STATE OF NORTH CAROLINA

HALIFAX COMMUNITY COLLEGE

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

A Component Unit of the State of North Carolina

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Halifax Community College
Weldon, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Halifax Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College'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 College'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 College'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, 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 College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 16, 2014

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 Position; Statement of Revenues, Expenses, and Change in Net Position; 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 position of $1,156,579.83 at June 30, 2013.

The Statement of Net Position presents information on all of the College'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 College is improving.

The Statement of Revenues, Expenses and Changes in Net Position shows how the College'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 College'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.

Capital acquisitions totaled $93,784.14 for the year ended June 30, 2013. It was used to purchase security equipment, Basic Law Enforcement Training (BLET) shelving and cabinets, and campus display boards.

Institutional Financial Analysis

As noted earlier, net position can serve as a useful indicator of the College's financial position. Net position for Halifax Community College decreased by $361,747.67 for the fiscal year ended June 30, 2013, to $16,015,676.06.

Capital assets decreased by 4% or $497,516.55. This decrease was due to depreciation expense in the amount of $591,300.69 and an increase in equipment of $93,784.14 as described above.

Other noncurrent assets increased by 18% or $244,710.19. This increase was due to the awarding of a Kate B. Reynolds Grant in the amount of $150,000 and an increase in investments.

Most of the College's net position is invested in capital assets (land, buildings, machinery, and equipment). The College's restricted net position represents resources that have external restrictions on how they may be used. The decrease of 24% or $514,116.92 in restricted net position is due to the College's lack of properly drawing down funds which has led to accruals for grant reimbursements totaling more than $500,000. Unrestricted net position increased by 877% or $649,885.80. The unrestricted net position balance of $723,993.59 is due to an increase in revenues from the bookstore as described in the Statement of Revenues, Expenses, and Changes in Net Position section below.

Condensed Statement of Net Position

	2013	2012 As Restated	Increase (Decrease)	Percent Change
Assets				
Current	$ 1,995,657.41	$ 2,013,381.76	$ (17,724.35)	-0.88%
Capital Assets, Net	13,623,622.72	14,121,139.27	(497,516.55)	-3.52%
Other Noncurrent	1,606,260.88	1,361,550.69	244,710.19	17.97%
Total Assets	17,225,541.01	17,496,071.72	(270,530.71)	-1.55%
Liabilities				
Current	512,241.79	435,808.20	76,433.59	17.54%
Noncurrent	697,623.16	682,839.79	14,783.37	2.16%
Total Liabilities	1,209,864.95	1,118,647.99	91,216.96	8.15%
Net Position				
Invested in Capital Assets	13,623,622.72	14,121,139.27	(497,516.55)	-3.52%
Restricted	1,668,059.75	2,182,176.67	(514,116.92)	-23.56%
Unrestricted	723,993.59	74,107.79	649,885.80	876.95%
Total Net Position	$ 16,015,676.06	$ 16,377,423.73	$ (361,747.67)	-2.21%

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the College'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.

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

	2013	2012 As Restated	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 613,599.32	$ 483,772.64	$ 129,826.68	26.84%
Sales and Services, Net	1,309,985.57	442,488.35	867,497.22	196.05%
Other Operating Revenues	12,435.47	44,866.84	(32,431.37)	-72.28%
Total Operating Revenues	1,936,020.36	971,127.83	964,892.53	99.36%
Operating Expenses:				
Salaries and Benefits	11,495,310.65	11,386,265.18	109,045.47	0.96%
Supplies and Materials	2,150,272.18	1,707,148.34	443,123.84	25.96%
Services	1,121,309.94	1,077,546.56	43,763.38	4.06%
Scholarships and Fellowships	2,653,945.60	2,271,926.27	382,019.33	16.81%
Utilities	347,227.02	337,421.81	9,805.21	2.91%
Depreciation and Amortization	591,300.69	559,836.88	31,463.81	5.62%
Total Operating Expenses	18,359,366.08	17,340,145.04	1,019,221.04	5.88%
Operating Loss	(16,423,345.72)	(16,369,017.21)	54,328.51	0.33%
Nonoperating Revenues:				
State Aid	8,370,707.75	7,943,486.69	427,221.06	5.38%
County Appropriations	1,041,003.24	1,019,250.77	21,752.47	2.13%
Noncapital Grants- Fed. Financial Aid	4,276,628.59	5,340,837.25	(1,064,208.66)	-19.93%
Noncapital Grants	1,199,214.07	1,145,218.61	53,995.46	4.71%
Noncapital Gifts	197,625.77	157,709.99	39,915.78	25.31%
Investment Income	55,627.19	19,058.85	36,568.34	191.87%
Other Nonoperating Revenues	199,894.26	75,210.86	124,683.40	165.78%
Net Nonoperating Revenues	15,340,700.87	15,700,773.02	(360,072.15)	-2.29%
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,082,644.85)	(668,244.19)	414,400.66	62.01%
Other Revenues	720,897.18	849,386.41	(128,489.23)	-15.13%
Increase(Decrease) in Net Position	$ (361,747.67)	$ 181,142.22	$ (542,889.89)	-299.70%
Total Revenues	$ 17,997,618.41	$ 17,521,287.26	$ 476,331.15	2.72%

Total operating revenues for the College increased 99%, or $964,892.53 from June 30, 2012. The tuition increase was a result of increased enrollment and a decrease in Pell eligible students. With fewer Pell eligible students, they had to pay their tuition themselves. The sales and service increase was also due to the decrease in Pell eligible students and increase in enrollment. The students did not have the Pell funds to cover bookstore purchased and had to use their own funds.

The total non-operating revenue decreased by 2% or $360,072.15 for fiscal year 2013. Noncapital grants related to federal student financial aid decreased by $1,064,208.66 due to a 14% reduction in Pell eligible students. Noncapital gifts increased 25% or $39,915.78. This was due to an increase in donor contributions resulting from increased philanthropic activities. Investment income increased 192% or $36,568.34 due to market fluctuations.

Operating expenses for fiscal year 2013 increased by a total of 6% or $1,019,221.04 largely due to increase in supplies and material expense and scholarships and fellowships expenses. Supplies and materials increased 26% or $443,123.84 due to roofing and renovation expenses totaling $526,102.31. Scholarships and fellowships increased by 17% or $382,019.33 due to an increase in student refunds from maximum borrowing by the students.

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 183 students in grades 8-12. The first class will graduate in spring 2014. The students are able to complete their high school education while earning college credits. Many will graduate from high school with up to 2 years of college credit for free. This allows them a jump start on further education or makes them immediately employable for technical positions. 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 Services, Halifax Community College, 100 College Drive, Weldon, NC 27890, (252) 536-7213.

Halifax Community College
Statement of Net Position
June 30, 2013 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 131,256.56
Restricted Cash and Cash Equivalents	513,187.21
Receivables, Net (Note 4)	943,331.00
Due from State of North Carolina Component Units	98,962.17
Inventories	308,809.33
Notes Receivable, Net (Note 4)	111.14
Total Current Assets	1,995,657.41
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	311,095.92
Restricted Due from Primary Government	360,671.86
Restricted Investments	934,493.10
Capital Assets - Nondepreciable (Note 5)	194,800.00
Capital Assets - Depreciable, Net (Note 5)	13,428,822.72
Total Noncurrent Assets	15,229,883.60
Total Assets	17,225,541.01
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources	0.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	373,558.83
Unearned Revenue	25,359.59
Funds Held for Others	4,725.37
Long-Term Liabilities - Current Portion (Note 7)	108,598.00
Total Current Liabilities	512,241.79
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	697,623.16
Total Liabilities	1,209,864.95
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources Under Service Concession Arrangements	0.00
NET POSITION	
Investment in Capital Assets	13,623,622.72
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	690,587.22
Expendable:	
Scholarships and Fellowships	553,899.48
Loans	12,859.21
Capital Projects	228,567.61
Other	182,146.23
Unrestricted	723,993.59
Total Net Position	$ 16,015,676.06

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 Position
For the Fiscal Year Ended June 30, 2013 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	613,599.32
Sales and Services, Net (Note 9)		1,309,985.57
Other Operating Revenues		12,435.47
Total Operating Revenues		1,936,020.36
EXPENSES		
Operating Expenses:		
Salaries and Benefits		11,495,310.65
Supplies and Materials		2,150,272.18
Services		1,121,309.94
Scholarships and Fellowships		2,653,945.60
Utilities		347,227.02
Depreciation		591,300.69
Total Operating Expenses		18,359,366.08
Operating Loss		(16,423,345.72)
NONOPERATING REVENUES		
State Aid		8,370,707.75
County Appropriations		1,041,003.24
Noncapital Grants - Federal Student Financial Aid		4,276,628.59
Noncapital Grants		1,199,214.07
Noncapital Gifts		197,625.77
Investment Income		55,627.19
Other Nonoperating Revenues		199,894.26
Net Nonoperating Revenues		15,340,700.87
Loss Before Other Revenues		(1,082,644.85)
State Capital Aid		284,652.42
County Capital Aid		243,214.76
Capital Grants		193,030.00
Decrease in Net Position		(361,747.67)
NET POSITION		
Net Position, July 1, 2012 as Restated (Note 15)		16,377,423.73
Net Position, June 30, 2013	$	16,015,676.06

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

Halifax Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,873,359.12
Payments to Employees and Fringe Benefits	(11,486,387.42)
Payments to Vendors and Suppliers	(3,518,026.84)
Payments for Scholarships and Fellowships	(2,653,945.60)
Other Receipts	191,467.44
Net Cash Used by Operating Activities	(15,593,533.30)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,370,707.75
County Appropriations	1,041,003.24
Noncapital Grants - Federal Student Financial Aid	4,261,708.08
Noncapital Grants Received	1,140,707.26
Noncapital Gifts	190,043.77
William D. Ford Direct Lending Receipts	1,545,377.00
William D. Ford Direct Lending Disbursements	(1,545,377.00)
Net Cash Provided by Noncapital Financing Activities	15,004,170.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	171,968.91
County Capital Aid	243,214.76
Capital Grants Received	193,030.00
Acquisition and Construction of Capital Assets	(93,784.14)
Net Cash Provided by Capital and Related Financing Activities	514,429.53
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	2,923.87
Cash Provided by Investing Activities	2,923.87
Net Decrease in Cash and Cash Equivalents	(72,009.80)
Cash and Cash Equivalents, July 1, 2012	1,027,549.49
Cash and Cash Equivalents, June 30, 2013	$ 955,539.69

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(16,423,345.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		591,300.69
Provision for Uncollectible Loans and Write-Offs		285.26
Miscellaneous Nonoperating Income		199,894.26
Changes in Assets and Liabilities:		
Receivables, Net		(51,131.62)
Inventories		(1,753.13)
Accounts Payable and Accrued Liabilities		93,894.96
Unearned Revenue		(11,335.87)
Funds Held for Others		(8,426.82)
Compensated Absences		17,084.69
Net Cash Used by Operating Activities	$	(15,593,533.30)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	131,256.56
Restricted Cash and Cash Equivalents		513,187.21
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		311,095.92
Total Cash and Cash Equivalents - June 30, 2013	$	955,539.69

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	53,060.31
Increase in Receivables Related to Nonoperating Income		242,005.83

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Halifax Community College is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The accompanying financial statements present all funds of the College and 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 1 ex officio director and 14 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Halifax Community College Board of Trustees and the Foundation's sole purpose is to benefit Halifax Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Halifax Community College, PO Box 809, Weldon, NC 27890, or by calling (252) 536-7213. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 14.

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

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

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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using 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.

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 25 to 50 years for general infrastructure, 30 to 50 years for buildings, and 5 to 42 years for equipment.

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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

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 (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30, not to exceed 30 days.

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 Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

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 College 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 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 Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 student tuition and fees and sales and services of auxiliary enterprises. 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 central stores, copy centers, and motor pool. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

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. The amount shown on the Statement of Net Position as cash and cash equivalents includes deposits in private financial institutions with a carrying value of $955,539.69. In addition, the amount shown as investments includes $100,971.00 of certificates of deposit with private financial institution. At June 30, 2013, the College's total deposits with private financial institutions had a carrying value of $1,056,510.69, and the bank balance was $1,424,591.70.

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, 2013, the College's portion of the bank balance in excess of federal depository insurance coverage was covered under the pooling method. Halifax Community College Foundation, Inc., the College's blended component unit, does not have a deposit policy for custodial credit risk. As of June 30, 2013, the blended component unit's portion of the bank balance in excess of federal depository insurance coverage was $117,134.10 and was uninsured and uncollateralized.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the 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 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

	Fair Value	Investment Maturities Less Than 1 Year
Investment Type		
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	$ 520,230.79
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 College does not have a formal policy that addresses credit risk. As of June 30, 2013, the College'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 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	$ 101,011.00
Domestic Stock	313,291.31
Total	$ 414,302.31

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College 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	$	955,539.69
Investments		934,493.10
Total Deposits and Investments	$	1,890,032.79
Current:		
Cash and Cash Equivalents	$	131,256.56
Restricted Cash and Cash Equivalents		513,187.21
Noncurrent:		
Restricted Cash and Cash Equivalents		311,095.92
Restricted Investments		934,493.10
Total Deposits and Investments	$	1,890,032.79

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. However, a majority of the College'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 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. Annual payouts from the College'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. As a result, the Foundation has spent all unrestricted funds, to the point that total assets are not sufficient to cover restrictions. This has resulted in a reduction to the restricted expendable scholarships and fellowships balance. At June 30, 2013, the amount of the deficit reported against the restricted expendable scholarships balances was $170,725.81.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 397,962.79	$ 186,968.66	$ 210,994.13
Student Sponsors	58,073.08		58,073.08
Accounts	13,507.72		13,507.72
Intergovernmental	646,059.77		646,059.77
Pledges	7,582.00		7,582.00
Investment Earnings	1,643.33		1,643.33
Other	5,470.97		5,470.97
Total Current Receivables	$ 1,130,299.66	$ 186,968.66	$ 943,331.00
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 800.90	$ 689.76	$ 111.14

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
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	2,274,570.20	93,784.14		2,368,354.34
General Infrastructure	592,177.07			592,177.07
Total Capital Assets, Depreciable	20,978,508.41	93,784.14		21,072,292.55
Less Accumulated Depreciation for:				
Buildings	5,761,739.67	363,155.16		6,124,894.83
Machinery and Equipment	1,195,789.23	214,736.85		1,410,526.08
General Infrastructure	94,640.24	13,408.68		108,048.92
Total Accumulated Depreciation	7,052,169.14	591,300.69		7,643,469.83
Total Capital Assets, Depreciable, Net	13,926,339.27	(497,516.55)		13,428,822.72
Capital Assets, Net	$ 14,121,139.27	$ (497,516.55)	$ 0.00	$ 13,623,622.72

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 170,917.94
Accrued Payroll	143,251.89
Intergovernmental Payables	59,389.00
Total	$ 373,558.83

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	$ 789,136.47	$ 738,799.56	$ 721,714.87	$ 806,221.16	$ 108,598.00

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for buildings and copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	$ 49,724.40
2015	39,702.81
2016	20,336.32
2017	9,669.80
Total Minimum Lease Payments	$ 119,433.33

Rental expense for all operating leases during the year was $63,432.14.

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 Change in Allowance for Uncollectibles*	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,405,324.05	$ 0.00	$ 1,697,158.39	$ 94,566.34	$ 613,599.32
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Facility	$ 4,075.00	$ 0.00	$ 0.00	$ 0.00	$ 4,075.00
Patron Fees - Cosmetology	23,558.80				23,558.80
Patron Fees - Child Care	183,551.99				183,551.99
Patron Fees - Dental Hygiene	21,975.04				21,975.04
The Centre	80,003.12				80,003.12
Bookstore	1,157,257.90	20,909.03	177,318.02	(28,952.64)	987,983.49
Vending	8,552.13				8,552.13
Other	286.00				286.00
Total Sales and Services	$ 1,479,259.98	$ 20,909.03	$ 177,318.02	$ (28,952.64)	$ 1,309,985.57

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	$ 6,559,476.04	$ 42,297.80	$ 230,069.29	$ 0.00	$ 0.00	$ 0.00	$ 6,831,843.13
Academic Support	1,010,606.15	14,131.84	20,694.01				1,045,432.00
Student Services	1,427,879.49	181,732.72	201,293.54				1,810,905.75
Institutional Support	1,862,596.77	75,548.80	356,323.89				2,294,469.46
Operations and Maintenance of Plant	434,919.15	820,650.84	92,152.69		347,227.02		1,694,949.70
Student Financial Aid				2,653,945.60			2,653,945.60
Auxiliary Enterprises	199,833.05	1,015,910.18	220,776.52				1,436,519.75
Depreciation						591,300.69	591,300.69
Total Operating Expenses	$ 11,495,310.65	$ 2,150,272.18	$ 1,121,309.94	$ 2,653,945.60	$ 347,227.02	$ 591,300.69	$ 18,359,366.08

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $8,985,135.77, of which $7,602,403.48 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $633,280.21 and $456,144.21, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $633,280.21, $563,929.47, and $376,569.03, respectively.

The TSERS 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 are incurred by the College. The voluntary contributions by employees amounted to $36,624.60 for the year ended June 30, 2013.

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, 2013, were $1,637.75. The voluntary contributions by employees amounted to $83,851.00 for the year ended June 30, 2013.

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 administrators are 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, 2013.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $402,927.38, $378,984.86, and $374,277.54, 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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the

DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $33,450.58, $39,414.43, and $39,719.25, 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 (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 College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

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

Condensed combining information for the College's blended component unit for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position June 30, 2013

	Halifax Community College Foundation, Inc.	Eliminations	Total
ASSETS			
Current Assets	$ 62,546.58	$ 0.00	$ 62,546.58
Other Noncurrent Assets	1,094,033.25		1,094,033.25
Total Assets	1,156,579.83		1,156,579.83
Deferred Outflows of Resources	0.00		0.00
LIABILITIES			
Total Liabilities	0.00		0.00
Deferred Inflows of Resources	0.00		0.00
NET POSITION			
Restricted - Nonexpendable	690,587.22		690,587.22
Restricted - Expendable	465,992.61		465,992.61
Total Net Position	$ 1,156,579.83	$ 0.00	$ 1,156,579.83

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013

	Halifax Community College Foundation, Inc.	Eliminations	Total
OPERATING EXPENSES			
Operating Expenses	$ 79,305.99	$ 0.00	$ 79,305.99
Operating Loss	(79,305.99)		(79,305.99)
NONOPERATING REVENUES			
Noncapital Gifts	140,965.90		140,965.90
Investment Income	53,357.86		53,357.86
Net Nonoperating Revenues	194,323.76		194,323.76
Increase in Net Position	115,017.77		115,017.77
NET POSITION			
Net Position, July 1, 2012	1,041,562.06		1,041,562.06
Net Position, June 30, 2013	$ 1,156,579.83	$ 0.00	$ 1,156,579.83

Condensed Statement of Cash Flows
June 30, 2013

	Halifax Community College Foundation, Inc.	Eliminations	Total
Net Cash Used by Operating Activities	$ (79,305.99)	$ 0.00	$ (79,305.99)
Net Cash Provided by Noncapital Financing Activities	137,184.90		137,184.90
Net Cash Provided by Investing Activities	644.70		644.70
Net Increase in Cash and Cash Equivalents	58,523.61		58,523.61
Cash and Cash Equivalents, July 1, 2012	158,128.79		158,128.79
Cash and Cash Equivalents, June 30, 2013	$ 216,652.40	$ 0.00	$ 216,652.40

NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

	Amount
July 1, 2012 Net Position as Previously Reported	$ 16,066,438.95
Restatements:	
Student Support Services Grant Receivable Not Accrued in 2012	310,984.78
July 1, 2012 Net Position as Restated	$ 16,377,423.73

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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 Trustees
Halifax Community College
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, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 16, 2014.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Audit Findings and Responses section to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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.

College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 16, 2014

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent a deficiency in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by the College contained misstatements that were corrected as a result of our 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. The misstatements noted during our audit included:

a. The College did not make the appropriate year-end entries to adjust the negative cash balances in the restricted funds. In addition, there were various miss-classifications of cash between restricted, unrestricted, current and noncurrent. After all the various audit adjustments were made to properly classify cash, current restricted cash decreased by over $1.2 million and noncurrent restricted cash increased by over $309,000.

b. The College did not record a current year grant award. As a result, noncurrent restricted cash and capital grants were understated by 150,000.

c. The College did not properly record a grant in the prior year. As a result, current year noncapital grants revenue was overstated by $310,985 and the beginning net position was understated.

d. The College made an incorrect entry when adding back student receivables that were previously written off. As a result, receivables and student tuition and fees were overstated by $120,123.

e. The College did not properly classify restricted investments between current and noncurrent. They also made a misclassification between cash and investments. As a result, noncurrent restricted investments were understated by $317,826.

f. The College improperly capitalized a repair project. As a result, capital assets were overstated $229,683 and current year expenses understated by the same amount.

g. As a result of our audit, other reclassifications entries were made, as well as multiple changes to the financial statement note disclosures, the Statement of Cash Flows, and the management discussion and analysis.

The College has experienced significant turnover in the past two years. For the year under audit, the College had one staff member involved in the preparation and review 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 College 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 its financial staff could benefit from additional training on governmental financial reporting matters.

College Response: The College agrees with the finding. While not true during this audit, the College 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 financial staff will also be attending training in October on GASB financial reporting procedures. The College also plans to have someone knowledgeable at the NCCCS review the final reports before they are submitted for FY 2013-2014.

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This audit required 650 audit hours at an approximate cost of $49,400.