



# STATE OF NORTH CAROLINA

**HALIFAX COMMUNITY COLLEGE**

**WELDON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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, 2009**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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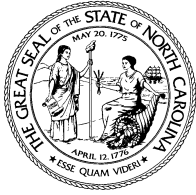
**BOARD OF TRUSTEES**

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

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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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, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2009, 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 4.64 percent, 4.73 percent, and .37 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, 2009, 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.

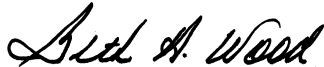
As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA  
State Auditor

February 24, 2010

## **HALIFAX COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 Changes 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 \$762,811.81 at June 30, 2009.

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 to Financial Statements 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 2008-2009.

### **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 \$474,309.56 for the fiscal year ending June 30, 2009. The decline in net assets represents almost a three percent (2.86%) decrease over the prior reporting period.

The decrease in net assets of \$474,309.56 can be attributed to the following: Expenses exceeded revenues and other nonoperating revenues for the year ending June 30, 2009. However, since depreciation expense is not funded it accounts for the majority of the decrease.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, \$1,120,949.22) represents resources that are subject to external restrictions on how they may be used. The remaining balance, \$306,499.19 of net assets, two percent (2%), may be used to meet the College's ongoing obligations to citizens and creditors.

### Condensed Statement of Net Assets

	2009	2008	Increase (Decrease)	Percent Change
<b>Assets:</b>				
Current	\$ 1,453,489.75	\$ 1,762,835.62	\$ (309,345.87)	-17.55%
Capital Assets, Net	14,666,374.80	15,032,855.50	(366,480.70)	-2.44%
Other Noncurrent	924,235.14	760,100.84	164,134.30	21.59%
<b>Total Assets</b>	<b>17,044,099.69</b>	<b>17,555,791.96</b>	<b>(511,692.27)</b>	<b>-2.91%</b>
<b>Liabilities:</b>				
Current	343,710.41	349,410.23	(5,699.82)	-1.63%
Noncurrent	606,566.07	638,248.96	(31,682.89)	-4.96%
<b>Total Liabilities</b>	<b>950,276.48</b>	<b>987,659.19</b>	<b>(37,382.71)</b>	<b>-3.78%</b>
<b>Net Assets:</b>				
Invested in Capital Assets	14,666,374.80	15,032,855.50	(366,480.70)	-2.44%
Restricted Assets	1,120,949.22	1,130,742.48	(9,793.26)	-0.87%
Unrestricted Assets	306,499.19	404,534.79	(98,035.60)	-24.23%
<b>Total Net Assets</b>	<b>\$ 16,093,823.21</b>	<b>\$ 16,568,132.77</b>	<b>\$ (474,309.56)</b>	<b>-2.86%</b>

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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2009	2008 Restated	Increase (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 441,893.88	\$ 465,528.23	\$ (23,634.35)	-5.08%
Sales and Services, Net	632,595.99	719,629.63	(87,033.64)	-12.09%
Other Operating Revenues	45,599.69	22,513.45	23,086.24	102.54%
<b>Total Operating Revenues</b>	<b>1,120,089.56</b>	<b>1,207,671.31</b>	<b>(87,581.75)</b>	<b>-7.25%</b>
<b>Operating Expenses:</b>				
Personal Services	11,190,264.29	10,625,245.06	565,019.23	5.32%
Supplies and Materials	1,254,855.27	1,267,587.02	(12,731.75)	-1.00%
Services	975,807.28	1,346,867.45	(371,060.17)	-27.55%
Scholarships and Fellowships	1,861,099.21	1,319,214.50	541,884.71	41.08%
Utilities	389,514.74	382,345.90	7,168.84	1.87%
Depreciation	476,591.56	470,274.51	6,317.05	1.34%
<b>Total Operating Expenses</b>	<b>16,148,132.35</b>	<b>15,411,534.44</b>	<b>736,597.91</b>	<b>4.78%</b>
<b>Operating Loss</b>	<b>(15,028,042.79)</b>	<b>(14,203,863.13)</b>	<b>(824,179.66)</b>	<b>5.80%</b>
<b>Nonoperating Revenues:</b>				
State Aid	8,092,529.82	8,580,910.30	(488,380.48)	-5.69%
State Aid - Federal Recovery Funds	440,319.23		440,319.23	
County Appropriations	1,057,736.97	1,075,065.48	(17,328.51)	-1.61%
Noncapital Grants- Financial Aid	2,741,080.73	2,641,699.30	99,381.43	
Noncapital Grants	1,748,762.99	832,195.49	916,567.50	110.14%
Noncapital Gifts	120,138.37	95,892.10	24,246.27	25.28%
Investment Income (Loss)	(23,407.70)	24,493.13	(47,900.83)	-195.57%
Other Nonoperating Revenues	95,917.54	129,607.56	(33,690.02)	-25.99%
<b>Net Nonoperating Revenues</b>	<b>14,273,077.95</b>	<b>13,379,863.36</b>	<b>893,214.59</b>	<b>6.68%</b>
<b>Loss Before Other Revenues, Expenses, Gains, and Losses</b>	<b>(754,964.84)</b>	<b>(823,999.77)</b>	<b>69,034.93</b>	<b>-8.38%</b>
<b>Other Revenues</b>	<b>280,655.28</b>	<b>329,663.83</b>	<b>(49,008.55)</b>	<b>-14.87%</b>
<b>Decrease in Net Assets</b>	<b>\$ (474,309.56)</b>	<b>\$ (494,335.94)</b>	<b>\$ 20,026.38</b>	<b>-4.05%</b>

The 2008 amounts listed in this report have been restated from the prior year financial statements to account for changes in rules that most "Grants and Contracts" under operating revenue be classified as "Noncapital Grants" under nonoperating revenue.

Total operating revenues for Halifax Community College decreased over seven percent (7.25%), or \$87,581.75. The majority of the decrease came from a reduction of Sales and Services because revenue was less at The Centre due to fewer shows being held during the year.

The total nonoperating revenue increased by \$893,214.59 over fiscal year 2008, which is almost a seven percent increase (6.68%). State Aid was down \$488,380.48, however the reduction was made up by Federal Recovery Funds passed through the state in the amount of \$440,319.23. Noncapital Grants increased \$916,567.50 which offset small decreases in other nonoperating revenues. The College had several new grants like the Freedom to Learn Initiative that accounted for the increase. Also financial aid for students increased due to more students being eligible for Pell.

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

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Operating expense for fiscal year 2009 increased by \$736,597.91, almost five percent (4.78%) over fiscal year 2008. Personal services increased by \$565,019.23 due to the effects of pay increases for employees and also due to personnel being added because of new grants like the Freedom to Learn. Services decreased \$371,060.17 from fiscal year 2008. The decrease was due to fewer performances at The Centre which was \$208,094.25 less than 2008. Other factors for the decrease were employees doing less travel and reducing outside services due to the reduction in the State budget. Scholarships and Fellowships increased over fiscal year 2008 by \$541,884.71 due to larger student enrollment and more students eligible for financial aid.

### **Capital Assets**

The College has restricted net assets of \$352,536.71 for Capital Projects. There is \$184,467.31 remaining from the State 2000 Bond for Higher Education for Capital Projects and New Construction. Before any amount can be spent, projects have to be approved by the North Carolina Community College System. A portion of that reserve was used at the beginning of the 09-10 fiscal year for a campus wide lighting project. The remaining \$168,069.40 represents allocations from the County to be spent on maintenance equipment and improvements to the buildings and grounds.

### **Economic Forecast**

Halifax Community College's enrollment for the fall 2009 semester had an enrollment increase of twenty four percent (24%) over last year. Also the College welcomed the Roanoke Valley Early College on campus to start the fall semester. The Early College consists of 7th & 8th grade students that will complete their high school education and also will be able to take college courses at HCC. The College received a \$600,000 Freedom to Learn Initiative Grant to help increase the retention rate among African-American males last year which will extend into the June 30, 2010 year. The College also has received funding for the Jobs Now, 12 in 6 Initiative. This will provide funding of over \$360,000 to provide training for displaced workers.

Unfortunately, because of the projected State budget shortfall, the college is required to revert back five percent (5%) of the state revenue along with other cuts. The combined reduction in the State budget for the 09-10 year will be over \$665,000. This will be a challenge to manage the increased enrollment with less money. The College continues to work with the County Commissioners in both our service areas of Halifax and Northampton Counties; however both counties reduced the allotment for the 09-10 year for a combined decrease of almost \$70,000.

The College remains optimistic about its future and believes it will be an integral part of economic recovery for the service area.

### **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, 2009**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 566,210.43
Restricted Cash and Cash Equivalents	255,215.70
Short-Term Investments	82,155.34
Restricted Short-Term Investments	52,372.97
Receivables, Net (Note 4)	281,272.25
Inventories	202,974.81
Notes Receivable, Net (Note 4)	13,288.25
	<hr/>
Total Current Assets	1,453,489.75

Noncurrent Assets:

Restricted Cash and Cash Equivalents	169,351.27
Restricted Due from Primary Government	183,463.63
Endowment Investments	571,420.24
Capital Assets - Nondepreciable (Note 5)	194,800.00
Capital Assets - Depreciable, Net (Note 5)	14,471,574.80
	<hr/>
Total Noncurrent Assets	15,590,609.94
	<hr/>
Total Assets	17,044,099.69

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	176,926.84
Unearned Revenue	26,194.43
Funds Held for Others	11,209.99
Long-Term Liabilities - Current Portion (Note 7)	129,379.15
	<hr/>
Total Current Liabilities	343,710.41

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	606,566.07
	<hr/>
Total Liabilities	950,276.48

**NET ASSETS**

Invested in Capital Assets	14,666,374.80
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	571,420.24
Expendable:	
Scholarships and Fellowships	141,045.65
Loans	24,068.41
Capital Projects	352,536.71
Restricted for Specific Programs	31,878.21
Unrestricted	306,499.19
	<hr/>
Total Net Assets	\$ 16,093,823.21

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, 2009***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 441,893.88
Sales and Services, Net (Note 9)	632,595.99
Other Operating Revenues	45,599.69
	<hr/>
Total Operating Revenues	1,120,089.56
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	11,190,264.29
Supplies and Materials	1,254,855.27
Services	975,807.28
Scholarships and Fellowships	1,861,099.21
Utilities	389,514.74
Depreciation	476,591.56
	<hr/>
Total Operating Expenses	16,148,132.35
	<hr/>
Operating Loss	(15,028,042.79)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,092,529.82
State Aid- Federal Recovery Funds	440,319.23
County Appropriations	1,057,736.97
Noncapital Grants - Federal Student Financial Aid	2,741,080.73
Noncapital Grants	1,748,762.99
Noncapital Gifts	120,138.37
Investment Loss	(23,407.70)
Other Nonoperating Revenues	95,917.54
	<hr/>
Net Nonoperating Revenues	14,273,077.95
	<hr/>
Loss Before Other Revenues	(754,964.84)
	<hr/>
State Capital Aid	190,096.75
County Capital Aid	73,542.03
Capital Grants	17,016.50
	<hr/>
Decrease in Net Assets	(474,309.56)

**NET ASSETS**

Net Assets, July 1, 2008	16,568,132.77
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Net Assets, June 30, 2009	\$ 16,093,823.21
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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, 2009***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,149,686.69
Payments to Employees and Fringe Benefits	(11,179,352.26)
Payments to Vendors and Suppliers	(2,642,008.72)
Payments for Scholarships and Fellowships	(1,861,099.21)
Loans Issued to Students	(7,823.04)
Collection of Loans to Students	5,178.71
Other Receipts	107,002.84
	<hr/>
Net Cash Used by Operating Activities	(14,428,414.99)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,092,529.82
State Aid -Federal Recovery Funds	440,319.23
County Appropriations	1,057,736.97
Noncapital Grants Student Financial Aid	2,741,080.73
Noncapital Grants	1,924,330.84
Noncapital Gifts	120,138.37
	<hr/>
Cash Provided by Noncapital Financing Activities	14,376,135.96

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	150,030.32
County Capital Aid	73,542.03
Capital Grants Received	17,016.50
Acquisition and Construction of Capital Assets	(126,382.33)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	114,206.52

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	251,049.50
Investment Income	35,617.79
Purchase of Investments and Related Fees	(277,006.58)
	<hr/>
Net Cash Provided by Investing Activities	9,660.71

Net Increase in Cash and Cash Equivalents	71,588.20
Cash and Cash Equivalents, July 1, 2008	919,189.20
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 990,777.40

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

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

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

Operating Loss	\$ (15,028,042.79)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	476,591.56
Provision for Uncollectible Loans and Write-Offs	(5,318.56)
Miscellaneous Nonoperating Income	112,189.01
Changes in Assets and Liabilities:	
Receivables, Net	28,928.67
Inventories	27,264.16
Notes Receivable, Net	(2,644.33)
Accounts Payable and Accrued Liabilities	(36,813.32)
Due to State of North Carolina Component Units	(176.00)
Unearned Revenue	5,737.43
Funds Held for Others	(874.16)
Compensated Absences	(5,256.66)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (14,428,414.99)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 566,210.43
Restricted Cash and Cash Equivalents	255,215.70
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/>
	169,351.27
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 990,777.40</u></u>

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

Change in Fair Value of Investments	\$ (59,025.49)
Capital Asset Write-Offs	16,271.47
Increase in Receivables Related to Nonoperating Income	40,066.43

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

**HALIFAX COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 Units** - Although legally separate, Halifax Community College Foundation 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, 2009, the Foundation made no distributions to the College. Separate financial statements for the Foundation may be obtained from the College Controller's Office, Halifax Community College, PO 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 decrease 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, employees, and private sources in connection with



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction. 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, 10 to 75 years for buildings, and 2 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 the 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$10,775.12, and deposits in private financial institutions with a carrying value of \$980,002.28, and a bank balance of \$1,107,272.40. Certificates of deposit with a carrying value of \$474,617.50 and a bank balance of \$474,617.50 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, 2009, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, 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.

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 to 5
Debt Securities			
Domestic Corporate Bonds	\$ 25,064.03	\$ 0.00	\$ 25,064.03
Other Securities			
Certificates of Deposit	474,617.50		
Mutual Funds	198,024.31		
Domestic Stocks	4,595.40		
Money Market Funds	3,647.31		
Total Investments	\$ 705,948.55		

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the College's investments were rated as follows:

	Fair Value	AA2
Domestic Corporate Bonds	\$ 25,064.03	\$ 25,064.03

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
Domestic Corporate Bonds	\$ 25,064.03
Domestic Stocks	4,595.40
Mutual Funds	198,024.31
Total	\$ 227,683.74

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2009, is as follows:

Cash on Hand	\$ 10,775.12
Carrying Amount of Deposits with Private Financial Institutions	980,002.28
Other Investments	705,948.55
Total Deposits and Investments	\$ 1,696,725.95
Current:	
Cash and Cash Equivalents	\$ 566,210.43
Restricted Cash and Cash Equivalents	255,215.70
Short-Term Investments	82,155.34
Restricted Short-Term Investments	52,372.97
Noncurrent:	
Restricted Cash and Cash Equivalents	169,351.27
Endowment Investments	571,420.24
Total	\$ 1,696,725.95

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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, 2009, the College had no appreciation in the value of their investments.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 153,272.75	\$ 43,865.31	\$ 109,407.44
Accounts	71,746.01		71,746.01
Intergovernmental	84,859.51		84,859.51
Employees	20,187.59	4,928.30	15,259.29
<b>Total Current Receivables</b>	<b>\$ 330,065.86</b>	<b>\$ 48,793.61</b>	<b>\$ 281,272.25</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 18,715.84	\$ 5,427.59	\$ 13,288.25
<b>Total Notes Receivable - Current</b>	<b>\$ 18,715.84</b>	<b>\$ 5,427.59</b>	<b>\$ 13,288.25</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 194,800.00	\$ 0.00	\$ 0.00	\$ 194,800.00
<b>Total Capital Assets, Nondepreciable</b>	<b>194,800.00</b>			<b>194,800.00</b>
Capital Assets, Depreciable:				
Buildings	18,034,298.66	69,000.00		18,103,298.66
Machinery and Equipment	1,562,129.09	57,382.33	32,400.12	1,587,111.30
General Infrastructure	321,506.35			321,506.35
Total Capital Assets, Depreciable	19,917,934.10	126,382.33	32,400.12	20,011,916.31
Less Accumulated Depreciation:				
Buildings	4,310,714.52	361,644.27		4,672,358.79
Machinery and Equipment	710,575.75	108,516.97	16,128.65	802,964.07
General Infrastructure	58,588.33	6,430.32		65,018.65
Total Accumulated Depreciation	5,079,878.60	476,591.56	16,128.65	5,540,341.51
<b>Total Capital Assets, Depreciable, Net</b>	<b>14,838,055.50</b>	<b>(350,209.23)</b>	<b>(16,271.47)</b>	<b>14,471,574.80</b>
<b>Capital Assets, Net</b>	<b>\$ 15,032,855.50</b>	<b>\$ (350,209.23)</b>	<b>\$ (16,271.47)</b>	<b>\$ 14,666,374.80</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 29,779.86
Accrued Payroll	147,146.98
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 176,926.84</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 741,201.88	\$ 665,746.79	\$ 671,003.45	\$ 735,945.22	\$ 129,379.15



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for rental of office equipment. Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 57,952.48
2011	17,839.20
2012	10,401.70
2013	<u>4,194.30</u>
Total Minimum Lease Payments	<u>\$ 90,387.68</u>

Rental expense for all operating leases during the year was \$46,753.72.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 1,360,296.68</u>	<u>\$ 0.00</u>	<u>\$ 897,989.21</u>	<u>\$ 20,413.59</u>	<u>\$ 441,893.88</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Patron Fee - Cosmetology	\$ 26,723.82	\$ 0.00	\$ 0.00	\$ 0.00	\$ 26,723.82
Patron Fee - Child Care	176,692.23			3,129.87	173,562.36
Patron Fee - Dental Hygiene	39,556.00				39,556.00
The Centre (Performing Arts)	98,345.84				98,345.84
Bookstore	985,527.92	24,352.21	671,304.88	9,060.53	280,810.30
Vending	10,967.67				10,967.67
Wellness Center	30.00				30.00
Other	<u>2,600.00</u>				<u>2,600.00</u>
<b>Total Sales and Services</b>	<u>\$ 1,340,443.48</u>	<u>\$ 24,352.21</u>	<u>\$ 671,304.88</u>	<u>\$ 12,190.40</u>	<u>\$ 632,595.99</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 6,366,433.32	\$ 229,937.78	\$ 232,762.92	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,829,134.02
Academic Support	1,279,535.05	33,986.05	72,338.70				1,385,859.80
Student Services	957,924.95	78,025.13	90,348.53				1,126,298.61
Institutional Support	1,773,100.70	74,163.63	311,575.77				2,158,840.10
Operations and Maintenance of Plant	448,540.29	56,682.71	92,570.23		389,514.74		987,307.97
Student Financial Aid		30.74	21,588.47	1,861,099.21			1,882,718.42
Auxiliary Enterprises	364,729.98	782,029.23	154,622.66				1,301,381.87
Depreciation						476,591.56	476,591.56
<b>Total Operating Expenses</b>	<b>\$ 11,190,264.29</b>	<b>\$ 1,254,855.27</b>	<b>\$ 975,807.28</b>	<b>\$ 1,861,099.21</b>	<b>\$ 389,514.74</b>	<b>\$ 476,591.56</b>	<b>\$ 16,148,132.35</b>

### 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 established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

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

For the current fiscal year, the College had a total payroll of \$9,823,764.90, of which \$7,979,032.14 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$268,095.48 and \$478,741.93, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$268,095.48, \$227,881.13, and \$195,665.95, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$86,731.52 for the year ended June 30, 2009.

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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2009, were \$1,447.20. The voluntary contributions by employees amounted to \$107,882.00 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009.

### 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 3A, 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$327,140.32, \$306,332.02, and \$279,522.79, respectively. The College assumes no liability for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$41,490.97, \$38,851.86, and \$38,250.49, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The 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 retains the risk for the \$10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Employees paid from county and institutional funds are covered by commercial insurance with coverage of \$100,000 and a \$1,000 deductible.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### NOTE 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. 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 attorney for the HCC Board of Trustees continues to work with the attorney for Utica National Insurance Group. It is anticipated that any settlement of this matter would be covered by the College's commercial general liability coverage.

The College is a party to no other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

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





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

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

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Board of Trustees  
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, 2009, and have issued our report thereon dated February 24, 2010. 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of 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.

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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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



Beth A. Wood, CPA  
State Auditor

February 24, 2010

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

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