# STATE OF NORTH CAROLINA

## HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007


OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

# HALIFAX COMMUNITY COLLEGE

## WELDON, NORTH CAROLINA

# FINANCIAL STATEMENT AUDIT REPORT

## FOR THE YEAR ENDED JUNE 30, 2007

STATE OF NORTH CAROLINA
# Office of the State Auditor

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

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

## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Halifax Community College for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Leslie W. Merritt, Jr.

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

October 21, 2008

# TABLE OF CONTENTS

STATE OF NORTH CAROLINA
# Office of the State Auditor

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Halifax Community College
Weldon, North Carolina

We have audited the accompanying basic financial statements of Halifax Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Halifax Community College Foundation, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Halifax Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Halifax Community College as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

September 30, 2008

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information.

## Overview of the Financial Statements

Halifax Community College's discussion and analysis provides a summary of the College's basic financial statements which include the Statement of Net Assets, Statement of Revenues, Expenses, and Change in Net Assets, and Statement of Cash Flows. Halifax Community College Foundation, Inc. is blended into the financial statements for Halifax Community College. The Halifax Community College Foundation had total net assets of $791,416.65 at June 30, 2007.

## Analysis of Assets, Liabilities, and Net Assets

The Statement of Net Assets presents information on all of the College's assets and liabilities, with the differences between the two reported as net assets. The increase or decrease in net assets serves as a useful indicator of the College's financial position. Net assets for Halifax Community College decreased by $347,674.19 at June 30, 2007. The decline in net assets represents a two percent (2.16%) decrease over the prior reporting period.

The majority of the College's net assets ninety percent (90%) reflect its investment in capital assets (i.e., land, buildings, machinery, and equipment). Capital assets are used by the College to provide services to citizens and are not available for future spending.

An additional portion, eight percent (8%), of the College's net assets (restricted net assets, $1,290,797.90) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets, two percent (2%), may be used to meet the College's ongoing obligations to citizens and creditors.

Halifax Community College's total net assets decreased by $347,674.19. This decrease was attributable primarily to a decrease in capital assets of $488,004.17 mainly because of annual deprecation of capital assets. The 2006 column was restated because of prior year errors related to capital asset accounts and compensated absences.

There were no significant acquisitions or dispositions of capital assets, and the College did not acquire any debt in 2006-07.

**Condensed Statement of Net Assets**

| | 2007 | Restated 2006 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | $ 1,801,360.66 | $ 1,743,982.71 | $ 57,377.95 | 3.29% |
| Capital Assets, Net | 14,074,047.28 | 14,562,051.45 | (488,004.17) | -3.35% |
| Other Noncurrent | 743,432.75 | 552,369.38 | 191,063.37 | 34.59% |
| Total Assets | 16,618,840.69 | 16,858,403.54 | (239,562.85) | -1.42% |
| **Liabilities** | | | | |
| Current | 278,772.80 | 268,667.64 | 10,105.16 | 3.76% |
| Noncurrent | 606,851.37 | 508,845.19 | 98,006.18 | 19.26% |
| **Total Liabilities** | 885,624.17 | 777,512.83 | 108,111.34 | 13.90% |
| **Net Assets** | | | | |
| Invested in Capital Assets | 14,074,047.28 | 14,562,051.45 | (488,004.17) | -3.35% |
| Restricted Assets | 1,290,797.90 | 802,365.21 | 488,432.69 | 60.87% |
| Unrestricted Assets | 368,371.34 | 716,474.05 | (348,102.71) | -48.59% |
| **Total Net Assets** | $ 15,733,216.52 | $ 16,080,890.71 | $ (347,674.19) | -2.16% |

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the College's net assets changed during the most recent fiscal year. Revenues and expenses are presented in a format that distinguishes between operating and nonoperating revenues and expenses.

Total operating revenues for Halifax Community College increased by five percent (5.02%). A part of the increase in operating revenue is attributable to more students qualifying for Pell Grants in fiscal year 2007.

The nonoperating revenues increased by $259,969.69 (2.61 %). The majority of the increase was from increase in State aid. Also interest received from investments and funding for noncapital gifts contributed to the increase in nonoperating and other revenues.

Operating expenses for fiscal year 2007 decreased $179,676.71 from fiscal year 2006. This decrease can be attributed to a combination of sources which includes a reduction in supplies and materials, services, scholarships, and utilities which offset increases in personal services.

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

| | 2007 | Restated 2006 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Student Tuition and Fees, Net | $ 554,889.25 | $ 774,695.12 | $ (219,805.87) | -28.37% |
| Federal Grants and Contracts | 2,817,275.34 | 2,550,999.79 | 266,275.55 | 10.44% |
| State and Local Grants and Contracts | 162,873.53 | 197,053.93 | (34,180.40) | -17.35% |
| Sales and Services, Net | 615,181.30 | 433,803.75 | 181,377.55 | 41.81% |
| Other Operating Revenues | 7,098.01 | 2,065.17 | 5,032.84 | 243.70% |
| Total Operating Revenues | 4,157,317.43 | 3,958,617.76 | 198,699.67 | 5.02% |
| Operating Expenses: | | | | |
| Personal Services | 10,515,045.60 | 10,155,357.83 | 359,687.77 | 3.54% |
| Supplies and Materials | 1,171,738.01 | 1,317,968.95 | (146,230.94) | -11.10% |
| Services | 1,065,172.34 | 1,115,447.72 | (50,275.38) | -4.51% |
| Scholarships and Fellowships | 1,363,995.56 | 1,612,524.48 | (248,528.92) | -15.41% |
| Utilities | 363,803.42 | 395,857.08 | (32,053.66) | -8.10% |
| Depreciation | 595,272.15 | 657,547.73 | (62,275.58) | -9.47% |
| Total Operating Expenses | 15,075,027.08 | 15,254,703.79 | (179,676.71) | -1.18% |
| Operating Loss | (10,917,709.65) | (11,296,086.03) | 378,376.38 | -3.35% |
| Nonoperating Revenues | | | | |
| State Aid | 8,108,722.25 | 7,562,210.39 | 546,511.86 | 7.23% |
| County Appropriations | 1,030,689.00 | 1,044,006.54 | (13,317.54) | -1.28% |
| Noncapital Grants | 708,600.49 | 1,126,999.00 | (418,398.51) | -37.13% |
| Noncapital Gifts | 117,768.87 | 67,797.08 | 49,971.79 | 73.71% |
| Investment Income | 128,488.70 | 77,842.70 | 50,646.00 | 65.06% |
| Other Nonoperating Revenues | 116,960.83 | 72,404.74 | 44,556.09 | 61.54% |
| Nonoperating Revenues | 10,211,230.14 | 9,951,260.45 | 259,969.69 | 2.61% |
| Loss Before Other Revenues, Expenses, Gains, and Losses | (706,479.51) | (1,344,825.58) | 638,346.07 | -47.47% |
| Other Revenues | 358,805.32 | 255,660.55 | 103,144.77 | 40.34% |
| Decrease in Net Assets | $ (347,674.19) | $ (1,089,165.03) | $ 741,490.84 | -68.08% |

## Economic Forecast

Halifax Community College believes that the economic future of the College looks good. We continue to work with the County Commissioners in both our service areas of Halifax and Northampton Counties to grow budget appropriations in direct proportion with the growth in fuel oil prices, utilities, and labor costs. The completion of Phase 1 of the Carolina Crossroads project, an entertainment complex, has brought new retail businesses to the area and new opportunities for the College to develop programs to meet workforce training needs. Dr. Ervin V. Griffin, Sr. was hired in December 2006 as the new President of Halifax

Community College and through his leadership has already brought about increases in student enrollment. The College looks forward to continued growth and success in fiscal year 2007-2008.

**Request for Information**

This financial report is designed to provide a general overview of Halifax Community College's finances for all those with an interest in the College's finances. Questions concerning any of this information should be addressed to Deborah A. Armstrong, Vice President of Administrative Services, for Halifax Community College, 100 College Drive, Weldon, NC 27890.

***Halifax Community College***
***Statement of Net Assets***
***June 30, 2007*** ***Exhibit A-1***

| | |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and Cash Equivalents | $ 847,557.82 |
| Restricted Cash and Cash Equivalents | 171,515.99 |
| Short-Term Investments | 129,201.75 |
| Restricted Short-Term Investments | 88,573.34 |
| Receivables, Net (Note 4) | 362,271.57 |
| Inventories | 197,892.80 |
| Notes Receivable, Net (Note 4) | 4,347.39 |
| Total Current Assets | 1,801,360.66 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 34,658.33 |
| Restricted Due from Primary Government | 185,496.42 |
| Endowment Investments | 522,978.00 |
| Notes Receivable | 300.00 |
| Capital Assets - Nondepreciable (Note 5) | 194,800.00 |
| Capital Assets - Depreciable, Net (Note 5) | 13,879,247.28 |
| Total Noncurrent Assets | 14,817,480.03 |
| Total Assets | 16,618,840.69 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities (Note 6) | 184,865.92 |
| Due to State of North Carolina Component Units | 300.00 |
| Funds Held for Others | 18,679.37 |
| Long-Term Liabilities - Current Portion (Note 7) | 74,927.51 |
| Total Current Liabilities | 278,772.80 |
| Noncurrent Liabilities: | |
| Long-Term Liabilities (Note 7) | 606,851.37 |
| Total Liabilities | 885,624.17 |
| **NET ASSETS** | |
| Invested in Capital Assets | 14,074,047.28 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 522,978.00 |
| Expendable: | |
| Scholarships and Fellowships | 350,651.93 |
| Loans | 25,560.55 |
| Capital Projects | 225,867.38 |
| Other | 165,740.04 |
| Unrestricted | 368,371.34 |
| Total Net Assets | $ 15,733,216.52 |

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

*Halifax Community College*
*Statement of Revenues, Expenses, and*
*Changes in Net Assets*
*For the Fiscal Year Ended June 30, 2007* — *Exhibit A-2*

| | | |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 9) | $ | 554,889.25 |
| Federal Grants and Contracts | | 2,817,275.34 |
| State and Local Grants and Contracts | | 162,873.53 |
| Sales and Services, Net (Note 9) | | 615,181.30 |
| Other Operating Revenues | | 7,098.01 |
| Total Operating Revenues | | 4,157,317.43 |
| **EXPENSES** | | |
| Operating Expenses: | | |
| Personal Services | | 10,515,045.60 |
| Supplies and Materials | | 1,171,738.01 |
| Services | | 1,065,172.34 |
| Scholarships and Fellowships | | 1,363,995.56 |
| Utilities | | 363,803.42 |
| Depreciation | | 595,272.15 |
| Total Operating Expenses | | 15,075,027.08 |
| Operating Loss | | (10,917,709.65) |
| **NONOPERATING REVENUES** | | |
| State Aid | | 8,108,722.25 |
| County Appropriations | | 1,030,689.00 |
| Noncapital Grants | | 708,600.49 |
| Noncapital Gifts | | 117,768.87 |
| Investment Income | | 128,488.70 |
| Other Nonoperating Revenues | | 116,960.83 |
| Nonoperating Revenues | | 10,211,230.14 |
| Loss Before Other Revenues, Expenses, Gains, and Losses | | (706,479.51) |
| State Capital Aid | | 269,848.97 |
| County Capital Aid | | 32,500.00 |
| Capital Grants | | 56,456.35 |
| Decrease in Net Assets | | (347,674.19) |
| **NET ASSETS** | | |
| Net Assets, July 1, 2006 as Restated (Note 15) | | 16,080,890.71 |
| Net Assets, June 30, 2007 | $ | 15,733,216.52 |

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

## *Halifax Community College*
## *Statement of Cash Flows*
## *For the Fiscal Year Ended June 30, 2007* *Exhibit A-3*

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from Customers | $ 3,975,702.78 |
| Payments to Employees and Fringe Benefits | (10,343,143.63) |
| Payments to Vendors and Suppliers | (2,651,399.49) |
| Payments for Scholarships and Fellowships | (1,363,995.56) |
| Other Receipts | 110,837.08 |
| Net Cash Used by Operating Activities | (10,271,998.82) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Aid Received | 8,108,722.25 |
| County Appropriations | 1,030,689.00 |
| Noncapital Grants Received | 580,287.49 |
| Noncapital Gifts Received | 117,768.87 |
| Cash Provided by Noncapital Financing Activities | 9,837,467.61 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| State Capital Aid Received | 269,848.97 |
| County Capital Aid | 32,500.00 |
| Capital Grants Received | 56,456.35 |
| Acquisition and Construction of Capital Assets | (107,267.98) |
| Net Cash Provided by Capital and Related Financing Activities | 251,537.34 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Proceeds from Sales and Maturities of Investments | 195,000.00 |
| Investment Income | 92,452.71 |
| Purchase of Investments and Related Fees | (243,599.78) |
| Net Cash Provided by Investing Activities | 43,852.93 |
| Net Decrease in Cash and Cash Equivalents | (139,140.94) |
| Cash and Cash Equivalents, July 1, 2006 | 1,192,873.08 |
| Cash and Cash Equivalents, June 30, 2007 | $ 1,053,732.14 |

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

| | |
|---|---|
| Operating Loss | $ (10,917,709.65) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 595,272.15 |
| Miscellaneous Nonoperating Income | 116,960.83 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (181,614.65) |
| Inventories | 6,981.16 |
| Accounts Payable and Accrued Liabilities | 3,828.15 |
| Due to State of North Carolina Component Units | 300.00 |
| Funds Held for Others | (6,123.75) |
| Compensated Absences | 110,106.94 |
| Net Cash Used by Operating Activities | $ (10,271,998.82) |

## RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|---|
| Current Assets: | |
| Cash and Cash Equivalents | $ 847,557.82 |
| Restricted Cash and Cash Equivalents | 171,515.99 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 34,658.33 |
| Total Cash and Cash Equivalents - June 30, 2007 | $ 1,053,732.14 |

## NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|---|---|
| Change in Fair Value of Investments | $ 36,035.99 |
| Increase in Receivables Related to Nonoperating Income | 128,313.00 |

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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. Halifax Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended into the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

**Blended Component Unit** - Although legally separate, Halifax Community College Foundation, Inc. is reported as if it were part of the College. The Foundation is governed by a 15-member board consisting of one ex officio director and 14 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Halifax Community College Board of Trustees and the Foundation's sole purpose is to benefit Halifax Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Halifax Community College, P.O. Drawer 809, Weldon, NC 27890, or by calling (252) 536-7269. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private bank accounts.

E. **Investments** - This classification includes fixed income investments, equity investments, mutual funds and money market funds. Except for money market funds, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. **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.

**G.** **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

**H.** **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 24 years for general infrastructure, 40 years for buildings, and 5 to 25 years for equipment.

The College does not capitalize the Halifax Community College Library 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 requires 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.

**I.** **Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

**J.** **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

**K.** **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. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous 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.

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

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

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

**Restricted Net Assets - Nonexpendable** - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

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

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

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

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

## NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $3,715.55, and deposits in private financial institutions with a carrying value of $1,050,016.59, and a bank balance of $1,082,578.49.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Halifax Community College Foundation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

***Investments***

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | More than 10 |
| **Investment Type** | | | | |
| Debt Securities | | | | |
| Domestic Corporate Bonds | $ 372,021.00 | $ 99,502.50 | $ 223,883.00 | $ 48,635.50 |
| Other Securities | | | | |
| Mutual Funds | 329,815.55 | | | |
| Domestic Stocks | 7,677.50 | | | |
| Other | 31,239.04 | | | |
| Total Investments | $ 740,753.09 | | | |

*Credit Risk*: The College does not have a formal policy that addresses credit risk. As of June 30, 2007, the College's investments were rated as follows:

| | Value | Aaa | Aa | A |
|---|---|---|---|---|
| Domestic Corporate Bonds | $ 372,021.00 | $ 174,354.50 | $ 99,368.50 | $ 98,298.00 |

Rating Agency: Moody's

*Custodial Credit Risk*: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

| | | |
|---|---|---|
| Cash on Hand | $ | 3,715.55 |
| Carrying Amount of Deposits with Private Financial Institutions | | 1,050,016.59 |
| Other Investments | | 740,753.09 |
| Total Deposits and Investments | $ | 1,794,485.23 |
| Current: | | |
| Cash and Cash Equivalents | $ | 847,557.82 |
| Restricted Cash and Cash Equivalents | | 171,515.99 |
| Short-Term Investments | | 129,201.75 |
| Restricted Short-Term Investments | | 88,573.34 |
| Noncurrent: | | |
| Restricted Cash and Cash Equivalents | | 34,658.33 |
| Endowment Investments | | 522,978.00 |
| Total | $ | 1,794,485.23 |

## NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. To the extent that the income for the current year exceeds the payout, the excess is added to principle. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2007, net appreciation of $74,739.91 was available to be spent, of which $63,726.00 was restricted to specific purposes.

## NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 121,106.35 | $ 89,178.00 | $ 31,928.35 |
| Accounts | 71,754.52 | | 71,754.52 |
| Intergovernmental | 258,588.70 | | 258,588.70 |
| **Total Current Receivables** | $ 451,449.57 | $ 89,178.00 | $ 362,271.57 |
| **Notes Receivable:** | | | |
| **Notes Receivable - Current:** | | | |
| Institutional Student Loan Programs | $ 90,827.34 | $ 86,479.95 | $ 4,347.39 |

## NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

| | Balance July 1, 2006 (as Restated) | Increases | Balance June 30, 2007 |
|---|---|---|---|
| Capital Assets, Nondepreciable: | | | |
| Land | $ 134,800.00 | $ 60,000.00 | $ 194,800.00 |
| **Total Capital Assets, Nondepreciable** | 134,800.00 | 60,000.00 | 194,800.00 |
| Capital Assets, Depreciable: | | | |
| Buildings | 18,034,298.66 | | 18,034,298.66 |
| Machinery and Equipment | 1,415,030.57 | 47,267.98 | 1,462,298.55 |
| General Infrastructure | 321,506.35 | | 321,506.35 |
| Total Capital Assets, Depreciable | 19,770,835.58 | 47,267.98 | 19,818,103.56 |
| Less Accumulated Depreciation: | | | |
| Buildings | 4,486,677.66 | 450,857.37 | 4,937,535.03 |
| Machinery and Equipment | 709,481.33 | 123,337.98 | 832,819.31 |
| General Infrastructure | 147,425.14 | 21,076.80 | 168,501.94 |
| Total Accumulated Depreciation | 5,343,584.13 | 595,272.15 | 5,938,856.28 |
| **Total Capital Assets, Depreciable, Net** | 14,427,251.45 | (548,004.17) | 13,879,247.28 |
| **Capital Assets, Net** | $ 14,562,051.45 | $ (488,004.17) | $ 14,074,047.28 |

## NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

| | Amount |
|---|---|
| Accounts Payable | $ 93,172.74 |
| Accrued Payroll | 91,693.18 |
| **Total Accounts Payable and Accrued Liabilities** | $ 184,865.92 |

## NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

| | Balance July 1, 2006 (as Restated) | Additions | Reductions | Balance June 30, 2007 | Current Portion |
|---|---|---|---|---|---|
| Compensated Absences | $ 571,671.93 | $ 604,390.95 | $ 494,284.00 | $ 681,778.88 | $ 74,927.51 |

## NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

| Fiscal Year | Amount |
|---|---|
| 2008 | $ 54,373.20 |
| 2009 | 54,798.45 |
| 2010 | 43,545.57 |
| 2011 | 11,522.14 |
| 2012 | 7,657.74 |
| Total Minimum Lease Payments | $ 171,897.10 |

Rental expense for all operating leases during the year was $58,533.02.

## NOTE 9 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|
| **Operating Revenues:** | | | | |
| **Student Tuition and Fees** | $ 1,290,359.78 | $ 729,546.81 | $ 5,923.72 | $ 554,889.25 |
| **Sales and Services:** | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Patron Fee - Cosmetology | $ 24,790.10 | $ 0.00 | $ 0.00 | $ 24,790.10 |
| Patron Fee - Child Care | 166,616.60 | | (2,604.12) | 169,220.72 |
| Patron Fee - Dental Hygiene | 17,812.50 | | | 17,812.50 |
| The Centre (Performing Arts) | 184,849.92 | | | 184,849.92 |
| Bookstore | 785,771.04 | 579,976.24 | 2,905.97 | 202,888.83 |
| Vending | 13,819.23 | | | 13,819.23 |
| Wellness Center | 60.00 | | | 60.00 |
| Other | 1,740.00 | | | 1,740.00 |
| **Total Sales and Services** | $ 1,195,459.39 | $ 579,976.24 | $ 301.85 | $ 615,181.30 |

## NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

| | Personal Services | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $ 5,946,121.56 | $ 320,800.48 | $ 317,943.39 | $ 0.00 | $ 0.00 | $ 0.00 | $ 6,584,865.43 |
| Academic Support | 1,160,088.33 | 25,093.20 | 31,915.41 | | | | 1,217,096.94 |
| Student Services | 1,189,369.69 | 63,057.84 | 134,139.60 | | | | 1,386,567.13 |
| Institutional Support | 1,599,676.02 | 52,781.52 | 249,665.94 | | | | 1,902,123.48 |
| Operations and Maintenance of Plant | 421,701.40 | 84,094.98 | 87,404.33 | | 363,803.42 | | 957,004.13 |
| Student Financial Aid | | 165.35 | 15,037.15 | 1,363,995.56 | | | 1,379,198.06 |
| Auxiliary Enterprises | 198,088.60 | 625,744.64 | 229,066.52 | | | | 1,052,899.76 |
| Depreciation | | | | | | 595,272.15 | 595,272.15 |
| Total Operating Expenses | $ 10,515,045.60 | $ 1,171,738.01 | $ 1,065,172.34 | $ 1,363,995.56 | $ 363,803.42 | $ 595,272.15 | $ 15,075,027.08 |

## NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $8,561,428.19, of which $7,355,862.70 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $441,352.06 and $195,665.95, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $195,665.95, $165,710.51, and $152,348.51, respectively.

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

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $67,456.52 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $77,693.00 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $2,896.00 for the year ended June 30, 2007.

## NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $279,522.79. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State

Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $38,250.49. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

## NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $75,000 deductible. Employees paid from county and institutional funds are covered by commercial insurance with coverage of $100,000 and a $1,000 deductible.

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

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

Teachers and students are covered for medical malpractice through Health Care Providers Services Organizations. Students pay $16.00 per year for coverage, while teachers are covered for free. The limits of liability are $2,000,000 each claim and $5,000,000 aggregate.

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

## NOTE 14 - CONTINGENCIES

**Pending Litigation and Claims** - On January 13, 2006, the Halifax Community College Board of Trustees terminated the contract of the College president. The former president has filed a lawsuit against the College for wrongful termination without cause. The matter has been referred to Utica Mutual Insurance Company. Their attorney would represent the College in any settlement of any claim brought by the former president. It is anticipated that any settlement of this matter would be covered by the College's commercial general liability coverage.

## NOTE 15 - NET ASSET RESTATEMENTS

Capital Assets were restated in order to correct an accounting error that occurred in fiscal year 2006 and to recalculate the useful lives of previously fully depreciated capital assets and assets that had never been depreciated. Compensated Absences were overstated in fiscal year 2006, which caused Personal Services to be overstated and Net Assets to be understated in the same year. As of July 1, 2006, net assets as previously reported, was restated as follows:

| | Amount |
|---|---|
| July 1, 2006 Net Assets as Previously Reported | $ 15,543,086.58 |
| Restatements: | |
| Prior Period Adjustment - Capital Assets | 459,233.31 |
| Prior Period Adjustment - Compensated Absences | 78,570.82 |
| July 1, 2006 Net Assets as Restated | $ 16,080,890.71 |

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

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

Board of Trustees
Halifax Community College
Weldon, North Carolina

We have audited the financial statements of Halifax Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 30, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Halifax Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

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

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

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

Leslie W. Merritt, Jr.

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

September 30, 2008

## Matters Related to Financial Reporting

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

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and notes prepared by Halifax Community College contained significant misstatements. Some of the account balances were unauditable causing us to temporarily suspend our audit until a revised set of financial statements could be provided by the College. The revised financial statements also contained significant misstatements. The misstatements discovered were corrected as a result of our audit. Without these corrections the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

a. There were many errors noted in the capital assets accounts as described below:

1. Depreciation expense was overstated by $1,059,175 on the original financial statements. This error occurred because depreciation had not been posted in the accounting system since June 30, 2004, which caused the 2007 depreciation expense to be three times what it should have been. This also caused the beginning balance for accumulated depreciation to be overstated by $469,378 for buildings; by $21,441 for infrastructure and by $83,417 for machinery and equipment.
2. There were a number of assets that had been purchased in prior years and included in the capital asset system that are no longer in use. Some of these assets were fully depreciated and some had never been depreciated. This caused the beginning asset balance for machinery and equipment to be overstated by $178,621 and also caused the accumulated depreciation beginning balance for machinery and equipment to be overstated by $108,428.
3. There were a number of machinery and equipment assets that had been purchased in prior years and included in the capital asset system that were still in use but had not been depreciated. This caused the accumulated depreciation beginning balance for machinery and equipment to be understated by $144,682.
4. There were a number of machinery and equipment assets that were fully depreciated yet still in use. An audit adjustment was prepared to reduce accumulated depreciation beginning balance for machinery and equipment by $100,024 to reflect the change in the assets' useful life.

b. The College made several errors when computing the liability for compensated absences as described below:

1. The College did not compute the current portion of the liability. The balance based on revised calculations was $74,928.
2. There was no amount disclosed for additions of leave earned by the staff for the current year in the notes to the financial statements. We computed this amount to be $604,391.
3. A review of the prior year footnote revealed that the note failed to report the reductions in leave taken by the College's staff for the year ended June 30, 2006.
4. Our tests revealed that the beginning balance of compensated absences was overstated by $78,571.

c. The College posted an erroneous journal entry to current restricted cash and cash equivalents, resulting in an understatement of $118,504. The College attempted to correct the error but posted the entry backwards, causing cash and federal revenues to be understated by $237,008.

d. Cash was misclassified in the revised set of financial statements, causing current unrestricted cash to be overstated by $312,656, current restricted cash to be understated by $277,998 and noncurrent restricted cash to be understated by $34,658.

e. The College did not post an entry that was proposed by the auditors of its foundation's financial statements, causing investments to be understated by $92,796. In addition, the College did not properly classify its investments between current and noncurrent assets on the financial statements.

f. The College made errors when recording accounts payables at year-end. One journal entry to record accounts payable erroneously included bookstore items not received until after year-end totaling $203,170. Some invoices and credit memos were recorded on two different journal entries, causing accounts payable to be understated by $24,860.

g. The College failed to properly classify the restricted endowment investments as restricted nonexpendable net assets.

h. The College did not reduce supplies and materials expense for items that had been capitalized, causing this account to be overstated by $47,268. In addition, a land purchase was not capitalized, causing the supplies and materials account to be overstated by an additional $60,000.

i. The College made an error when attempting to write off notes receivable that were uncollectible. This resulted in a negative notes receivable of $8,889 being shown on the financial statements.

j. Various other errors and omissions were made in the financial statements, notes to the financial statements, and management's discussion and analysis.

The complete financial statement package, including the notes to the financial statements, was not provided to our office until January 2008, more than three months after the deadline. Staff turnover in the financial section left the College without staff that had the experience and expertise to prepare the financial statements. The controller had retired in August 2007 and this position was not filled until almost one year later.

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

*College's Response*: Halifax Community College concurs that the financial statements and notes prepared by the College contained significant misstatements. Some account balances were unauditable causing the audit team to temporarily suspend the audit until a revised set of financial statements could be prepared by the College. The revised financial statements also contained significant misstatements. Accordingly, management has initiated action to improve the preparation of annual financial statements by hiring a CPA with fund accounting experience as controller.

Corrective action has also been taken to address each of the misstatements noted during the audit.

1. Capital assets have been reviewed to correct all errors with capitalization, depreciation, addition of new capital assets, disposition of capital assets no longer in use, and extension of the useful life of capital assets fully depreciated but still in use. New personnel have been assigned the duty of maintaining capital asset files and are receiving further training with the new Colleague (CIS) computer system.
2. The liability for compensated absences has been reviewed to correct all errors with the recording and reporting of leave earned and taken by the College's faculty and staff. The College has experienced the loss of two personnel officers since July 1, 2005 and believes this to be a factor in the misstatement of accumulated leave payable. As part of new internal controls, the monthly collection and posting of leave data by the personnel officer will be maintained on the spreadsheet provided by the Office of the State Controller as well as on the Colleague (CIS) computer system. The two will be compared as a means to insure accuracy in recording employee leave.
3. The College has carefully studied the requirements for classifying cash in both the exhibits and notes to the financial statements and feels it will no longer make errors in the classification of cash which would give the reader a misunderstanding of restricted and nonrestricted cash as well as current and non-current cash. It has been stressed to personnel responsible for the preparation of the financial statements the importance of this requirement.
4. The College has carefully studied the requirements for classifying investments when blending the Foundation endowment investment accounts into the general ledger for financial statement presentation. It has been stressed to personnel responsible for preparation of the financial statements the importance of proper classification of investment accounts and the need to verify with independent auditors of The Foundation that all recommended journal entries have been properly posted.

5. The College takes very seriously the fact that errors in the preparation and posting of journal entries led to misstatements in the financial statements. Internal controls have been strengthened to require that differentiation between personnel take place when journal entries are prepared, approved, and posted. This will allow for greater review of all journal entries and the opportunity to recognize errors before any entry is posted to the general ledger.

The College also concurs with the recommendation that greater emphasis be placed on the year-end financial reporting process and to implement effective internal controls to ensure completeness and accuracy of the financial statements. The college has taken actions to correct each misstatement noted during the audit and to require greater emphasis be placed on the accuracy of all accounting functions.

2. INADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over payroll and accounts payable. Inadequate segregation of duties increases the risk of errors and irregularities as well as the risk of such acts going undetected. The specific weaknesses and the areas impacted are as follows:

The accounts payables technician had access rights to create vendors, enter invoices, print checks, and mail checks. This employee also had access to the blank checks, the signature cartridge for the check printer, and the check printer.

The payroll technician had access rights to set up employees, enter salary information, print checks, and mail checks. There is no independent review of the payroll. This employee also had access to the blank checks, the signature cartridge for the check printer, and the check printer.

Good internal controls require that the ability to initiate, authorize and record transactions be performed by different personnel or adequate compensating controls be implemented to reduce the risk of errors being made and not detected.

*Recommendation*: The College should strengthen internal control by segregating the incompatible duties within its business processes. In situations where segregation of duties is not feasible, the College should implement effective compensating controls.

*College's Response*: Halifax Community College concurs with the need for a separation of the duties in the areas of payroll and accounts payable. Accordingly, management has initiated action to reassign the duty to set up new employees and to enter salary information to the personnel officer. This action separates those duties from the individual who prepares the monthly payroll process. Either the Controller or the Vice President for Administrative Services will review all payroll checks and employees will be required to sign for payroll checks as part of new internal control procedures. All employees, including those receiving direct deposit, will be required to appear in person and sign for pay checks and direct deposit notices each April.

Management has also initiated action to reassign the duty to create vendors to the purchasing agent. This action removes that duty from the accounts payable technician who enters the vouchers for payment.

All blank check stock, the signature cartridge for the check printer, and the key for the check printer are kept in the offices of the Vice President of Administrative Services separate from both the payroll and accounts payable offices. New internal controls will also require a log be signed accounting for all use of blank check stock, the signature cartridge, and the check printer key. Management is confident these actions should remove the opportunity for improper action by any staff member performing either of these functions.

The College concurs with the recommendation to strengthen internal controls by segregating the incompatible duties within its business processes and has taken action to segregate duties in payroll and accounts payable. In situations where segregation of duties is not feasible, the College will implement effective compensating controls as has been done by requiring signatures when all checks are printed.

3. ANNUAL INVENTORY OF CAPITAL ASSETS WAS NOT CONDUCTED

The College failed to complete an annual inventory of capital assets for the fiscal year ended June 30, 2007. The risk that items could be lost and or stolen and not detected increases when inventories are not taken and reconciled to the capital asset records.

The Office of State Controller's policies require inventory to be taken at least annually.

*Recommendation*: The College should strengthen procedures to ensure that the fixed assets physical inventory is taken annually and is reconciled to the fixed asset system.

*College's Response*: Halifax Community College concurs that it failed to complete an annual inventory of capital assets for the fiscal year ended June 30, 2007. Management would like to note that the annual inventory of capital assets has never been a finding in previous audits and the primary affecting factor was the loss of personnel in the Business Office. The College has taken action to ensure greater emphasis will be placed upon the completion of the annual inventory of capital assets by the required due date.

The College concurs with the recommendation to strengthen procedures to ensure that the fixed assets inventory is taken annually and is reconciled to the fixed asset system. Halifax Community College has completed the fixed assets inventory for the year ending June 30, 2008.

While all findings were valid and recommendations were sound, the College believes it has now taken the proper actions and initiated the proper internal controls to preclude future reoccurrence.

[ This Page Left Blank Intentionally ]

## ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647