

STATE OF NORTH CAROLINA

HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

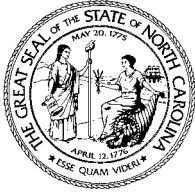
FOR THE YEAR ENDED JUNE 30, 2013

BOARD OF DIRECTORS

MR. EMERY DOUGHTIE, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. DIANNE RHOADES, EXECUTIVE DIRECTOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Directors, Halifax Community College Foundation, Inc.

We have completed a financial statement audit of Halifax Community College Foundation, Inc. for the year ended June 30, 2013, 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 Foundation's responses are 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.

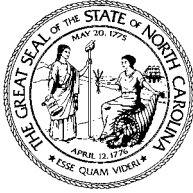
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Halifax Community College Foundation, Inc.
Weldon, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Halifax Community College Foundation, Inc., a component unit of Halifax Community College, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Halifax Community College Foundation, Inc., as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 16, 2014

HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

The information in this section is intended to provide a general overview of the Foundation'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 Foundation's discussion and analysis provides a summary of the Foundation's basic financial statements which include the Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; and Statement of Cash Flows. The Halifax Community College Foundation, Inc. had a total net position of \$1,156,580 at June 30, 2013.

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

The Statement of Revenues, Expenses and Changes in Net Position shows how the Foundation's net position 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 information regarding the Foundation's cash receipts and cash payments during the reported period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The statement reconciles the beginning cash on hand as of July 1, 2012, to the ending cash on hand as of June 30, 2013.

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

Financial Analysis

As noted earlier, net position can serve as a useful indicator of the Foundation's financial position. Net position for the foundation increased by \$115,018 for the fiscal year ended June 30, 2013, to \$1,156,580.

Total assets increased by 11%. This is mainly due to the increase in total income and a decrease in total expenses for the year.

Most of the Foundation's net position, eighty percent (80%), is invested in money market mutual funds, certificates of deposit, bonds and stocks.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Position

	2013	2012	Increase (Decrease)
Assets			
Current	\$ 62,547	\$ 158,129	\$ (95,582)
Other Noncurrent	1,094,033	883,433	210,600
Total Assets	1,156,580	1,041,562	115,018
Net Position			
Restricted	1,156,580	1,041,562	115,018
Total Net Position	1,156,580	1,041,562	\$ 115,018

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Foundation's net position changed during the most recent fiscal year.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	Increases Decreases
Operating Expenses:			
Supplies and Materials	\$ 11,750	\$ 25,255	\$ (13,505)
Services	17,152	17,629	(477)
Scholarships and Fellowships	50,404	48,418	1,986
Total Operating Expenses	79,306	91,302	(11,996)
Operating Loss	(79,306)	(91,302)	11,996
Nonoperating Revenues:			
Noncapital Gifts	140,966	156,460	(15,494)
Investment Income	53,358	15,004	38,354
Net Nonoperating Revenues	194,324	171,464	22,860
Increase in Net Position	\$ 115,018	\$ 80,162	\$ 34,856

Operating expenses for fiscal year 2013 amounted to \$79,306. Scholarships awarded to the students of Halifax Community College represented \$50,404 of this total. Non-operating revenues amounted to \$194,324. Of this, \$140,966 was contributions from donors. The remainder was income on investments, which was up in the current year due to positive market conditions. The overall change from the prior year was not significant.

Economic Forecast

Halifax Community College Foundation, Inc. is optimistic about the future. While tuition at Halifax Community College is modest by some standards, for many of our students, it presents a barrier to completing their educational goals. Our donors realize this and have one important thing in common - they care deeply about the future of the Roanoke Valley and invest their resources into the lives of others. They know that dollars invested into an

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

education at Halifax Community College will earn big dividends. Recipients complete their education, join the workforce, become taxpayers and stay off public assistance.

Request for Information

This financial report is designed to provide an overview of Halifax Community College Foundation's finances. Questions concerning any of this information should be addressed to the Director of the Foundation, Halifax Community College Foundation, 100 College Drive, Weldon, NC 27890, (252) 536-7239.

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Halifax Community College Foundation, Inc.
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:

Restricted Cash and Cash Equivalents	\$	57,112.25
Receivables		5,434.33
Total Current Assets		<u>62,546.58</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		159,540.15
Restricted Investments		934,493.10
Total Noncurrent Assets		<u>1,094,033.25</u>
Total Assets		<u>1,156,579.83</u>

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources		<u>0.00</u>
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources		<u>0.00</u>
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NET POSITION

Restricted for:

Nonexpendable:		
Scholarships and Fellowships		690,587.22
Expendable:		
Scholarships and Fellowships		465,992.61

Total Net Position	\$	<u>1,156,579.83</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Halifax Community College Foundation, Inc.
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

EXPENSES

Operating Expenses:

Supplies and Materials	\$ 11,750.29
Services	17,151.70
Scholarships and Fellowships	<u>50,404.00</u>

Total Operating Expenses	<u>79,305.99</u>
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Operating Loss	<u>(79,305.99)</u>
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NONOPERATING REVENUES

Noncapital Gifts	140,965.90
Investment Income	<u>53,357.86</u>

Net Nonoperating Revenues	<u>194,323.76</u>
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Increase in Net Position	<u>115,017.77</u>
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NET POSITION

Net Position, July 1, 2012	<u>1,041,562.06</u>
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Net Position, June 30, 2013	<u><u>\$ 1,156,579.83</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Halifax Community College Foundation, Inc.
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Vendors and Suppliers	\$ (28,901.99)
Payments for Scholarships and Fellowships	(50,404.00)
Cash Used by Operating Activities	<u>(79,305.99)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Noncapital Gifts Received	<u>137,184.90</u>
Cash Provided by Noncapital Financing Activities	<u>137,184.90</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>644.70</u>
Cash Provided by Investing Activities	<u>644.70</u>

Net Increase in Cash and Cash Equivalents	58,523.61
Cash and Cash Equivalents, July 1, 2012	<u>158,128.79</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 216,652.40</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Restricted Cash and Cash Equivalents	\$ 57,112.25
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>159,540.15</u>

Total Cash and Cash Equivalents, June 30, 2013	<u>\$ 216,652.40</u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	51,059.83
Increase in Receivables Related to Nonoperating Income	5,434.33

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

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HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The Halifax Community College Foundation, Inc. (the Foundation), a component unit of Halifax Community College, is a North Carolina nonprofit corporation organized to benefit the College through administration of contributions. The Foundation is governed by a 15 member board consisting of 1 ex facto director and 14 elected directors. The Foundation's propose is to aid, support, promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the 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 the College, its basic financial statements are blended with those of the College in the College's financial report.

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

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

C. Basis of Accounting - The financial statements of the Foundation 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 Foundation receives (or gives) value without directly giving (or receiving) equal value in exchange, include contributions revenue. Revenue is recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Cash and Cash Equivalents - This classification includes 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 - Consist of investment income receivable and pledges that are verifiable, measurable, and expected to be collected and available for expenditures. Reported receivables are expected to be collected.

G. 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 whose use is limited by external parties, as well as endowment and other restricted investments.

H. Net Position - The Foundation's net position is classified as follows:

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources 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 based on management of the Foundation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Revenue and Expense Recognition** - The Foundation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Foundation's principal ongoing operations. 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 that represent subsidies or gifts to the Foundation, as well as investment income, are considered nonoperating since these are either investing or noncapital financing activities.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The Foundation's deposits with a private bank had a carrying amount of \$216,652.40. In addition, the amount shown as investments includes \$100,971 of certificates of deposit with a private financial institution. At June 30, 2013, the Foundation's total deposits with private financial institutions had a carrying value of \$317,623.40, and a bank balance of \$468,105.10.

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2013, the Foundation's bank balance in excess of federal depository insurance coverage was \$117,134.10 and was uninsured and uncollateralized.

- B. Investments** - Investments of the Foundation are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the Foundation'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 Foundation does not have a formal investment policy that addresses interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	<u>Investments</u>	
	Fair Value	Investment Maturities (in Years) Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 419,219.79	\$ 419,219.79
Domestic Corporate Bonds	101,011.00	101,011.00
Total Debt Securities	520,230.79	<u>\$ 520,230.79</u>
Other Securities		
Certificates of Deposit	\$ 100,971.00	
Domestic Stocks	313,291.31	
Total Investments	\$ 934,493.10	

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 Foundation does not have a formal policy that addresses credit risk. As of June 30, 2013, the Foundation's investments were rated as follows:

	Fair Value	A	Unrated
Money Market Mutual Funds	\$ 419,219.79	\$ 0.00	\$ 419,219.79
Domestic Corporate Bonds	101,011.00	101,011.00	
Totals	\$ 520,230.79	\$ 101,011.00	\$ 419,219.79

Rating Agency: Moody's, S&P

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

Investment Type	Held by Counterparty
Domestic Corporate Bonds	\$ 101,011.00
Domestic Stock	313,291.31
Total	<u>\$ 414,302.31</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the Foundation to the basic financial statements as of June 30, 2013, is as follows:

Carrying Amount of Deposits with Private Financial Institutions excluding Certificates of Deposit Investments	\$ 216,652.40
	<u>934,493.10</u>
Total Deposits and Investments	<u>\$ 1,151,145.50</u>
Current:	
Restricted Cash and Cash Equivalents	\$ 57,112.25
Noncurrent:	
Restricted Cash and Cash Equivalents	159,540.15
Restricted Investments	<u>934,493.10</u>
Total Deposits and Investments	<u>\$ 1,151,145.50</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the Foundation'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 Directors 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. However, a majority of the Foundation's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the Foundation'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. Annual payouts from the Foundation's endowment funds are limited to the interest earned on the investments.

The Foundation has provided scholarships that exceeded the related endowment's available annual payouts and used accumulated earnings to cover general and operational expenses. This has resulted in a reduction to the restricted expendable scholarships and fellowships resources. At June 30, 2013, the amount of the deficit reported against the restricted expendable scholarships balances was \$184,656.23.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 4 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2013 members of the Foundation's Board of Directors made contributions to the Foundation totaling \$6,289.00.

NOTE 5 - CONTRIBUTED FACILITIES AND SERVICES

The Foundation, without cost, occupies and uses certain premises, furnishings, and equipment owned by the College. The estimated fair values of these premises, furnishings, and equipment have not been included in the financial statements. In addition, the Foundation also receives, without cost, management and accounting services provided by the College. The value of these contributed services has not been included in the accompanying financial statements.

NOTE 6 - RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts, theft of assets, errors and omissions, injuries to volunteers, and natural disasters. Since the Foundation is housed in College facilities and staffed by College employees, the Foundation is covered by the College's insurance policies. The College handles these exposures to loss by 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.

Details of the College's risk management programs are disclosed in the College's separate financial statements, which may be obtained from the College Controller's Office, Halifax Community College, Inc., PO Box 809, Weldon, NC 27890 or by calling (252) 536-7213.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

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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 Directors
Halifax Community College Foundation, Inc.
Weldon, North Carolina

We have audited, in accordance with the 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, the financial statements of Halifax Community College Foundation, Inc., a component unit of Halifax Community College, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Foundation's financial statements will not be

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

prevented, or detected and corrected on a timely basis. We consider all of the deficiencies described in the accompanying Audit Findings and Responses section to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Audit Findings and Responses section in item 1.

Foundation's Response to Findings

The Foundation's responses to the findings identified in our audit are described in the accompanying Audit Findings and Responses section. The Foundation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor
Raleigh, North Carolina

September 16, 2014

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 control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. DEFICIENT CASH MANAGEMENT PRACTICES RESULTED IN UNALLOWABLE USE OF RESTRICTED FUNDS

The Foundation did not properly track and manage its cash and, as a result, used restricted funds for unallowable purposes, such as administrative costs. The Foundation also awarded scholarships in excess of donated amounts and/or available endowment earnings.

The Foundation receives donations and many are restricted for scholarships to students at Halifax Community College. *North Carolina General Statute 36E, "Uniform Prudent Management of Institutional Funds Act,"* states such donations should be used in accordance with donor restrictions and such use should be executed in good faith, with the care of an ordinary prudent person. As outlined in statute 36E-6, only under certain circumstances and after prescribed protocols have been followed can the restrictions be released or modified.

As of June 30, 2013, the Foundation had spent more than \$136,000 of funds restricted for scholarships on administrative expenses and had no remaining unrestricted funds available to cover future administrative costs. In addition, they awarded more than \$48,600 of scholarships in excess of specified donated amounts and/or available endowment earnings. This money was improperly transferred from other restricted accounts.

The Foundation does not use an automated accounting system to track and monitor restricted funds. Instead, it uses spreadsheets and other manual records to record and track all receipts and expenditures. The ineffective design of these records may have contributed to the Foundation violating donor restrictions.

Recommendation: The Foundation should move its accounting records to a system that provides the information necessary for tracking Foundation resources, including any restrictions to ensure proper use. Care should be taken to avoid using restricted funds, even temporarily, for purposes other than those designated by the donors. Given its current condition, the Foundation should seek funding from unrestricted sources to cover its administrative costs.

AUDIT FINDINGS AND RESPONSES (CONTIUED)

Foundation Response: The Foundation agrees with this finding and has determined the correct value of each restricted and endowed fund it has. While endowed funds are currently tracked on an Excel spreadsheet, we will take steps in fiscal year 2014-2015 to convert the accounting to the College's accounting system. This will allow real time balances for each fund to be available at all times; thus, reducing the likelihood funds will be spent inappropriately.

The Foundation will also initiate fund raising for unrestricted funds to recover the deficit that has been created over the years. It currently has three campaigns underway to do this. The first is a golf tournament, second is an annual Presidential Alumni and Friends Breakfast and the other is a Brick by Brick campaign to sale bricks to donors that allow the donor to recognize someone in honor or in memory.

2. DEFICIENCY IN FINANCIAL REPORTING

The financial statements and related notes prepared by Halifax Community College Foundation, Inc. contained misstatements that were corrected as a result of the audit. These misstatements indicate the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to readers.

As a blended component unit of Halifax Community College, accounting standards require the Foundation's financial statements be prepared in accordance with accounting standards prescribed by the Governmental Accounting Standards Board (GASB). The Foundation incorrectly prepared its statements using standards for non-profit organizations as prescribed by the Financial Accounting Standards Board (FASB). Changes made to present the Foundation's financial statements in accordance with GASB included:

- a. Properly presenting the Statement of Revenues, Expenses, and Changes in Net Position captions as operating and nonoperating.
- b. Properly presenting the Statement of Revenues, Expenses, and Changes in Net Position in a single column.
- c. Properly classifying assets to present them as current and noncurrent.
- d. Properly classifying net position as restricted nonexpendable and restricted expendable.
- e. Revising all the note disclosures to comply with GASB standards.
- f. Correcting the presentation of the Cash Flow Statement.
- g. Correcting the titles of the exhibits.
- h. Adding a Management Discussion and Analysis to the report.

Financial staff of Halifax Community College prepared the statements for the Foundation. The College has experienced significant turnover in the past two years. For the year under audit, only one staff member was involved in the preparation and review

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

of the year-end financial statements. This staff member did not have sufficient training or experience in government accounting and the year-end financial reporting process. In addition, no knowledgeable staff member was available to perform a comprehensive review of the statements and related disclosures.

Recommendation: The Foundation should place greater emphasis on the year-end financial reporting process. Procedures should be implemented to ensure the completeness and accuracy of the financial statements and related note disclosures. A detailed review by knowledgeable staff, other than the preparer, should be performed to ensure the journal entries, financial statements, and disclosures are free from material misstatements. Management should consider whether the financial staff could benefit from additional training on governmental financial reporting matters.

Foundation Response: The Foundation agrees with the finding and will prepare reports using GASB guidelines. While not true during this audit, the Foundation in conjunction with the HCC financial staff now has sufficient staff to properly prepare and review the journal entries, financial statements, and disclosures and ensure they are free from material misstatements. The HCC financial staff will also be attending training in October on GASB financial reporting procedures.

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