STATE OF NORTH CAROLINA

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2008, 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 and instances of noncompliance 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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, 2008, 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., which represent 4.81 percent, 4.76 percent, and .43 percent, respectively, of the assets, net assets, and revenues of the College. 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, 2008, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2009, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 21, 2009

HALIFAX COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 $787,983.25 at June 30, 2008.

The Statement of Net Assets presents information on all of the College's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

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.

The Statement of Cash Flows provides detail on the College's cash activity for the year. The direct method is used to present cash flows.

The Notes provide additional information that is essential to a full understanding of the data provided.

There were no significant acquisitions or dispositions of capital assets, and the College did not acquire any debt in 2007-2008.

Institutional Financial Analysis

As noted earlier, net assets may serve as a useful indicator of the College's financial position. Net assets for Halifax Community College decreased by $494,335.94 for the fiscal year ending June 30, 2008. The decline in net assets represents almost a three percent (2.90%) decrease over the prior reporting period.

The majority of the College's net assets ninety one percent (91%) 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, seven percent (7%), of the College's net assets (restricted net assets,

$1,130,742.48) represents resources that are subject to external restrictions on how they may be used. The remaining balance, $404,534.79 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 $494,335.94 in the current year. This decrease can be attributed to a decrease in capital assets because of the annual depreciation expense.

Liabilities increased in the current year because of an increase in accrued payroll. The number of nine-month employees that spread their salaries over eleven months increased which caused the year-end payroll accrual amount to increase.

Condensed Statement of Net Assets

	2008	As Restated 2007	Increase (Decrease)	Percent Change
Assets				
Current	$ 1,762,835.62	$ 1,801,360.66	$ (38,525.04)	-2.14%
Capital Assets, Net	15,032,855.50	15,403,299.47	(370,443.97)	-2.40%
Other Noncurrent	760,100.84	743,432.75	16,668.09	2.24%
Total Assets	17,555,791.96	17,948,092.88	(392,300.92)	-2.19%
Liabilities				
Current	349,410.23	278,772.80	70,637.43	25.34%
Noncurrent	638,248.96	606,851.37	31,397.59	5.17%
Total Liabilities	987,659.19	885,624.17	102,035.02	11.52%
Net Assets				
Invested in Capital Assets	15,032,855.50	15,403,299.47	(370,443.97)	-2.40%
Restricted Assets	1,130,742.48	1,290,797.90	(160,055.42)	-12.40%
Unrestricted Assets	404,534.79	368,371.34	36,163.45	9.82%
Total Net Assets	$ 16,568,132.77	$ 17,062,468.71	$ (494,335.94)	-2.90%

The Statement of Revenues, Expenses, and Changes in Net Assets present 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.

Condensed Statement of Revenues and Expenses and Changes in Net Assets

	2008	As Restated 2007	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 465,528.23	$ 554,889.25	$ (89,361.02)	-16.10%
Federal Grants and Contracts	2,641,699.30	2,817,275.34	(175,576.04)	-6.23%
State and Local Grants and Contracts	286,555.21	162,873.53	123,681.68	75.94%
Sales and Services, Net	719,629.63	615,181.30	104,448.33	16.98%
Other Operating Revenues	22,513.45	7,098.01	15,415.44	217.18%
Total Operating Revenues	4,135,925.82	4,157,317.43	(21,391.61)	-0.51%
Operating Expenses:				
Personal Services	10,625,245.06	10,515,045.60	110,199.46	1.05%
Supplies and Materials	1,267,587.02	1,171,738.01	95,849.01	8.18%
Services	1,346,867.45	1,065,172.34	281,695.11	26.45%
Scholarships and Fellowships	1,319,214.50	1,363,995.56	(44,781.06)	-3.28%
Utilities	382,345.90	363,803.42	18,542.48	5.10%
Depreciation	470,274.51	595,272.15	(124,997.64)	-21.00%
Total Operating Expenses	15,411,534.44	15,075,027.08	336,507.36	2.23%
Operating Loss	(11,275,608.62)	(10,917,709.65)	(357,898.97)	3.28%
Nonoperating Revenues:				
State Aid	8,580,910.30	8,108,722.25	472,188.05	5.82%
County Appropriations	1,075,065.48	1,030,689.00	44,376.48	4.31%
Noncapital Grants	545,640.28	708,600.49	(162,960.21)	-23.00%
Noncapital Gifts	95,892.10	117,768.87	(21,876.77)	-18.58%
Investment Income	24,493.13	128,488.70	(103,995.57)	-80.94%
Other Nonoperating Revenues	129,607.56	116,960.83	12,646.73	10.81%
Nonoperating Revenues	10,451,608.85	10,211,230.14	240,378.71	2.35%
Loss Before Other Revenues	(823,999.77)	(706,479.51)	(117,520.26)	16.63%
Other Revenues	329,663.83	358,805.32	(29,141.49)	-8.12%
Decrease in Net Assets	$ (494,335.94)	$ (347,674.19)	$ (146,661.75)	42.18%

Total operating revenues for Halifax Community College decreased a half of a percent (.51%) or $21,391.61. The decrease is attributed to a decrease in enrollment which caused less Tuition and Fees, along with Federal Grants (Pell) to be collected. State and Local Grants along with Sales and Services revenue increased but not enough to offset the decrease in enrollment.

Total nonoperating revenues increased by $240,378.71. This is over a two percent increase (2.35%) over fiscal year 2007. The increase was because State Aid increased by $472,188.05 which offset reductions in noncapital grants and investment income. The amount of State Aid that the College receives is determined by the General Assembly and is based on prior year enrollment data. Therefore the current year decrease in enrollment and student tuition and fees has no impact on the current year increase in State Aid.

Operating expense for fiscal year 2008 increased by $336,507.36, two percent (2.23%) over fiscal year 2007. Expenses increased across the board on all line items except depreciation and scholarships. The expense increase can be attributed to a combination of sources. Personal services increased due to the effects of pay increase for faculty and staff. Services increased $281,695.11 over fiscal year 2007 due to a number of reasons. The Centre had an increase of $94,629.57 for service expense over fiscal year 2007 due to an increase in performances. The College also used an outside consultant in closing out fiscal year 2007 which increased service expense.

Economic Forecast

Halifax Community College anticipates growth in student enrollment as people turn to the Community College in bad economic times. However, because of the projected state budget shortfall, the College is required to revert back five percent (5%) of the state revenue. This will be a challenge to manage increased enrollment with less money. The College continues to work with the County Commissioners in both our service areas of Halifax and Northampton Counties to increase budget appropriations. The College received a $600,000 Freedom to Learn Initiative Grant to help increase the retention rate among African-American males for the fiscal year ending June 30, 2009.

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, (252) 536-2551.

Halifax Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 567,264.72
Restricted Cash and Cash Equivalents	285,432.36
Short-Term Investments	84,181.30
Restricted Short-Term Investments	104,624.14
Receivables, Net (Note 4)	437,164.52
Due from State of North Carolina Component Units	48,604.25
Inventories	230,238.97
Notes Receivable, Net (Note 4)	5,325.36
Total Current Assets	1,762,835.62
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	66,492.12
Restricted Due from Primary Government	143,397.20
Endowment Investments	550,211.52
Capital Assets - Nondepreciable (Note 5)	194,800.00
Capital Assets - Depreciable, Net (Note 5)	14,838,055.50
Total Noncurrent Assets	15,792,956.34
Total Assets	17,555,791.96
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	213,740.16
Due to State of North Carolina Component Units	176.00
Unearned Revenue	20,457.00
Funds Held for Others	12,084.15
Long-Term Liabilities - Current Portion (Note 7)	102,952.92
Total Current Liabilities	349,410.23
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	638,248.96
Total Noncurrent Liabilities	638,248.96
Total Liabilities	987,659.19
NET ASSETS	
Invested in Capital Assets	15,032,855.50
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	550,211.52
Expendable:	
Scholarships and Fellowships	175,574.55
Loans	18,637.94
Capital Projects	269,949.65
Other	116,368.82
Unrestricted	404,534.79
Total Net Assets	$ 16,568,132.77

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, 2008 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	465,528.23
Federal Grants and Contracts		2,641,699.30
State and Local Grants and Contracts		286,555.21
Sales and Services, Net (Note 9)		719,629.63
Other Operating Revenues		22,513.45
Total Operating Revenues		4,135,925.82
EXPENSES		
Operating Expenses:		
Personal Services		10,625,245.06
Supplies and Materials		1,267,587.02
Services		1,346,867.45
Scholarships and Fellowships		1,319,214.50
Utilities		382,345.90
Depreciation		470,274.51
Total Operating Expenses		15,411,534.44
Operating Loss		(11,275,608.62)
NONOPERATING REVENUES		
State Aid		8,580,910.30
County Appropriations		1,075,065.48
Noncapital Grants		545,640.28
Noncapital Gifts		95,892.10
Investment Income		24,493.13
Other Nonoperating Revenues		129,607.56
Nonoperating Revenues		10,451,608.85
Loss Before Other Revenues		(823,999.77)
State Capital Aid		259,876.83
County Capital Aid		24,651.52
Capital Grants		45,135.48
Decrease in Net Assets		(494,335.94)
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 16)		17,062,468.71
Net Assets, June 30, 2008	$	16,568,132.77

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, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,102,936.68
Payments to Employees and Fringe Benefits	(10,526,536.95)
Payments to Vendors and Suppliers	(3,073,128.22)
Payments for Scholarships and Fellowships	(1,319,214.50)
Collection of Loans to Students	11,322.03
Other Receipts	123,012.34
Net Cash Used by Operating Activities	(10,681,608.62)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,580,910.30
County Appropriations	1,075,065.48
Noncapital Grants Received	497,036.03
Noncapital Gifts	90,775.01
Cash Provided by Noncapital Financing Activities	10,243,786.82
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	301,976.05
County Capital Aid	24,651.52
Capital Grants Received	45,135.48
Acquisition and Construction of Capital Assets	(99,830.54)
Net Cash Provided by Capital and Related Financing Activities	271,932.51
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	254,721.46
Investment Income	75,579.82
Purchase of Investments and Related Fees	(298,954.93)
Net Cash Provided by Investing Activities	31,346.35
Net Decrease in Cash and Cash Equivalents	(134,542.94)
Cash and Cash Equivalents, July 1, 2007	1,053,732.14
Cash and Cash Equivalents, June 30, 2008	$ 919,189.20

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (11,275,608.62)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	470,274.51
Provision for Uncollectible Loans and Write-Offs	(12,000.00)
Miscellaneous Nonoperating Income	129,607.56
Changes in Assets and Liabilities:	
Receivables, Net	(74,892.95)
Inventories	(32,346.17)
Notes Receivable, Net	11,322.03
Accounts Payable and Accrued Liabilities	28,874.24
Due to Primary Government	(124.00)
Unearned Revenue	20,457.00
Funds Held for Others	(6,595.22)
Compensated Absences	59,423.00
Net Cash Used by Operating Activities	$ (10,681,608.62)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 567,264.72
Restricted Cash and Cash Equivalents	285,432.36
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	66,492.12
Total Cash and Cash Equivalents - June 30, 2008	$ 919,189.20

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$ 5,117.09
Change in Fair Value of Investments	(51,086.69)
Increase in Receivables Related to Nonoperating Income	48,604.25

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 (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. 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 component units 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.

During the year ended June 30, 2008, the Foundation made no distributions to the College. Complete financial statements for the Foundation can 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 generally reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. The net decrease in the fair value of investments is recognized as a component of investment income. Certificates of deposit are reported at cost.

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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 50 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 – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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. 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 bookstore. 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 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 $3,887.33, and deposits in private financial institutions with a carrying value of $915,301.87, and a bank balance of $978,575.67. Certificates of deposit, with a carrying value of $247,496.50 are reported as investments.

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, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method. The College's Foundation certificates of deposits are covered by federal depository insurance.

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, 2008, 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	$ 169,804.63	$ 96,970.50	$ 25,109.90	$ 47,724.23
Other Securities				
Certificates of Deposit	247,496.50			
Mutual Funds	260,786.37			
Domestic Stocks	6,232.65			
Money Market Fund	54,696.81			
Total Investments	$ 739,016.96			

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2008, the College's investments were rated as follows:

	Fair Value	AAA	AA2	BAA1
Domestic Corporate Bonds	$ 169,804.63	$ 25,109.90	$ 50,354.50	$ 94,340.23

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. The College's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Money Market Mutual Fund	$ 54,696.81
Domestic Corporate Bonds	169,804.63
Domestic Stocks	260,786.37
Mutual Funds	6,232.65
Total	$ 491,520.46

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	$ 3,887.33
Carrying Amount of Deposits with Private Finanical Institutions	915,301.87
Other Investments	739,016.96
Total Deposits and Investments	$ 1,658,206.16
Current:	
Cash and Cash Equivalents	$ 567,264.72
Restricted Cash and Cash Equivalents	285,432.36
Short-Term Investments	84,181.30
Restricted Short-Term Investments	104,624.14
Noncurrent:	
Restricted Cash and Cash Equivalents	66,492.12
Endowment Investments	550,211.52
Total	$ 1,658,206.16

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 principal. 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, 2008, the college had no appreciation in the value of their investments.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 120,654.48	$ 44,207.67	$ 76,446.81
Accounts	67,327.16		67,327.16
Intergovernmental	271,943.74		271,943.74
Employees	21,446.81		21,446.81
Total Current Receivables	$ 481,372.19	$ 44,207.67	$ 437,164.52
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 16,071.51	$ 10,746.15	$ 5,325.36
Total Notes Receivable - Current	$ 16,071.51	$ 10,746.15	$ 5,325.36

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Balance June 30, 2008
Capital Assets, Nondepreciable:			
Land	$ 194,800.00	$ 0.00	$ 194,800.00
Total Capital Assets, Nondepreciable	194,800.00		194,800.00
Capital Assets, Depreciable:			
Buildings	18,034,298.66		18,034,298.66
Machinery and Equipment	1,462,298.55	99,830.54	1,562,129.09
General Infrastructure	321,506.35		321,506.35
Total Capital Assets, Depreciable	19,818,103.56	99,830.54	19,917,934.10
Less Accumulated Depreciation:			
Buildings	3,950,028.60	360,685.92	4,310,714.52
Machinery and Equipment	607,417.48	103,158.27	710,575.75
General Infrastructure	52,158.01	6,430.32	58,588.33
Total Accumulated Depreciation	4,609,604.09	470,274.51	5,079,878.60
Total Capital Assets, Depreciable, Net	15,208,499.47	(370,443.97)	14,838,055.50
Capital Assets, Net	$ 15,403,299.47	$ (370,443.97)	$ 15,032,855.50

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 82,761.87
Accrued Payroll	130,978.29
Total Accounts Payable and Accrued Liabilities	$ 213,740.16

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 681,778.88	$ 587,924.37	$ 528,501.37	$ 741,201.88	$ 102,952.92

NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 66,424.40
2010	32,850.90
2011	17,839.20
2012	10,401.70
2013	4,194.30
Total Minimum Lease Payments	$ 131,710.50

Rental expense for all operating leases during the year was $60,789.05.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 1,202,952.26	$ 0.00	$ 702,373.36	$ 35,050.67	$ 465,528.23
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Patron Fee - Cosmetology	$ 29,602.50	$ 0.00	$ 0.00	$ 0.00	$ 29,602.50
Patron Fee - Child Care	147,482.84			8,038.04	139,444.80
Patron Fee - Dental Hygiene	20,953.50				20,953.50
The Centre (Performing Arts)	251,943.15				251,943.15
Bookstore	815,259.22	28,006.45	523,518.88	1,881.62	261,852.27
Vending	13,238.41				13,238.41
Wellness Center	185.00				185.00
Other	2,410.00				2,410.00
Total Sales and Services	$ 1,281,074.62	$ 28,006.45	$ 523,518.88	$ 9,919.66	$ 719,629.63

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	$ 6,216,772.51	$ 411,438.87	$ 333,269.98	$ 0.00	$ 0.00	$ 0.00	$ 6,961,481.36
Public Service			373.30				373.30
Academic Support	1,279,667.15	35,364.85	44,996.95				1,360,028.95
Student Services	969,290.86	39,050.89	52,747.66				1,061,089.41
Institutional Support	1,551,055.61	47,446.62	415,122.10				2,013,624.33
Operations and Maintenance of Plant	400,986.49	83,585.33	115,354.62		382,345.90		982,272.34
Student Financial Aid		106.00	11,545.88	1,319,214.50			1,330,866.38
Auxiliary Enterprises	207,472.44	650,594.46	373,456.96				1,231,523.86
Depreciation						470,274.51	470,274.51
Total Operating Expenses	$ 10,625,245.06	$ 1,267,587.02	$ 1,346,867.45	$ 1,319,214.50	$ 382,345.90	$ 470,274.51	$ 15,411,534.44

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members

For the current fiscal year, the College had a total payroll of $8,642,960.22, of which $7,471,512.72 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $227,881.14 and $448,290.77, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $227,881.14, $195,665.95, and $165,710.51, 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.ncosc.net/ 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 $63,631.52 for the year ended June 30, 2008.

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 $96,664.00 for the year ended June 30, 2008.

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 $996.00 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $306,332.02, $279,522.79, and $269,102.53, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $38,851.86, $38,250.49, and $36,824.56, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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 $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the 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 - COMMITMENTS AND CONTINGENCIES

Pending Litigation and Claims - The former President of Halifax Community College has filed a lawsuit against members of the College's Board of Trustees and the former North Carolina State Auditor. Seven members of the Board of Trustees are named in the lawsuit of which three currently serve on the Board and four are former Board members. The lawsuit was filed August 20, 2008 in Wake County and claims the termination of the president's contract on January 13, 2006 was a breach of contract, a violation of his constitutional rights, and the result of acts by the defendants described as "malicious, undertaken in bad faith and outside the scope of their official duties."

The plaintiff is asking the case be tried by a jury and is seeking $10,000 for each alleged misdeed, punitive damages, and reimbursement for his attorney fees. The HCC Board of Trustees has appointed an ad hoc committee to review the lawsuit with the attorney for the Trustee Board. It is anticipated that any settlement of this matter would be covered by the College's commercial general liability coverage.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
>
> GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No, 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 15,733,216.52
Error in Establishing Useful Lives of Capital Assets When New Reporting Model was Implemented	1,329,252.19
July 1, 2007 Net Assets as Restated	$ 17,062,468.71

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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
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, 2008, and have issued our report thereon dated July 21, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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. The financial statements of Halifax Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1, 2, and 3 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as finding 4 in the Audit Findings and Responses section of this report.

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.

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

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 21, 2009

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Matters Related to Financial Reporting and Federal Compliance

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or other matters. Finding number 1 was also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

   The financial statements and related notes prepared by the College contained a number of misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements included:

   a. The College reported an adjustment to net assets totaling $342,701 on the Statement of Revenues, Expenses and Change in Net Assets to make total net assets agree with the amount reported on the Statement of Net Assets.

   b. The College reported two different ending cash balances on the Statement of Cash Flows, $723,051 on the first page of the statement and $919,189 on the second page.

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

      1. Accumulated depreciation was overstated by $1,329,252 because capital assets' estimated useful lives have not been adjusted based on actual experience. Current year depreciation expense was also overstated by $75,271.

      2. Accumulated depreciation was understated by $139,331 because the College removed assets from the accumulated depreciation balance that had already been removed from the financial statements in the prior year.

   d. The College reversed a prior year accrual entry twice, causing the federal grants and contracts revenue account to be understated by $210,791.

   e. Cash was misclassified in the financial statements, with current unrestricted cash to be overstated by $63,960 and noncurrent restricted cash understated by $63,960.

   f. The College did not properly reduce bookstore sales and services revenue and scholarships and fellowships expenses for the amount paid by federal grants, causing both accounts to be overstated by $64,344. The report used to compute the reduction did not include supplies that were purchased in the bookstore.

   g. Federal grants and contracts revenues were overstated by $352,739 and noncapital grants was understated by the same amount due to an incorrect setup command in the College's accounting system. There are commands in the system that summarize the detailed accounts into the financial statement captions. Some grants were incorrectly classified as federal grants and contracts.

The complete financial statement package, including the notes to the financial statements, was not provided to our office until January 2009, more than three months after the deadline. The new Controller started working with the College in August 2008, which affected the timeliness of completing the financial statement package.

A high level of experience and expertise, which College staff may not possess, is necessary to effectively utilize all features of the College's accounting system and prepare the financial statements. We also found the accounting records to be disorganized, which made locating the audit evidence difficult and contributed to some of the errors noted.

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. The staff in the business office must receive additional training of the accounting system in order to effectively utilize the full potential of the accounting software.

College's Response:

a. The College accepts and agrees with the finding. Halifax Community College understands that it is ultimately responsible for the accurate presentation of its financial statements. We accept that responsibility and will strive to ensure that all future financial statements are free of errors and misstatements. Most of the deficiencies in financial reporting for the year ending June 30, 2008 are the continuation of issues of the June 30, 2007 year. The 2006-07 year was the first year that the College fully implemented the new CIS software. The College also had two key employees retire, each with over thirty year's experience who had gone through all of the software training. This caused difficulty with the year ending June 30, 2007 financial reporting which carried over into the June 30, 2008 year. The College has since made all of the adjustments to the accounting records to balance the net assets.

b. The College accepts and agrees with the finding. This was a continuation of issues with the 2007 year. The College will insure that all cash balances agree on the Statement of Cash Flows in the future.

c. The College accepts and agrees with the finding. The College was aware that asset lives needed to be restated and it was brought to the attention of the auditors by College staff at the beginning of the audit. The College made the calculations after issues for certain assets were resolved and presented the calculations to the auditor to include in the 2008 financial statements. For future years asset lives will be reviewed and adjusted timely.

d. The College accepts and agrees with the finding. This was a continuation of issues with the 2007 year. The College will review all the accrual entries to insure that they are made properly.

e. The College accepts and agrees with the finding. The College will take greater care in classifying cash between restricted and unrestricted in future financial statements.

f. The College accepts and agrees with the finding. The College will take greater care in classifying intra-college transactions in the future.

g. The College accepts and agrees with the finding. The College has setup the correction in the software to summarize the detailed accounts into the financial statement captions.

The College agrees that staff needs additional training in the use of the financial software. The majority of the staff has less than one year experience for Community Colleges and the CIS software. Staff is currently taking advantage of ongoing training offered by the Community College System.

2. INADEQUATE CONTROLS OVER EVENT CENTER RECEIPTS

The College did not establish adequate controls over Event Center ticket sales. As a result, there was an increased risk of error or misappropriation of assets.

The College did not ensure that tickets that were "pulled" for individuals in the community to sell were accounted for by cash or by the returned ticket. The individuals who received the "pulled" tickets were supposed to sell the tickets and return all unsold tickets and payments collected for sold tickets to the Event Center. The Event Center was then supposed to enter the returned tickets in the E-Tix system (electronic ticketing system) as refunded tickets to reflect printed and unsold tickets. The Event Center did not maintain a record of the "pulled" tickets issued, the "pulled" tickets returned and refunded in the E-Tix system, or the amount of money received for the "pulled" tickets sold.

Financial records of the College showed that $192,646 was collected and deposited for ticket sales during the fiscal year. Ticket sales per the E-Tix system showed that tickets totaling $216,153 were issued for shows held during that timeframe. The College had a number of "pulled" tickets on hand but no reconciliations had been performed to determine if they accounted for the $23,507 difference.

Good internal controls require reconciling the sales of tickets and safeguarding the assets, such as cash and tickets, to reduce the risk of errors or misappropriation.

Recommendation: The College should establish written policies and procedures for implementing controls that safeguard and document the distribution and disposition of "pulled" tickets. Reconciliations should be performed after each event to ensure that they account for all "pulled" tickets. The College should also perform a reconciliation of the tickets printed and tickets sold for the 2008 fiscal year.

College's Response: The College accepts and agrees with the finding. It is apparent not all of the "pulled" tickets were properly refunded back through the ETIX system if they were not sold. The College also did not properly reconcile the tickets to insure that all of the tickets and payments were returned. The College's Business Office is working on reconciling the “pulled” tickets and payments for 2008. The College has abolished the practice of using “pulled” tickets in the future. The College is currently developing procedures and forms to insure all tickets and revenue for the Centre are properly and timely reconciled.

3. BOOKSTORE RECEIPTS MISAPPROPRIATED

Receipts in the amount of $4,588 were misappropriated during the months of July 2007 through April 2008 from monies collected by the bookstore. The missing funds were not immediately detected because the College did not have adequate procedures in place to ensure collections were properly deposited and recorded in the general ledger.

Bookstore personnel dropped off their daily collections at the cashier’s window and left without obtaining documentation of the deposit. Based on a verbal recommendation from the auditors in May 2008, the bookstore clerk began matching her daily deposit records to the receipt received the following day from the cashier’s office. The daily deposits and the bookstore documentation did not match, and this was brought to the attention of the College President. The College then performed a detailed analysis of these receipts, which revealed that funds were embezzled. The employee that was involved resigned and repaid the missing funds.

Recommendation: The College implemented changes during May 2008 to improve the internal controls in the cashier’s office. All depositors and the cashier who receipts the money must now sign a form verifying the deposit amount before the deposit is considered complete. The College should ensure that these procedures are being followed.

College’s Response: The College accepts and agrees with the finding. The College has implemented procedures to verify that deposits are reconciled to backup documentation from the cash collection points on campus. All departments making deposits are also required to reconcile the receipt from the Cash Office to their documentation.

4. NONCOMPLIANCE WITH I-9 REQUIREMENTS

The College did not complete and/or retain employment eligibility verification forms (I-9) as required by federal and state law. Entities that fail to properly complete, retain, and/or make the I-9 forms available for inspection may hire individuals who are not authorized to work in the United States and can face civil penalties for each violation.

We examined a sample of 40 employees and identified 23 for which the required I-9 form was not on file. Three of the employees were hired during the fiscal year under audit.

The Federal Immigration Reform and Control Act mandates that employers certify the employment eligibility of all new employees hired on or after November 7, 1986 by requiring completion of the I-9 within three days of employment. According to the State Personnel Manual, agencies are required to retain I-9 forms for the duration of the person's employment. If an employee separates, the form must be kept on file for at least three years after the person's start date or for one year after the separation date, whichever is later.

Recommendation: The College should implement procedures that will ensure that employees complete the employment eligibility form (I-9) at the time of hire or no later than the third working day. The College should also implement procedures to ensure that I-9 retention requirements are being met.

College's Response: The College accepts and agrees with the finding. The College was able to complete I-9 forms on all of the employees identified in the sample. The College is currently reviewing all personnel files to insure that we have proper documentation on all employees. Before any new hire is set up for payroll, the Personnel Director will review documentation to insure I-9 forms are completed. No paycheck will be issued without the I-9 forms completed. All I-9 forms will be kept on file for the required retention period.

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

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