consists of $75,000 per occurrence with a $1,000 deductible (Blanket Bond).

**4. Statewide Workers' Compensation Program**

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.

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 15 - COMMITMENTS**

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $1,060,708.62 at June 30, 2020.

**NOTE 16 - THE CORONAVIRUS PANDEMIC EMERGENCY**

In response to the coronavirus pandemic emergency, actions were taken by the College in March 2020 to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of students, faculty, and staff.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the College, these programs included the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, and the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

The CARES Act - CRF funds were appropriated by the State of North Carolina in House Bill 1043 to the Community College System Office and allocated to colleges to cover COVID-19 expenses. As of June 30, 2020, the $145,653.00 allocated to the College for Small Business Center Counseling, College Career Counselors and Academic Advisors, and Virtual Student Tutoring remained unspent. The CRF funds must be used to cover allowable costs that were incurred between March 1, 2020 and December 31, 2021.

The revenues from these programs are contingent upon meeting the terms and conditions of the programs and signed agreements with the funding agencies, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue caption of the financial statements:

**Nonoperating Revenue:**

**Federal Aid - COVID-19** - This caption includes funds received from the CARES Act, other than the CRF funds appropriated in House Bill 1043, as follows:

The HEERF funds provided include a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19, and an institutional allocation to cover costs associated with significant changes to the delivery of instruction due to COVID-19 including the recovery of revenue lost due to those changes. The HEERF funds must be expended within one year of the grant award notification date.

**Summary of Federal Aid - COVID-19 Revenue Activities for the Fiscal Year Ended June 30, 2020:**

| Program | Total Authorized Award | Earned Revenue |
|---|---|---|
| **Federal Aid - COVID-19:** | | |
| HEERF - Student Allocation | $ 632,128.00 | $ 332,500.00 |
| HEERF - Institutional Allocation (1) | 632,127.00 | 99,588.05 |
| **Total Federal Aid - COVID-19** | N/A | $ 432,088.05 |

(1) While the HEERF Institutional Portion is accounted for and recognized independently from the HEERF Student Portion, the CARES Act has a "Use of Funds" requirement that no less than 50% of the total HEERF Student and Institutional Portion funds must be used for emergency financial aid grants to students.

## NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2020, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period*

*GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*

GASB Statement No. 89 establishes accounting requirement for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement have been applied prospectively.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for period beginning after June 15, 2018 and later.

# REQUIRED SUPPLEMENTARY INFORMATION

## *Randolph Community College*
## *Required Supplementary Information*
## *Schedule of the Proportionate Share of the Net Pension Liability*
## *Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan*
## *Last Seven Fiscal Years**

***Exhibit C-1***

| **Teachers' and State Employees' Retirement System** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net Pension Liability | 0.07485% | 0.07757% | 0.07895% | 0.07697% |
| Proportionate Share of TSERS Collective Net Pension Liability | $ 7,759,667.00 | $ 7,722,938.00 | $ 6,264,241.00 | $ 7,074,338.00 |
| Covered Payroll | $ 11,089,102.52 | $ 11,022,074.69 | $10,838,835.12 | $ 10,384,426.89 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 69.98% | 70.07% | 57.79% | 68.12% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 87.56% | 87.61% | 89.51% | 87.32% |

| | **2016** | **2015** | **2014** |
|---|---|---|---|
| Proportionate Share Percentage of Collective Net Pension Liability | 0.07391% | 0.07444% | 0.07430% |
| Proportionate Share of TSERS Collective Net Pension Liability | $ 2,723,730.00 | $ 872,750.00 | $ 4,510,767.00 |
| Covered Payroll | $ 10,218,989.03 | $ 9,799,154.38 | $ 9,649,780.29 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 26.65% | 8.91% | 46.74% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 94.64% | 98.24% | 90.60% |

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

## *Randolph Community College*
## *Required Supplementary Information*
## *Schedule of College Contributions*
## *Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan*
## *Last Ten Fiscal Years*

***Exhibit C-2***

| Teachers' and State Employees' Retirement System | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 1,477,931.07 | $ 1,362,850.70 | $ 1,188,179.65 | $ 1,081,715.75 | $ 950,175.06 |
| Contributions in Relation to the Contractually Determined Contribution | 1,477,931.07 | 1,362,850.70 | 1,188,179.65 | 1,081,715.75 | 950,175.06 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $11,394,996.72 | $ 11,089,102.52 | $ 11,022,074.69 | $ 10,838,835.12 | $ 10,384,426.89 |
| Contributions as a Percentage of Covered Payroll | 12.97% | 12.29% | 10.78% | 9.98% | 9.15% |

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 935,037.49 | $ 851,546.52 | $ 803,826.70 | $ 701,316.53 | $ 471,223.68 |
| Contributions in Relation to the Contractually Determined Contribution | 935,037.49 | 851,546.52 | 803,826.70 | 701,316.53 | 471,223.68 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $10,218,989.03 | $ 9,799,154.38 | $ 9,649,780.29 | $ 9,426,297.43 | $ 9,558,289.66 |
| Contributions as a Percentage of Covered Payroll | 9.15% | 8.69% | 8.33% | 7.44% | 4.93% |

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

*Changes of Benefit Terms:*

**Cost of Living Increase**

| **Teachers' and State Employees'** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retirement System** | N/A | 1.00% | N/A | N/A | N/A | 1.00% | N/A | N/A | N/A | 2.20% |

*Changes of Assumptions:* In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, the plan now uses a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina’s 2019 *Comprehensive Annual Financial Report* .

N/A - Not Applicable

## *Randolph Community College*
## *Required Supplementary Information*
## *Schedule of the Proportionate Share of the Net OPEB Liability or Asset*
## *Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans*
## *Last Four Fiscal Years**

***Exhibit C-3***

| **Retiree Health Benefit Fund** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net OPEB Liability | 0.06527% | 0.06689% | 0.06572% | 0.06715% |
| Proportionate Share of Collective Net OPEB Liability | $ 20,652,286.00 | $ 19,056,518.00 | $ 21,546,291.00 | $ 29,212,532.00 |
| Covered Payroll | $ 11,089,102.52 | $ 11,022,074.69 | $ 10,838,835.12 | $ 10,384,426.89 |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 186.24% | 172.89% | 198.79% | 281.31% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 4.40% | 4.40% | 3.52% | 2.41% |
| **Disability Income Plan of North Carolina** | | | | |
| Proportionate Share Percentage of Collective Net OPEB Asset | 0.06524% | 0.06806% | 0.06949% | 0.06835% |
| Proportionate Share of Collective Net OPEB Asset | $ 28,151.00 | $ 20,674.00 | $ 42,472.00 | $ 42,445.00 |
| Covered Payroll | $ 11,089,102.52 | $ 11,022,074.69 | $ 10,838,835.12 | $ 10,384,426.89 |
| Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll | 0.25% | 0.19% | 0.39% | 0.41% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 113.00% | 108.47% | 116.23% | 116.06% |

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

## *Randolph Community College*
## *Required Supplementary Information*
## *Schedule of College Contributions*
## *Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans*
## *Last Ten Fiscal Years*

***Exhibit C-4***

| **Retiree Health Benefit Fund** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 737,256.29 | $ 695,286.73 | $ 666,835.52 | $ 629,736.32 | $ 581,527.90 |
| Contributions in Relation to the Contractually Determined Contribution | 737,256.29 | 695,286.73 | 666,835.52 | 629,736.32 | 581,527.90 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 11,394,996.72 | $ 11,089,102.52 | $ 11,022,074.69 | $ 10,838,835.12 | $ 10,384,426.89 |
| Contributions as a Percentage of Covered Payroll | 6.47% | 6.27% | 6.05% | 5.81% | 5.60% |

| | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 561,022.50 | $ 529,154.34 | $ 511,438.36 | $ 471,314.87 | $ 468,356.19 |
| Contributions in Relation to the Contractually Determined Contribution | 561,022.50 | 529,154.34 | 511,438.36 | 471,314.87 | 468,356.19 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 10,218,989.03 | $ 9,799,154.38 | $ 9,649,780.29 | $ 9,426,297.43 | $ 9,558,289.66 |
| Contributions as a Percentage of Covered Payroll | 5.49% | 5.40% | 5.30% | 5.00% | 4.90% |

| **Disability Income Plan of North Carolina** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 11,395.00 | $ 15,524.74 | $ 15,430.91 | $ 41,187.57 | $ 42,576.15 |
| Contributions in Relation to the Contractually Determined Contribution | 11,395.00 | 15,524.74 | 15,430.91 | 41,187.57 | 42,576.15 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 11,394,996.72 | $ 11,089,102.52 | $ 11,022,074.69 | $ 10,838,835.12 | $ 10,384,426.89 |
| Contributions as a Percentage of Covered Payroll | 0.10% | 0.14% | 0.14% | 0.38% | 0.41% |

| | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 41,897.86 | $ 43,116.28 | $ 42,459.03 | $ 49,016.75 | $ 49,703.11 |
| Contributions in Relation to the Contractually Determined Contribution | 41,897.86 | 43,116.28 | 42,459.03 | 49,016.75 | 49,703.11 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 10,218,989.03 | $ 9,799,154.38 | $ 9,649,780.29 | $ 9,426,297.43 | $ 9,558,289.66 |
| Contributions as a Percentage of Covered Payroll | 0.41% | 0.44% | 0.44% | 0.52% | 0.52% |

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

# Randolph Community College
# Notes to Required Supplementary Information
# Schedule of College Contributions
# Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
# For the Fiscal Year Ended June 30, 2020

*Changes of Benefit Terms:* Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2019, benefit terms related to copays, out-of-pockets maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

*Method and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of College Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of College Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.5%. Disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations amount RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

# Independent Auditor’s Report

STATE OF NORTH CAROLINA
Office of the State Auditor

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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*

Board of Trustees
Randolph Community College
Asheboro, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Randolph Community College (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, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 10, 2021. Our report includes a reference to other auditors who audited the financial statements of Randolph Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Randolph Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Randolph Community College Foundation, Inc.

## Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 10, 2021

# ORDERING INFORMATION

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North Carolina Office of the State Auditor at:
**919-807-7666**

This audit required 396 hours at an approximate cost of $41,184.