

STATE OF NORTH CAROLINA

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

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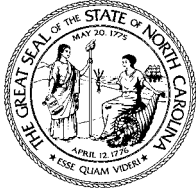
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Beth A. Wood, CPA
State Auditor

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Office of the 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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

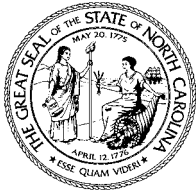
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

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, 2011, 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 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. 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 provides a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of Halifax Community College as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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



Beth A. Wood, CPA
State Auditor

May 17, 2012

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, Inc. had total net assets of \$961,400.00 at June 30, 2011.

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 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.

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.

Capital acquisitions totaled \$308,314.89 for the year ended June 30, 2011. The College did not acquire any debt in 2010-2011.

Institutional Financial Analysis

As noted earlier, net assets can serve as a useful indicator of the College's financial position. Net assets for Halifax Community College increased \$250,439.79 for the fiscal year ending June 30, 2011 to \$16,196,281.51.

The increase in net assets of \$250,439.79 can be attributed to the following: Operating, Nonoperating and Other Revenues exceeded expenses for the year ending June 30, 2011. Several institutional funds and the Foundation accounted for this. Net assets for the Foundation increased \$150,976.00 due to increases in donations and unrealized gains in investments. The Child Care Center net assets increased \$178,529.52. The College was able

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

to use state funds for the salaries for the Child Care Center because the facility is used for instruction of students. Because of this, the College received \$172,153.19 more in nonoperating revenues from state aid.

The majority of the College's net assets, eighty-seven percent (87%) reflect its investment in capital assets (i.e., land, buildings, machinery, and equipment). Capital assets are used by the College to provide services to citizens and are not available for future spending. An additional portion, eight percent (8%), of the College's net assets (restricted net assets, \$1,224,642.25) represents resources that are subject to external restrictions on how they may be used. The remaining balance, \$806,447.99 of net assets, five percent (5%), may be used to meet the College's ongoing obligations to citizens and creditors.

Total liabilities were reduced from \$1,094,074.01 at June 30, 2010 to \$929,305.36 at June 30, 2011, a 15.06% decrease. The \$164,768.65 decrease can be attributed to several factors. The accrued compensated leave liability was reduced by \$58,888.97 because the College had seventeen employees either to leave or retire during the 2011 year and those employees were paid for their accumulated leave which reduced the liability. The College also had liabilities of \$42,353.28 at June 30, 2010 for expenses and accrued payroll for the ARRA Job Link grant, Freedom to Learn grant, and a Golden Leaf grant. Those three grants were finalized during the June 30, 2011 year and did not have any liabilities at year end. The College had a reduction of payables and accrued payroll liabilities for the State Funds in the amount of \$57,959.01 at June 30, 2011. The College had less people that had accrued salaries at June 30th and had funds to pay most of the payables by year end.

Condensed Statement of Net Assets

	2011	Restated 2010	Increase (Decrease)	Percent Change
Assets				
Current	\$ 2,015,138.32	\$ 1,702,818.40	\$ 312,319.92	18.34%
Capital Assets, Net	14,165,191.27	14,388,870.49	(223,679.22)	-1.55%
Other Noncurrent	945,257.28	948,226.84	(2,969.56)	-0.31%
Total Assets	<u>17,125,586.87</u>	<u>17,039,915.73</u>	<u>85,671.14</u>	<u>0.50%</u>
Liabilities				
Current	288,758.57	390,263.76	(101,505.19)	-26.01%
Noncurrent	640,546.79	703,810.25	(63,263.46)	-8.99%
Total Liabilities	<u>929,305.36</u>	<u>1,094,074.01</u>	<u>(164,768.65)</u>	<u>-15.06%</u>
Net Assets				
Invested in Capital Assets	14,165,191.27	14,388,870.49	(223,679.22)	-1.55%
Restricted Assets	1,224,642.25	1,055,139.66	169,502.59	16.06%
Unrestricted Assets	806,447.99	501,831.57	304,616.42	60.70%
Total Net Assets	<u>\$ 16,196,281.51</u>	<u>\$ 15,945,841.72</u>	<u>\$ 250,439.79</u>	<u>1.57%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

Condensed Statement of Revenues and Expenses and Changes in Net Assets

	2011	2010	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 443,562.54	\$ 414,903.52	\$ 28,659.02	6.91%
Sales and Services, Net	558,188.59	628,923.14	(70,734.55)	-11.25%
Other Operating Revenues	47,832.62	54,136.18	(6,303.56)	-11.64%
Total Operating Revenues	1,049,583.75	1,097,962.84	(48,379.09)	-4.41%
Operating Expenses:				
Salaries and Benefits	11,262,747.86	11,253,527.06	9,220.80	0.08%
Supplies and Materials	2,547,673.83	2,046,068.94	501,604.89	24.52%
Services	906,587.56	990,022.76	(83,435.20)	-8.43%
Scholarships and Fellowships	2,806,226.29	2,999,455.90	(193,229.61)	-6.44%
Utilities	436,445.64	390,189.77	46,255.87	11.85%
Depreciation and Amortization	519,064.46	502,021.49	17,042.97	3.39%
Total Operating Expenses	18,478,745.64	18,181,285.92	297,459.72	1.64%
Operating Loss	(17,429,161.89)	(17,083,323.08)	(345,838.81)	2.02%
Nonoperating Revenues:				
State Aid	8,307,696.41	7,610,682.67	697,013.74	9.16%
County Appropriations	1,012,972.81	977,306.43	35,666.38	3.65%
Noncapital Grants- Fed. Financial Aid	5,657,975.13	5,116,845.01	541,130.12	10.58%
Noncapital Grants	1,697,538.42	2,329,462.42	(631,924.00)	-27.13%
Noncapital Gifts	163,691.69	93,133.25	70,558.44	75.76%
Investment Income	67,853.62	43,143.12	24,710.50	57.28%
Other Nonoperating Revenues	61,329.00	94,472.18	(33,143.18)	-35.08%
Net Nonoperating Revenues	16,969,057.08	16,265,045.08	704,012.00	4.33%
Loss Before Other Revenues, Expenses, Gains, and Losses	(460,104.81)	(818,278.00)	358,173.19	-43.77%
Other Revenues	710,544.60	670,296.51	40,248.09	6.00%
Increase in Net Assets	\$ 250,439.79	\$ (147,981.49)	\$ 398,421.28	-269.24%

Total operating revenues for Halifax Community College decreased over four percent (4.41%), or \$48,379.09 from the June 30, 2010 year. Sales and services had a reduction of \$70,734.55 which mainly came from less revenue from ticket sales at the Centre which had fewer performances. Other operating revenues had a reduction of \$6,303.56 from the previous year due to less fees collected for Allied Health Testing. These two reductions offset a \$28,659.02 increase in Student Tuition and Fees to account for the \$48,379.09 in operating revenues.

The total nonoperating revenue increased by \$704,012.00 over fiscal year 2010, which is over a four percent increase (4.33%). Noncapital Grants - Federal Student Financial Aid increased

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

by \$541,130.12. Pell accounted for most of the increase because it was eligible to be awarded for summer school attendance. Pell was \$5,007,879.32 for fiscal year 2010 compared to \$5,551,979.38 for the 2011 year. Other Noncapital Grants decreased by \$631,924.00. The College recognized \$346,820.00 in grants from Golden Leaf for 2010 and did not have those grants for 2011. The College also did not get the NC Earn-Ed Rewards Scholarship grant of \$218,000.00 that it got the previous year. State Aid increased by \$697,013.74 because of enrollment growth from the previous year. State Aid is awarded based on the previous year student enrollment. Investment income increased by \$24,710.50 due to increases in market value of investments as opposed to the previous year decline in market value.

Operating expenses for fiscal year 2011 increased by \$297,459.72, or 1.64 percent. Supplies and materials increased by \$501,604.89 due to several factors. The college bought more in minor equipment over the previous year. The increase was mainly for the replacement of aging computers campus wide. Minor equipment is expensed rather than capitalized. Also more supplies and materials were purchased for new grants like the Predominantly Black Institution.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The statement of Cash Flows also helps users assess the College's:

- Ability to generate future net cash flows,
- Ability to meet its obligation as they come due, and
- Any need for external financing.

Condensed Statement of Cash Flows For Year Ended June 30, as Indicated

	2011	2010	Change	Percent Change
Cash provided (Used) by				
Operating Activities	\$ (16,947,647.49)	\$ (16,323,557.19)	\$ (624,090.30)	-3.82%
Noncapital Financing Activities	16,657,619.47	16,240,804.68	416,814.79	2.57%
Capital Financing Activities	512,773.46	98,959.33	413,814.13	418.17%
Investing Activities	3,400.79	4,397.56	(996.77)	-22.67%
Net Change in Cash	226,146.23	20,604.38	205,541.85	997.56%
Cash, Beginning of Year	1,011,381.78	990,777.40	20,604.38	2.08%
Cash, End of Year	\$ 1,237,528.01	\$ 1,011,381.78	\$ 226,146.23	22.36%

The College increased Cash by \$226,146.23 during the year for an ending balance of \$1,237,528.01 at June 30, 2011.

Major sources of funds for the operating activities were provided by student tuition and fees and by auxiliary enterprises (\$1.04 million). Major uses of funds in operating activities were

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

for employee compensation (\$11.4 million), payments to suppliers (\$3.9 million), and scholarships (\$2.8 million).

The largest inflow of funds is the aid from the State of North Carolina (\$8.3 million), county appropriations (\$1.01 million), and noncapital grants - federal financial aid (\$5.7 million). These are shown as nonoperating revenue per Government Accounting Standard Board (GASB) Statement No. 35. \$1.6 million in noncapital grants is from several grants like the Freedom to Learn (\$500,000) and Student Support Services (\$300,000). The College processed Direct Lending Loans for students for \$2.8 million.

Economic Forecast

The College did receive additional funding for enrollment growth from the State budget as State Aid is based on the previous year enrollment; however the budget was reduced by \$701,213 through a Management Flexibility Reduction, because of the projected State budget shortfall. The college is also required to hold in reserve two percent (2%) of the total state revenue (\$213,500) for possible budget reversions later in the fiscal year. Funding was also cut to the prison education program. The state moved most of the prison program from curriculum to Continuing Education. The net result will give the College about \$455,000 less in State Aid in fiscal year 2011-2012. No increase in county allocations was received for fiscal year 2011-2012.

The College is also in the second year of the Roanoke Valley Early College program. The Early College program consists of grades eight through eleven. The students will be able to complete their high school education and also take college courses at the College. The College also got a renewal for the PBI (Predominately Black Institution) grant. The College will receive \$250,000 in aid for the next five years for a total of \$1,250,000.

The College still 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 the 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, 2011

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 822,882.03
Restricted Cash and Cash Equivalents	413,588.53
Short-Term Investments	89,270.91
Restricted Short-Term Investments	76,038.86
Receivables, Net (Note 4)	427,654.89
Inventories	182,905.85
Notes Receivable, Net (Note 4)	<u>2,797.25</u>
Total Current Assets	<u>2,015,138.32</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,057.45
Restricted Due from Primary Government	6,752.35
Restricted Due from State of North Carolina Component Units	236,276.25
Restricted Investments	701,171.23
Capital Assets - Nondepreciable (Note 5)	194,800.00
Capital Assets - Depreciable, Net (Note 5)	<u>13,970,391.27</u>
Total Noncurrent Assets	<u>15,110,448.55</u>

Total Assets	<u>17,125,586.87</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	157,288.41
Unearned Revenue	37,313.53
Funds Held for Others	7,387.89
Long-Term Liabilities - Current Portion (Note 7)	<u>86,768.74</u>
Total Current Liabilities	<u>288,758.57</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>640,546.79</u>
Total Noncurrent Liabilities	<u>640,546.79</u>
Total Liabilities	<u>929,305.36</u>

***Halifax Community College
Statement of Net Assets
June 30, 2011***

***Exhibit A-1
Page 2 of 2***

NET ASSETS

Invested in Capital Assets	14,165,191.27
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	703,673.17
Expendable:	
Scholarships and Fellowships	192,678.39
Loans	15,497.12
Capital Projects	7,809.80
Restricted for Specific Programs	304,983.77
Unrestricted	<u>806,447.99</u>
Total Net Assets	<u><u>\$ 16,196,281.51</u></u>

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, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 443,562.54
Sales and Services, Net (Note 9)	558,188.59
Other Operating Revenues	47,832.62
	<hr/>
Total Operating Revenues	1,049,583.75
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EXPENSES

Operating Expenses:	
Salaries and Benefits	11,262,747.86
Supplies and Materials	2,547,673.83
Services	906,587.56
Scholarships and Fellowships	2,806,226.29
Utilities	436,445.64
Depreciation/ Amortization	519,064.46
	<hr/>
Total Operating Expenses	18,478,745.64
	<hr/>
Operating Loss	(17,429,161.89)
	<hr/>

NONOPERATING REVENUES

State Aid	8,307,696.41
County Appropriations	1,012,972.81
Noncapital Grants - Federal Student Financial Aid	5,657,975.13
Noncapital Grants	1,697,538.42
Noncapital Gifts	163,691.69
Investment Income	67,853.62
Other Nonoperating Revenues	61,329.00
	<hr/>
Nonoperating Revenues	16,969,057.08
	<hr/>
Loss Before Other Revenues	(460,104.81)
	<hr/>
State Capital Aid	520,628.92
County Capital Aid	11,576.19
Capital Grants	178,339.49
	<hr/>
Increase in Net Assets	250,439.79
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NET ASSETS

Net Assets, July 1, 2010	15,945,841.72
	<hr/>
Net Assets, June 30, 2011	\$ 16,196,281.51
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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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,038,504.60
Payments to Employees and Fringe Benefits	(11,379,122.08)
Payments to Vendors and Suppliers	(3,879,857.24)
Payments for Scholarships and Fellowships	(2,806,226.29)
Loans Issued to Students	(2,470.96)
Collection of Loans to Students	2,362.17
Other Receipts	79,162.31
	<hr/>
Net Cash Used by Operating Activities	(16,947,647.49)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,307,696.41
County Appropriations	1,012,972.81
Noncapital Grants - Federal Student Financial Aid	5,657,975.13
Noncapital Grants Received	1,572,635.20
Noncapital Gifts and Endowments Received	103,855.69
William D. Ford Direct Lending Receipts	2,788,190.23
William D. Ford Direct Lending Disbursements	(2,785,706.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	16,657,619.47

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	520,628.92
County Capital Aid	11,576.19
Capital Grants Received	288,883.24
Acquisition and Construction of Capital Assets	(308,314.89)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	512,773.46

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	307,282.82
Investment Income	22,983.21
Purchase of Investments and Related Fees	(326,865.24)
	<hr/>
Net Cash Provided by Investing Activities	3,400.79

Net Increase in Cash and Cash Equivalents	226,146.23
Cash and Cash Equivalents, July 1, 2010	1,011,381.78
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 1,237,528.01

Halifax Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (17,429,161.89)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	519,064.46
Provision for Uncollectible Loans and Write-Offs	6,017.76
Miscellaneous Nonoperating Income	74,258.65
Changes in Assets and Liabilities:	
Receivables, Net	3,769.92
Inventories	45,765.28
Notes Receivable, Net	(108.79)
Accounts Payable and Accrued Liabilities	(100,059.65)
Unearned Revenue	(13,207.92)
Funds Held for Others	4,903.66
Compensated Absences	(58,888.97)
	<u>(58,888.97)</u>
Net Cash Used by Operating Activities	<u><u>\$ (16,947,647.49)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 822,882.03
Restricted Cash and Cash Equivalents	413,588.53
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,057.45
	<u>1,057.45</u>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 1,237,528.01</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Investments Acquired through a Gift	\$ 59,836.00
Change in Fair Value of Investments	45,107.02
Increase in Receivables Related to Nonoperating Income	127,405.16
Capital Asset Write-Offs	36,837.06

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

HALIFAX COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Halifax Community College, 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.

- 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

Certificates of deposits and 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line 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 require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Cash on hand at June 30, 2011 was \$3,577.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$1,387,926.76, and the bank balance of \$1,503,670.11.

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

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; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, 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	Investments			
	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Domestic Corporate Bonds	\$ 229,274.11	\$ 76,680.61	\$ 103,607.00	\$ 48,986.50
Other Securities				
Certificates of Deposit	153,975.75			
Mutual Funds	253,759.02			
Domestic Stocks	5,810.85			
Money Market Fund	223,661.27			
Total Investments	\$ 866,481.00			

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2011, the College's investments were rated as follows:

	Value	AA3	AA2	A3	A2
Domestic Corporate Bonds	\$ 229,274.11	\$ 99,390.00	\$ 25,445.73	\$ 25,562.20	\$ 78,876.18

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	\$ 229,274.11
Domestic Stocks	5,810.85
Mutual Funds	253,759.02
Money Market Fund	223,661.27
Total	\$ 712,505.25

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	\$ 3,577.00
Carrying Amount of Deposits with Private Financial Institutions	1,387,926.76
Other Investments	712,505.25
Total Deposits and Investments	\$ 2,104,009.01
Current:	
Cash and Cash Equivalents	\$ 822,882.03
Restricted Cash and Cash Equivalents	413,588.53
Short-Term Investments	89,270.91
Restricted Short-Term Investments	76,038.86
Noncurrent:	
Restricted Cash and Cash Equivalents	1,057.45
Endowment Investments	701,171.23
Total	\$ 2,104,009.01

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, 2011, endowment net assets of \$ \$42,368.47 were available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 180,222.17	\$ 81,057.76	\$ 99,164.41
Accounts	49,548.32		49,548.32
Employees	2,841.11		2,841.11
Intergovernmental	273,102.11		273,102.11
Other	2,998.94		2,998.94
Total Current Receivables	<u>\$ 508,712.65</u>	<u>\$ 81,057.76</u>	<u>\$ 427,654.89</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	4,907.46	2,110.21	2,797.25
Total Notes Receivable - Current	<u>\$ 4,907.46</u>	<u>\$ 2,110.21</u>	<u>\$ 2,797.25</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 194,800.00	\$ 0.00	\$ 0.00	\$ 194,800.00
Total Capital Assets, Nondepreciable	<u>194,800.00</u>			<u>194,800.00</u>
Capital Assets, Depreciable:				
Buildings	18,111,761.14			18,111,761.14
Machinery and Equipment	1,724,917.20	308,314.89	36,837.06	1,996,395.03
General Infrastructure	399,755.15			399,755.15
Total Capital Assets, Depreciable	<u>20,236,433.49</u>	<u>308,314.89</u>	<u>36,837.06</u>	<u>20,507,911.32</u>
Less Accumulated Depreciation:				
Buildings	5,035,429.35	363,155.16		5,398,584.51
Machinery and Equipment	933,658.87	146,349.02	23,907.41	1,056,100.48
General Infrastructure	73,274.78	9,560.28		82,835.06
Total Accumulated Depreciation	<u>6,042,363.00</u>	<u>519,064.46</u>	<u>23,907.41</u>	<u>6,537,520.05</u>
Total Capital Assets, Depreciable, Net	<u>14,194,070.49</u>	<u>(210,749.57)</u>	<u>(12,929.65)</u>	<u>13,970,391.27</u>
Capital Assets, Net	<u>\$ 14,388,870.49</u>	<u>\$ (210,749.57)</u>	<u>\$ (12,929.65)</u>	<u>\$ 14,165,191.27</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 37,732.17
Accrued Payroll	<u>119,556.24</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 157,288.41</u>

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	<u>\$ 786,204.50</u>	<u>\$ 613,983.98</u>	<u>\$ 672,872.95</u>	<u>\$ 727,315.53</u>	<u>\$ 86,768.74</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	<u>Amount</u>
2012	\$ 46,740.92
2013	35,354.48
2014	32,886.48
2015	28,171.28
2016	<u>9,670.58</u>
Total Minimum Lease Payments	<u>\$ 152,823.74</u>

Rental expense for all operating leases during the year was \$45,918.21.

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>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 2,403,664.88</u>	<u>\$ 0.00</u>	<u>\$ 1,919,427.21</u>	<u>\$ 40,675.13</u>	<u>\$ 443,562.54</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Facility	\$ 1,045.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,045.00
Patron Fee - Cosmetology	21,948.75				21,948.75
Patron Fee - Child Care	204,211.10			1,775.07	202,436.03
Patron Fee - Dental Hygiene	31,031.50				31,031.50
The Centre (Performing Arts)	72,707.66				72,707.66
Bookstore	1,593,233.25	32,010.77	1,314,512.40	30,310.88	216,399.20
Vending	9,811.27				9,811.27
Other	2,809.18				2,809.18
Total Sales and Services	<u>\$ 1,936,797.71</u>	<u>\$ 32,010.77</u>	<u>\$ 1,314,512.40</u>	<u>\$ 32,085.95</u>	<u>\$ 558,188.59</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:

	Salaries & Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,382,442.69	\$ 683,198.08	\$ 162,892.23	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,228,532.95
Academic Support	1,245,746.53	65,961.25	16,305.27				1,328,013.05
Student Services	1,310,687.30	219,959.13	171,499.93				1,702,146.36
Institutional Support	1,749,024.65	96,531.35	305,133.86				2,150,689.86
Operations and Maintenance of Plant	423,479.70	50,454.18	82,690.82		436,445.64		993,070.34
Student Financial Aid			7,188.89	2,806,226.29			2,813,415.18
Auxiliary Enterprises	151,366.99	1,431,569.89	160,876.56				1,743,813.44
Depreciation						519,064.46	519,064.46
Total Operating Expenses	<u>\$ 11,262,747.86</u>	<u>\$ 2,547,673.83</u>	<u>\$ 906,587.56</u>	<u>\$ 2,806,226.29</u>	<u>\$ 436,445.64</u>	<u>\$ 519,064.46</u>	<u>\$ 18,478,745.64</u>

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 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,788,255.43, of which \$7,638,317.07 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$376,569.03 and \$458,298.83, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$376,569.03, \$274,582.77, and \$268,095.48, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 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 \$46,319.22 for the year ended June 30, 2011.

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, 2011, were \$1,468.90. The voluntary contributions by employees amounted to \$71,596.00 for the year ended June 30, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$996.00 for the year ended June 30, 2011.

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 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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$374,277.54, \$346,112.73, and \$327,140.32, 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$39,719.25, \$39,995.25, and \$41,490.97. 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 discretely presented component unit 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

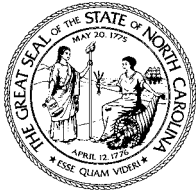
Pending Litigation and Claims - The former President of Halifax Community College filed a lawsuit against members of the College's Board of Trustees. Seven members of the Board of Trustees were named in the lawsuit of which three currently serve on the Board and four are former Board members. The lawsuit 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."

HCC's attorney filed for a summary judgment. In July 2010, the court granted a summary judgment and dismissed the constitutional claim against the Board of Trustees. The breach of contract lawsuit was dismissed February 11, 2011 by the Wake County Superior Court. The former President has appealed this decision.

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.

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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**

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, 2011, and have issued our report thereon dated May 17, 2012.

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.

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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the findings in the Audit Findings and Responses section of this report to be significant deficiencies.

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

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



Beth A. Wood, CPA
State Auditor

May 17, 2012

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

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

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and notes prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections the financial statements could be misleading to users. Misstatements noted during our audit included:

- The net assets restricted for capital projects account was overstated by \$168,348 and the unrestricted net assets account was understated by the same amount.
- The funds held for others account and the accounts receivable account on the College's financial statements did not agree to the accounting records. While preparing the financial statements, the College recognized that these accounts were understated by \$18,948 and made the change to the financial statements but did not adjust the accounting records.
- The prior bookstore liability was not reversed and the current year bookstore liability was not recorded. The net difference was \$3,035. When combined with an overstatement in the accrued payroll account, total accounts payable and accrued liabilities were overstated by \$1,410.

In addition, amounts disclosed in the notes to the financial statements did not always agree with supporting documentation. Examples of these errors are included below:

- The bank balance listed in the Deposits and Investments note was overstated by \$92,662.
- The spreadsheet that supports the amounts reported for compensated absences balance and activity in the Long-Term Liabilities note contained significant errors. Examples of the errors are included below:
 - a) The salary rate listed for 66 of the 177 employees did not agree with the rates shown in the accounting system reports. Since the rates for some employees were over and some were under, the net difference did not cause a material change in the liability computation.
 - b) The College erroneously included six employees that were terminated during the prior year.
 - c) The spreadsheet did not include two current employees.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- d) The leave balances on the spreadsheet for 18 of 36 employees tested did not agree to the balance reported on the year ending paycheck history report. The errors ranged from overstating the leave balance for one employee by 180 hours to understating the leave balance for another employee by over 64 hours.

Good internal controls require adequate review and supervision of subordinates' work. All amounts reported in the financial statements and notes must be supported by appropriate documentation and agreed to the underlying data.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy of the financial statements. Review procedures should be enhanced to ensure that note disclosures agree to the supporting documentation. Amounts reported on the compensated absences spreadsheet should be agreed to supporting documentation.

College Response: The College concurs with the documented deficiencies in its financial reporting. The College will set up procedures to strengthen internal controls in the preparation and review process for the financial statements.

The overstatement of the restricted net assets was the result of general ledger accounts being coded to close out to the incorrect net assets account in the Datatel software program. The accounts are currently being changed to closeout to the proper classification. It should be noted that total net assets was in balance.

The accounts receivable in question has been received and the accounting records were adjusted to reflect this properly.

Procedures will be developed and implemented to ensure all prior year adjusting entries will be reversed and year end adjusting entries set up correctly. The College will also set up procedures that footnotes are reviewed so they will agree with supporting documentation.

The College will provide training to the Personnel Director to ensure that the compensated leave balances will be calculated correctly. The compensated absences spreadsheet will be reviewed to make sure it agrees with supporting documentation.

2. BANK RECONCILIATIONS NOT REVIEWED

The College did not ensure that its bank reconciliations were reviewed for completeness and accuracy by an independent person. As a result, there was an increased risk of error or fraud occurring without detection. Specifically we noted the following:

We reviewed 16 bank reconciliations and found that 10 were not reviewed by anyone other than the preparer. Sound internal control practices should include a review and approval by an independent individual other than the reconciliation preparer.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The College should implement internal controls over the bank reconciliation process. These reconciliations should be reviewed and approved by someone other than the preparer.

College Response: The College concurs with the State auditors. The College had three employees leave in the Business Office during the year and reporting period. This resulted in staff being shifted to handle the work load. Normally the Controller would review bank reconciliations prepared by staff members, however because of the staff turnover the Controller prepared the bank reconciliations. The College will implement internal controls that someone other than the preparer will review and approve the reconciliations.

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