

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.

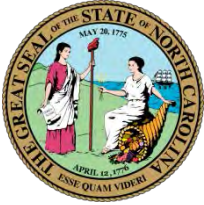
WELDON, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF HALIFAX COMMUNITY COLLEGE



**NCOSA**  
The Taxpayers' Watchdog

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



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

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## AUDITOR'S TRANSMITTAL

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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, 2015, 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 and an instance of noncompliance that are detailed in the Audit Findings and Responses section of this report. The Foundation'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 ways listed in the back of this report.

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

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# INDEPENDENT AUDITOR'S REPORT

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



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

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## **INDEPENDENT AUDITOR'S REPORT**

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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, 2015, 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.

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, 2015, 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 April 18, 2016 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

April 18, 2016



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information in this section is intended to provide a general overview of Halifax Community College Foundation Inc.'s (Foundation) 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 Changes in Net Position; and Statement of Cash Flows. The Foundation had a total net position of \$1,403,073.89 at June 30, 2015.

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 nonoperating 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, 2014, to the ending cash on hand as of June 30, 2015.

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 \$142,707.40 for the fiscal year ended June 30, 2015, to \$1,403,073.89.

Total assets increased by 11% from the prior year. Current assets increased by \$24,405.12. This is a result of an increase in contributions. Other Noncurrent assets increased \$118,302.28. This is due to the increase in investments and a capital grant from the Cannon Foundation to support upgrades to the HVAC systems at the College.



Most of the Foundation's net position, eighty-five percent (85%), is invested in equity and bond funds.

Condensed Statement of Net Position

	2015	2014	Increase (Decrease)
<b>Assets</b>			
Current	\$ 178,052.64	\$ 153,647.52	\$ 24,405.12
Other Noncurrent	1,225,021.25	1,106,718.97	118,302.28
<b>Total Assets</b>	<u>1,403,073.89</u>	<u>1,260,366.49</u>	<u>142,707.40</u>
<b>Net Position</b>			
Restricted	1,403,073.89	1,260,366.49	142,707.40
<b>Total Net Position</b>	<u>\$ 1,403,073.89</u>	<u>1,260,366.49</u>	<u>\$ 142,707.40</u>

The Statement of Revenues, Expenses, and Changes in Net Position presents information that reports how the Foundation's net position changed. The information presented is for fiscal years ending June 30, 2015 and June 30, 2014.

Operating revenues for fiscal year 2015 were \$150,326.18. This was an increase of \$43,784.62 from the prior year and due to more contributions from donors.

Operating expenses for fiscal year 2015 were \$80,840.64. Scholarships awarded to the students of Halifax Community College represented \$45,521.00 of this total. The remaining \$35,819.64 was for supplies and services.

Nonoperating revenues amounted to \$73,221.86. Of this, \$100,000.00 was the capital grant from the Cannon Foundation that will be given to Halifax Community College for HVAC replacement and energy efficiency renovation. The \$26,778.14 was a loss of income on investments, which decreased from the prior year due to negative market conditions.

Statement of Revenues, Expenses, and Changes in Net Position

	2015	2014	Increases Decreases
<b>Operating Revenues:</b>			
Contributions	\$ 150,326.18	\$ 106,541.56	\$ 43,784.62
<b>Total Operating Revenues</b>	<b>150,326.18</b>	<b>106,541.56</b>	<b>43,784.62</b>
<b>Operating Expenses:</b>			
Supplies and Materials	9,189.81	6,777.88	2,411.93
Services	26,129.83	22,509.01	3,620.82
Scholarships and Fellowships	45,521.00	45,726.00	(205.00)
<b>Total Operating Expenses</b>	<b>80,840.64</b>	<b>75,012.89</b>	<b>5,827.75</b>
<b>Operating Income</b>	<b>69,485.54</b>	<b>31,528.67</b>	<b>37,956.87</b>
<b>Nonoperating Revenues:</b>			
Capital Grants	100,000.00		100,000.00
Investment Income	(26,778.14)	72,257.99	(99,036.13)
<b>Net Nonoperating Revenues</b>	<b>73,221.86</b>	<b>72,257.99</b>	<b>963.87</b>
<b>Increase in Net Position</b>	<b>142,707.40</b>	<b>103,786.66</b>	<b>38,920.74</b>
<b>Net Position - Beginning of Year</b>	<b>1,260,366.49</b>	<b>1,156,579.83</b>	<b>103,786.66</b>
<b>Net Position - End of Year</b>	<b>\$ 1,403,073.89</b>	<b>\$ 1,260,366.49</b>	<b>\$ 142,707.40</b>
<b>Total Revenues</b>	<b>\$ 223,548.04</b>	<b>\$ 178,799.55</b>	<b>\$ 44,748.49</b>
<b>Total Expenses</b>	<b>80,840.64</b>	<b>75,012.89</b>	<b>5,827.75</b>
<b>Total Increase in Net Position</b>	<b>\$ 142,707.40</b>	<b>\$ 103,786.66</b>	<b>\$ 38,920.74</b>

**Economic Forecast**

Halifax Community College Foundation, Inc. is optimistic about the future. It is currently engaged in a campaign named “Brick by Brick” which is estimated to increase unrestricted net assets by \$189,000.00. Sales for the bricks have not met expectations, but donations remain consistent. Tuition at Halifax Community College is modest by some standards, but 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 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.



# FINANCIAL STATEMENTS

**Halifax Community College Foundation, Inc.**  
**Statement of Net Position**  
**June 30, 2015**

**Exhibit A-1**

**ASSETS**

Current Assets:

Restricted Cash and Cash Equivalents	\$ 105,545.61
Restricted Short-Term Investments	65,919.03
Receivables	6,588.00
	<hr/>
Total Current Assets	178,052.64
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	126,950.00
Restricted Investments	1,098,071.25
	<hr/>
Total Noncurrent Assets	1,225,021.25
	<hr/>
Total Assets	1,403,073.89
	<hr/>

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	0.00
	<hr/>

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	0.00
	<hr/>

**NET POSITION**

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	753,518.15
Expendable:	
Scholarships and Fellowships	549,555.74
Capital Projects	100,000.00
	<hr/>

Total Net Position	\$ 1,403,073.89
	<hr/> <hr/>

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, 2015**

**Exhibit A-2**

<b>REVENUES</b>	
Operating Revenues:	
Contributions	\$ 150,326.18
Total Operating Revenues	<u>150,326.18</u>
<b>EXPENSES</b>	
Operating Expenses:	
Supplies and Materials	9,189.81
Services	26,129.83
Scholarships and Fellowships	<u>45,521.00</u>
Total Operating Expenses	<u>80,840.64</u>
Operating Income	<u>69,485.54</u>
<b>NONOPERATING REVENUES</b>	
Investment Loss	<u>(26,778.14)</u>
Net Nonoperating Revenues	<u>(26,778.14)</u>
Income Before Other Revenues	42,707.40
Capital Grants	<u>100,000.00</u>
Increase in Net Position	142,707.40
<b>NET POSITION</b>	
Net Position, July 1, 2014	<u>1,260,366.49</u>
Net Position, June 30, 2015	<u>\$ 1,403,073.89</u>

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, 2015**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Donors	\$ 147,537.18
Payments to Vendors and Suppliers	(35,319.64)
Payments for Scholarships and Fellowships	(45,521.00)
	<hr/>
Net Cash Provided by Operating Activities	66,696.54
	<hr/>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Capital Grants	100,000.00
	<hr/>
Cash Provided by Capital Financing Activities	100,000.00
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	89,658.64
Purchase of Investments	(826,928.36)
Investment Income	31,747.60
	<hr/>
Net Cash Used by Investing Activities	(705,522.12)
	<hr/>

Net Decrease in Cash and Cash Equivalents	(538,825.58)
Cash and Cash Equivalents, July 1, 2014	771,321.19
	<hr/>
Cash and Cash Equivalents, June 30, 2015	\$ 232,495.61
	<hr/> <hr/>

**RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 69,485.54
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets:	
Receivables, Net	(2,789.00)
	<hr/>
Net Cash Provided by Operating Activities	\$ 66,696.54
	<hr/> <hr/>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Restricted Cash and Cash Equivalents	\$ 105,545.61
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	126,950.00
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Total Cash and Cash Equivalents, June 30, 2015	\$ 232,495.61
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**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Change in Fair Value of Investments	\$ (148,292.08)
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The accompanying notes to the financial statements are an integral part of this statement.



# NOTES TO THE FINANCIAL STATEMENTS

## 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 12 member board consisting of 4 ex facta directors and 8 elected directors. The Foundation's purpose 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 both monetary and in-kind donor contributions. 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.

- D. Cash and Cash Equivalents** - This classification includes cash on deposit with private bank accounts and cash on deposit in money market 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.

- 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.

- I. **Revenue and Expense Recognition** - The Foundation classifies its revenues and expenses as operating or non-operating 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 such as gifts. 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 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** - At June 30, 2015, the Foundation’s total deposits with a private banking institution had a carrying value of \$232,495.61, and a bank balance of \$199,938.19.

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, 2015, the Foundation’s bank balance was secured by the Federal Depository Insurance Corporation (FDIC) coverage of \$250,000. The Foundation’s deposits include \$31,051.55 in money market funds that are not subject to (FDIC) coverage in the event of collapse and are 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, 2015, 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.

	<u>Investments</u>
Investment Type	Fair Value
Mutual Funds	\$ 1,163,990.28

## NOTES TO THE FINANCIAL STATEMENTS

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the Foundation to the basic financial statements as of June 30, 2015, is as follows:

Carrying Amount of Deposits with Private Financial Institutions including Money Market Funds Investments	\$ 232,495.61 <u>1,163,990.28</u>
<b>Total Deposits and Investments</b>	<b>\$ <u>1,396,485.89</u></b>
Current:	
Restricted Cash and Cash Equivalents	\$ 105,545.61
Restricted Short-Term Investments	65,919.03
Noncurrent:	
Restricted Cash and Cash Equivalents	126,950.00
Restricted Investments	<u>1,098,071.25</u>
<b>Total Deposits and Investments</b>	<b>\$ <u>1,396,485.89</u></b>

**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 based on a fixed percentage of the three year rolling average of the market value of the endowment at fiscal year-end. The payout rate is currently 3% of the three year rolling average.

The Foundation provided scholarships that exceeded the related endowment's available annual payouts in prior years. 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 2015, the amount of the deficit reported against the restricted expendable scholarships balances was \$139,844.96.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2015 members of the Foundation's Board of Directors made contributions to the Foundation totaling \$3,896.72. The Halifax Community College's Board of Trustees contributed \$7,175.00.

**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) 536-7269.

**NOTE 7 - INCOME TAXES**

Halifax Community College Foundation, Inc. is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 (IRC). As such, the Foundation is not taxed on income derived from its exempt functions. However, the Foundation is subject to tax on unrelated business income, which is generated from investment income and other activities not related to their stated exempt purposes. The Foundation had no significant deferred income tax assets or liabilities as of June 30, 2015, nor was there any unrelated business income for the year ended June 30, 2015.

The Foundation has evaluated its tax positions for all open tax years. Currently, the tax years subject to examination by the Internal Revenue

## NOTES TO THE FINANCIAL STATEMENTS

Service are June 30, 2012, 2013, and 2014. Halifax Community College Foundation, Inc. is not currently under audit nor has the Foundation been contacted by any jurisdictions. Therefore, no provision for the effects of uncertain tax positions have been recorded for the year ended June 30, 2015.



# **INDEPENDENT AUDITOR'S REPORT**

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



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

2 S. Salisbury Street  
20601 Mail Service Center  
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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of 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, 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated April 18, 2016.

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.

*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 prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Audit Findings and Responses section, that we consider to be a significant deficiency.

#### 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Audit Findings and Responses section.

#### Foundation's Response to Finding

The Foundation's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The Foundation'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 result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

April 18, 2016





# **FINDINGS, RECOMMENDATIONS, 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. The finding was also reported in the prior year.

**DEFICIENT CASH MANAGEMENT PRACTICES RESULTED IN UNALLOWABLE USE OF RESTRICTED FUNDS**

The Foundation did not have a system in place to properly track and manage its cash resources and, as a result, \$138,192.15 in funds restricted for scholarships were misspent.

As of June 30, 2015, the Foundation spent \$129,017.48 of funds restricted for scholarships on administrative and other general expenses because all unrestricted cash balances had been exhausted. Additionally, the Foundation awarded scholarships in the amount of \$9,174.67 in excess of specified donated amounts and/or available endowment earnings.

The Foundation did not have a system to track and monitor the balances of its restricted and unrestricted cash resources to ensure monies were spent appropriately.

The Foundation receives donations that are often 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.

*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. Procedures should be implemented to avoid using restricted funds, even temporarily, for purposes other than those designated by the donors. Given its current financial condition, the Foundation should seek funding from unrestricted sources to cover its administrative costs.

*Foundation Response:* Prior to Fiscal Year ending June 30, 2012, the Foundation did not have adequately trained personnel; nor, auditors aware of the proper accounting and reporting procedures for a 501(c)(3) organization. Therefore, proper tracking of transactions were erroneous at times. In October 2012, a CPA was hired with extensive experience with 501(c)(3) organizations. She recreated the entire history of the Foundation from its inception in 1976 to determine the true position of each restricted, endowed, and unrestricted fund. She also recommended a new audit firm be retained that had experience with 501(c)(3) accounting.

Once the history was recreated, it was found that some restricted funds had been overspent due to being over-awarded and restricted funds had been used to cover administrative expenses. The Foundation recognizes its need to make each overspent scholarship whole along with replenishing the unrestricted fund balance. Over the past two years, the cumulative amount of overspent scholarships has decreased and only funds received for unrestricted spending have been spent. This indicates progress in reversing the errors that

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

had occurred since 1976 when the Foundation was established and that the Foundation has not continued to spend restricted funds for unrestricted purposes.

The Foundation is raising unrestricted funds via donor contributions and fund-raising activities. The Brick by Brick campaign has the potential to resolve the negative unrestricted fund balance. The Foundation is working to implement an automated account system that will provide for proper tracking of contributions and expenses and real time reporting of its position.

# ORDERING INFORMATION

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