

STATE OF NORTH CAROLINA

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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STATE OF NORTH CAROLINA

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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.

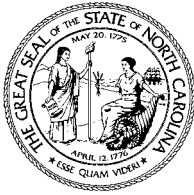
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the 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, 2012, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Halifax Community College as of June 30, 2012, 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 10, 2013 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)

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



Beth A. Wood, CPA
State Auditor

May 10, 2013

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 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, Inc. had total net assets of \$1,041,562 at June 30, 2012.

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.

The Statement of Revenues, Expenses and Changes in Net Assets shows 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 non-operating 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 complete understanding of the data provided.

Capital Asset Activity

Capital acquisitions totaled \$528,160.60 for the year ended June 30, 2012. The most significant acquisitions consisted of \$192,421.92 for upgrades to lighting, \$51,322.32 for network switches, \$43,390.22 for a core switch, \$32,790.48 for servers, \$47,888.97 for security camera installations, \$19,784.68 for expanding wireless access, \$15,497.78 for two rack chassis, \$21,446.57 for two projectors, \$23,342.92 for audio visual upgrades, and \$19,600 for a 2000 Ford F350.

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 decreased by \$129,842.56 for the fiscal year ended June 30, 2012, to \$16,066,438.95.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted Net Assets increased \$646,549.64 during the year. The increase is the result of more money received for scholarships, including a \$155,000 donation from the foundation, an increase in capital projects of \$241,408.27 for future renovations, and the acceptance of a new grant, Predominantly Black Institute grant, of \$138,000. Unrestricted Net Assets decreased \$732,340.20. The majority of the decrease is the result of an increase of interfund borrowing of \$353,789.00. More unrestricted cash was used to cover deficit restricted cash balances mainly due to untimely billings of restricted grants. In addition, the decrease was also the result of less operating activities of \$232,977, as explained below.

Most of the College's net assets, eighty-eight percent (88%), are invested in capital assets (land, buildings, machinery, and equipment). Eleven percent (12%) of the College's net assets (restricted net assets, \$1,871,191.89) represents resources that have external restrictions on how they may be used. The remaining net asset balance of \$74,107.79 is available to meet the College's ongoing obligations to citizens and creditors.

Total liabilities increased by 20% or \$189,342.63. This increase can be attributed to the following factors. The attrition rate of employees decreased so the accrual for compensated leave increased by \$61,820.96. In addition, accrued salaries increased by \$120,000 as the result of more faculty being paid over a 12 month period. Faculty were previously paid over 9 to 10 months. Accrued payroll will include faculty salaries earned but not yet paid.

Condensed Statement of Net Assets				
	2012	2011	Increase (Decrease)	Percent Change
Assets				
Current	\$ 1,851,048.98	\$ 2,015,138.32	\$ (164,089.34)	-8.14%
Capital Assets, Net	14,121,139.27	14,165,191.27	(44,052.00)	-0.31%
Other Noncurrent	1,212,898.69	945,257.28	267,641.41	28.31%
Total Assets	17,185,086.94	17,125,586.87	59,500.07	0.35%
Liabilities				
Current	435,808.20	288,758.57	147,049.63	50.92%
Noncurrent	682,839.79	640,546.79	42,293.00	6.60%
Total Liabilities	1,118,647.99	929,305.36	189,342.63	20.37%
Net Assets				
Invested in Capital Assets	14,121,139.27	14,165,191.27	(44,052.00)	-0.31%
Restricted Assets	1,871,191.89	1,224,642.25	646,549.64	52.79%
Unrestricted Assets	74,107.79	806,447.99	(732,340.20)	-90.81%
Total Net Assets	\$ 16,066,438.95	\$ 16,196,281.51	\$ (129,842.56)	-0.80%

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 non-operating revenues and expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues and Expenses and Changes in Net Assets

	2012	2011	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 483,772.64	\$ 443,562.54	\$ 40,210.10	9.07%
Sales and Services, Net	442,488.35	558,188.59	(115,700.24)	-20.73%
Other Operating Revenues	44,866.84	47,832.62	(2,965.78)	-6.20%
Total Operating Revenues	<u>971,127.83</u>	<u>1,049,583.75</u>	<u>(78,455.92)</u>	<u>-7.47%</u>
Operating Expenses:				
Salaries and Benefits	11,386,265.18	11,262,747.86	123,517.32	1.10%
Supplies and Materials	1,707,148.34	2,547,673.83	(840,525.49)	-32.99%
Services	1,077,546.56	906,587.56	170,959.00	18.86%
Scholarships and Fellowships	2,271,926.27	2,806,226.29	(534,300.02)	-19.04%
Utilities	337,421.81	436,445.64	(99,023.83)	-22.69%
Depreciation	559,836.88	519,064.16	40,772.72	7.86%
Total Operating Expenses	<u>17,340,145.04</u>	<u>18,478,745.34</u>	<u>(1,138,600.30)</u>	<u>-6.16%</u>
Operating Loss	<u>(16,369,017.21)</u>	<u>(17,429,161.59)</u>	<u>1,060,144.38</u>	<u>6.08%</u>
Nonoperating Revenues:				
State Aid	7,943,486.69	8,307,696.41	(364,209.72)	-4.38%
County Appropriations	1,019,250.77	1,012,972.81	6,277.96	0.62%
Noncapital Grants- Fed. Financial Aid	5,340,837.25	5,657,975.13	(317,137.88)	-5.61%
Noncapital Grants	834,233.83	1,697,538.42	(863,304.59)	-50.86%
Noncapital Gifts	157,709.99	163,691.69	(5,981.70)	-3.65%
Investment Income, Net	19,058.85	67,853.62	(48,794.77)	-71.91%
Other Nonoperating Revenues	75,210.86	61,329.00	13,881.86	22.64%
Net Nonoperating Revenues	<u>15,389,788.24</u>	<u>16,969,057.08</u>	<u>(1,579,268.84)</u>	<u>-9.31%</u>
Loss Before Other Revenues	<u>(979,228.97)</u>	<u>(460,104.51)</u>	<u>(519,124.46)</u>	<u>-112.83%</u>
Other Revenues	<u>849,386.41</u>	<u>710,544.60</u>	<u>138,841.81</u>	<u>19.54%</u>
Decrease in Net Assets	<u>\$ (129,842.56)</u>	<u>\$ 250,440.09</u>	<u>\$ (380,282.65)</u>	<u>-151.85%</u>

Total operating revenues for Halifax Community College decreased seven percent (7%), or \$78,455.92 from the June 30, 2011 year. Sales and services had a reduction of \$115,700.24 which mainly came from decreased sales in the bookstore due to online competition, and less revenue from ticket sales at the Centre, a performing art venue, which had fewer performances. This reduction offset a \$40,210.10 increase in Student Tuition and Fees. The increase was due to a \$10 increase in tuition for in-state and out-of-state students per credit hour.

The total non-operating revenue decreased by \$1,579,268.84 over fiscal year 2011, which is a nine percent decrease (9%). Noncapital Grants – Federal Student Financial Aid decreased by \$317,137.88 due to an enrollment reduction of 150 full time students. Other Noncapital Grants decreased by \$863,304.59. This was mostly due to the loss of the Freedom to Learn

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Grant which amounted to \$486,103.52 and a decrease in state and federally funded grants of \$305,678.

Operating expenses for fiscal year 2012 decreased by \$1,138,600.30 or six percent (6%). Supplies and materials decreased by \$840,525.49 due to fewer equipment purchases for the year and fewer bookstore items purchased for resale. Scholarships and Fellowships decreased by \$534,300.02 due mostly to a decrease in enrollment. Curriculum Full-Time Equivalents (FTE) earned in the 2010-2011 fiscal year totaled 1,545 and decreased to 1,395 during the 2011-2012 fiscal year (150 FTE).

Economic Forecast

Halifax Community College is optimistic about the future and believes it will be an integral part of economic recovery for our service region, Halifax County and western Northampton County. In addition to providing coursework for an Associate's Degree and job skills for a technical education on campus, the College offers the first two years toward a Bachelor's Degree as well as customized training to employers in the service area. The Business and Industry team at the College work closely with the economic development and workforce development personnel in Northampton and Halifax Counties, as well as regional and state economic development personnel.

The Roanoke Valley Early College program has an enrollment of 135 students in grades 9-11. The program is projected to reach an enrollment of 250 with grades 9-12. The students will be able to complete their high school education while earning college credits. The College has several grants with objectives of student success and economic development in the region and continues to seek additional resources to meet the needs of students and employers in the region.

Request for Information

This financial report is designed to provide an overview of Halifax Community College's finances. Questions concerning any of this information should be addressed to the Vice President of Administrative Affairs, Halifax Community College, 100 College Drive, Weldon, NC 27890, (252) 536-2551.

Halifax Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 487,182.24
Restricted Cash and Cash Equivalents	401,920.58
Short-Term Investments	88,792.73
Restricted Short-Term Investments	59,859.27
Receivables, Net (Note 4)	505,841.56
Inventories	307,056.20
Notes Receivable, Net (Note 4)	396.40
	<hr/>
Total Current Assets	1,851,048.98
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	138,446.67
Restricted Due from Primary Government	247,988.35
Restricted Due from State of NC component units	93,682.88
Restricted Investments	732,780.79
Capital Assets - Nondepreciable (Note 5)	194,800.00
Capital Assets - Depreciable, Net (Note 5)	13,926,339.27
	<hr/>
Total Noncurrent Assets	15,334,037.96
	<hr/>
Total Assets	17,185,086.94

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	279,663.87
Unearned Revenue	36,695.46
Funds Held for Others	13,152.19
Long-Term Liabilities - Current Portion (Note 7)	106,296.68
	<hr/>
Total Current Liabilities	435,808.20
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	682,839.79
	<hr/>
Total Liabilities	1,118,647.99

NET ASSETS

Invested in Capital Assets	14,121,139.27
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	877,392.85
Expendable:	
Scholarships and Fellowships	289,912.64
Loans	13,144.47
Capital Projects	249,218.07
Restricted For Specific Programs	441,523.86
	<hr/>
Unrestricted	74,107.79
	<hr/>
Total Net Assets	\$ 16,066,438.95

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, 2012

Exhibit A-2

REVENUES

Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	483,772.64
Sales and Services, Net (Note 9)		442,488.35
Other Operating Revenues		44,866.84
		<hr/>
Total Operating Revenues		971,127.83
		<hr/>

EXPENSES

Operating Expenses:		
Salaries and Benefits		11,386,265.18
Supplies and Materials		1,707,148.34
Services		1,077,546.56
Scholarships and Fellowships		2,271,926.27
Utilities		337,421.81
Depreciation		559,836.88
		<hr/>
Total Operating Expenses		17,340,145.04
		<hr/>
Operating Loss		(16,369,017.21)
		<hr/>

NONOPERATING REVENUES

State Aid		7,943,486.69
County Appropriations		1,019,250.77
Noncapital Grants - Student Financial Aid		5,340,837.25
Noncapital Grants		834,233.83
Noncapital Gifts		157,709.99
Investment Income, Net		19,058.85
Other Nonoperating Revenues		75,210.86
		<hr/>
Net Nonoperating Revenues		15,389,788.24
		<hr/>
Loss Before Other Revenues		(979,228.97)
		<hr/>
State Capital Aid		799,780.71
County Capital Aid		5,298.23
Capital Grants		44,307.47
		<hr/>
Decrease in Net Assets		(129,842.56)
		<hr/>

NET ASSETS

Net Assets, July 1, 2011		<hr/>
		16,196,281.51
Net Assets, June 30, 2012	\$	<hr/>
		16,066,438.95
		<hr/>

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 936,658.09
Payments to Employees and Fringe Benefits	(11,292,587.13)
Payments to Vendors and Suppliers	(3,151,735.94)
Payments for Scholarships and Fellowships	(2,271,926.27)
Loans Issued to Students	(1,963.55)
Collection of Loans to Students	2,099.99
Other Receipts	91,586.81
	<hr/>
Net Cash Used by Operating Activities	(15,687,868.00)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,943,486.69
County Appropriations	1,019,250.77
Noncapital Grants - Student Financial Aid	5,341,274.27
Noncapital Grants Received	929,308.20
Noncapital Gifts Received	157,709.99
William D. Ford Direct Lending Receipts	3,108,448.64
William D. Ford Direct Lending Disbursements	(3,119,060.29)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	15,380,418.27

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	558,544.71
County Capital Aid	5,298.23
Capital Grants Received	44,307.47
Proceeds from Sale of Capital Assets	12,375.72
Acquisition and Construction of Capital Assets	(528,160.60)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	92,365.53

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	19,058.85
Investment Income	998.62
Purchase of Investments and Related Fees	(14,951.79)
	<hr/>
Net Cash Provided by Investing Activities	5,105.68

Net Decrease in Cash and Cash Equivalents	(209,978.52)
Cash and Cash Equivalents, July 1, 2011	1,237,528.01
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 1,027,549.49

Halifax Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (16,369,017.21)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	559,836.88
Provision for Uncollectible Loans and Write-Offs	2,264.41
Miscellaneous Nonoperating Income	75,210.86
Changes in Assets and Liabilities:	
Receivables, Net	(31,204.31)
Inventories	(124,150.35)
Notes Receivable, Net	136.44
Accounts Payable and Accrued Liabilities	121,476.46
Unearned Revenue	(618.07)
Funds Held for Others	16,375.95
Compensated Absences	61,820.94
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (15,687,868.00)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 487,182.24
Restricted Cash and Cash Equivalents	401,920.58
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	138,446.67
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 1,027,549.49</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 15,123.37
Increase in Receivables Related to Nonoperating Income	289,654.00
Capital Asset Write-Offs	57,563.51

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

HALIFAX COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Halifax Community College, P.O. Box 809, Weldon, N.C. 27890 or by calling (252) 536-7269.

- 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 Government 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, include 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 collection.

- 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 (decrease) in the fair value of investments is recognized as a component of investment income.

Certificates of deposit 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, and private sources in connection with reimbursement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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** – The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank 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, 2012 was \$3,621.23. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$1,200,293.26, and the bank balance was \$1,347,165.26.

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, 2012, 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 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

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, 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, 2012, for the College’s investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

Investment Type	Fair Value	Investment Maturities (in Years)
		1 to 5
Debt Securities		
Domestic Corporate Bonds	\$ 151,771.00	<u>\$ 151,771.00</u>
Other Securities		
Certificates of Deposit	176,365.00	
Mutual Funds	259,698.31	
Money Market Funds	287,001.38	
Domestic Stocks	<u>6,597.10</u>	
Total Investments	<u>\$ 881,432.79</u>	

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: 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, 2012, the College's investments were rated as follows:

	Fair Value	A3	A2
Domestic Corporate Bonds	\$ 151,771.00	\$ 52,423.00	\$ 99,348.00

Rating Agency: Moody's

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

Investment Type	Held by Counterparty
Domestic Corporate Bonds	\$ 151,771.00
Domestic Stocks	6,597.10
Mutual Funds	259,698.31
Money Market Fund	287,001.38
Total	\$ 705,067.79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$	3,621.23
Carrying Amount of Deposits with Private Financial Institutions		1,200,293.26
Other Investments		<u>705,067.79</u>
Total Deposits and Investments	\$	<u><u>1,908,982.28</u></u>
Current:		
Cash and Cash Equivalents	\$	487,182.24
Restricted Cash and Cash Equivalents		401,920.58
Short-Term Investments		88,792.73
Restricted Short-Term Investments		59,859.27
Noncurrent:		
Restricted Cash and Cash Equivalents		138,446.67
Endowment Investments		<u>732,780.79</u>
Total	\$	<u><u>1,908,982.28</u></u>

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, 2012, net appreciation of \$15,004 was available to be spent, of which all was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 213,468.61	\$ 121,354.96	\$ 92,113.65
Student Sponsors	32,430.44		32,430.44
Accounts	58,020.31		58,020.31
Intergovernmental	272,665.09		272,665.09
Employees	193.75		193.75
Other	50,418.32		50,418.32
Total Current Receivables	\$ 627,196.52	\$ 121,354.96	\$ 505,841.56
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 800.90	\$ 404.50	\$ 396.40

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 194,800.00	\$ 0.00	\$ 0.00	\$ 194,800.00
Total Capital Assets, Nondepreciable	194,800.00			194,800.00
Capital Assets, Depreciable:				
Buildings	18,111,761.14			18,111,761.14
Machinery and Equipment	1,996,395.03	335,738.68	57,563.51	2,274,570.20
General Infrastructure	399,755.15	192,421.92		592,177.07
Total Capital Assets, Depreciable	20,507,911.32	528,160.60	57,563.51	20,978,508.41
Less Accumulated Depreciation/Amortization for:				
Buildings	5,398,584.51	363,155.16		5,761,739.67
Machinery and Equipment	1,056,100.48	184,876.54	45,187.79	1,195,789.23
General Infrastructure	82,835.06	11,805.18		94,640.24
Total Accumulated Depreciation	6,537,520.05	559,836.88	45,187.79	7,052,169.14
Total Capital Assets, Depreciable, Net	13,970,391.27	(31,676.28)	12,375.72	13,926,339.27
Capital Assets, Net	\$ 14,165,191.27	\$ (31,676.28)	\$ 12,375.72	\$ 14,121,139.27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 128,250.52
Accrued Payroll	151,413.35
Total Accounts Payable and Accrued Liabilities	\$ 279,663.87

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 727,315.53	\$ 682,126.41	\$ 620,305.47	\$ 789,136.47	\$ 106,296.68

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

	Fiscal Year	Amount
	2013	\$ 50,447.67
	2014	49,013.52
	2015	39,914.98
	2016	20,850.00
	2017	9,669.80
Total Minimum Lease Payments		\$ 169,895.97

Rental expense for all operating leases during the year was \$54,159.13.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 2,587,342.95	\$ 0.00	\$ 2,040,263.66	\$ 63,306.65	\$ 483,772.64
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Facility	\$ 1,860.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,860.00
Patron Fees - Cosmetology	21,385.75				21,385.75
Patron Fees - Child Care	192,504.87			2,071.18	190,433.69
Patron Fees - Dental Hygiene	37,577.00				37,577.00
The Centre (Performing Arts)	53,168.25				53,168.25
Bookstore	1,415,601.35	28,871.52	1,219,383.52	52,255.10	115,091.21
Parking	889.00				889.00
Vending	22,083.45				22,083.45
Total Sales and Services	<u>\$ 1,745,069.67</u>	<u>\$ 28,871.52</u>	<u>\$ 1,219,383.52</u>	<u>\$ 54,326.28</u>	<u>\$ 442,488.35</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,320,945.17	\$ 111,346.55	\$ 219,481.66	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,651,773.38
Academic Support	1,200,463.40	36,857.14	23,665.48				1,260,986.02
Student Services	1,469,123.47	293,691.62	145,406.02	50,000.00			1,958,221.11
Institutional Support	1,807,981.56	31,123.31	336,073.74				2,175,178.61
Operations and Maintenance of Plant	433,339.45	242,112.22	110,738.24		337,421.81		1,123,611.72
Student Financial Aid		8,743.02	29,994.60	2,221,926.27			2,260,663.89
Auxiliary Enterprises	154,412.13	983,274.48	212,186.82				1,349,873.43
Depreciation						559,836.88	559,836.88
Total Operating Expenses	<u>\$ 11,386,265.18</u>	<u>\$ 1,707,148.34</u>	<u>\$ 1,077,546.56</u>	<u>\$ 2,271,926.27</u>	<u>\$ 337,421.81</u>	<u>\$ 559,836.88</u>	<u>\$ 17,340,145.04</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 (Plan) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$8,921,278.32, of which \$7,579,697.22 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$563,929.47 and \$454,781.83, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$563,929.47, \$376,569.03 and \$274,582.77, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

are incurred by the College. The voluntary contributions by employees amounted to \$39,456.80 for the year ended June 30, 2012.

Internal Revenue Code 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 General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2012, were \$1,248.98. The voluntary contributions by employees amounted to \$77,077.00 for the year ended June 30, 2012.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is Horace Mann Insurance Company. No costs are incurred by the College. The voluntary contributions by employees amounted to \$996.00 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$378,984.86, \$374,277.54, and \$346,112.73, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2012, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$39,414.43, \$39,719.25, and \$39,995.25, 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, 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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the state of North Carolina. The Plan is funded by employer 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 appealed this decision. On October 5, 2012 the plaintiff’s petition was denied by the NC Supreme Court thus ending the litigation.

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 not a party to 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.



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, 2012, and have issued our report thereon dated May 10, 2013.

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

The College's management is responsible for establishing and maintaining effective 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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

May 10, 2013

ORDERING INFORMATION

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

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