

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

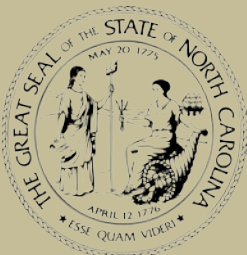


HALIFAX COMMUNITY COLLEGE FOUNDATION, INC.

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF HALIFAX COMMUNITY COLLEGE



NC OSA
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

The Honorable Roy Cooper, 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, 2016, 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 Findings, Recommendations, 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 options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor



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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Halifax Community College Foundation, Inc. (Foundation), a component unit of Halifax Community College, as of and for the year ended June 30, 2016, 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, 2016, 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 July 17, 2017 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

July 17, 2017



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

The Foundation's discussion and analysis provides a summary of its 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 Halifax Community College Foundation, Inc. had a total net position of \$1,357,307.35 at June 30, 2016.

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 or deteriorating.

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 as of July 1, 2015, to the ending cash as of June 30, 2016.

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 decreased by \$45,766.54 for the fiscal year ended June 30, 2016, to \$1,357,307.35.

Total assets decreased by 3.26% from the prior year. Other Noncurrent assets decreased by \$44,322.34. The decrease is a result of payments of scholarships that are distributed from the investment account as a result of dividends and interest.

Most of the Foundation's net position, seventy-eight percent (78%), is invested in mutual funds.

Condensed Statement of Net Position			
	2016	2015	Increase (Decrease)
Assets			
Current	\$ 176,608.44	\$ 178,052.64	\$ (1,444.20)
Other Noncurrent	1,180,698.91	1,225,021.25	(44,322.34)
Total Assets	1,357,307.35	1,403,073.89	(45,766.54)
Net Position			
Restricted	1,357,307.35	1,403,073.89	(45,766.54)
Total Net Position	\$ 1,357,307.35	\$ 1,403,073.89	\$ (45,766.54)

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, 2016 and June 30, 2015.

Operating revenues for fiscal year 2016 were \$54,638.45. This was a decrease of \$95,687.73 from the prior year and due to fewer contributions received from donors. Revenues decreased due to endowment funds not receiving matching funds from the Predominantly Black Institution Formula Grant (PBI-F). In fiscal year 2015, PBI-F matched \$50,000 of endowment funding.

Operating expenses for fiscal year 2016 were \$83,943.25, an increase of \$3,102.61. Scholarships awarded to the students of Halifax Community College represented \$48,565.94 of this total. The remaining \$35,377.31 was for supplies and services which include audit costs and banking fees.

Nonoperating revenues decreased by \$89,683.60 from the prior year. The primary reason for the decrease was a one time capital grant of \$100,000 that was received in 2015. The \$10,316.40 decrease in the investment loss was primarily the result of \$26,211.67 in dividends and interest.

Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015	Increases (Decreases)
Operating Revenues:			
Contributions	\$ 54,638.45	\$ 150,326.18	\$ (95,687.73)
Total Operating Revenues	54,638.45	150,326.18	(95,687.73)
Operating Expenses:			
Supplies and Materials	11,046.57	9,189.81	1,856.76
Services	24,330.74	26,129.83	(1,799.09)
Scholarships and Fellowships	48,565.94	45,521.00	3,044.94
Total Operating Expenses	83,943.25	80,840.64	3,102.61
Operating Income (Loss)	(29,304.80)	69,485.54	(98,790.34)
Nonoperating and Capital Revenues:			
Capital Grants		100,000.00	(100,000.00)
Investment Loss	(16,461.74)	(26,778.14)	10,316.40
Net Nonoperating and Capital Revenues	(16,461.74)	73,221.86	(89,683.60)
Increase (Decrease) in Net Position	(45,766.54)	142,707.40	(188,473.94)
Net Position-Beginning of Year	1,403,073.89	1,260,366.49	142,707.40
Net Position-End of Year	\$ 1,357,307.35	\$ 1,403,073.89	\$ (45,766.54)
Total Revenues	\$ 54,638.45	\$ 223,548.04	\$ (168,909.59)
Total Expenses	100,404.99	80,840.64	19,564.35
Total Increase (Decrease) in Net Position	\$ (45,766.54)	\$ 142,707.40	\$ (188,473.94)

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 position by \$189,000. Sales for the bricks have not met expectations, but it is still an active pursuit. The Brick by Brick campaign has been revamped to be able to increase the donations. A Fifty for 50 Gala will be taking place in January 2017 to raise additional unrestricted funds. 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, 2016

Exhibit A-1

ASSETS

Current Assets:

Restricted Cash and Cash Equivalents	\$ 175,407.44
Receivables	1,201.00
Total Current Assets	<u>176,608.44</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	121,828.00
Endowment Investments	753,804.73
Other Restricted Investments	<u>305,066.18</u>
Total Noncurrent Assets	<u>1,180,698.91</u>
Total Assets	<u>1,357,307.35</u>

DEFERRED OUTFLOWS OF RESOURCES

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

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

Restricted for:

Nonexpendable:

Scholarships and Fellowships	770,304.73
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Expendable:

Scholarships and Fellowships	487,002.62
Capital Projects	<u>100,000.00</u>

Total Net Position	<u><u>\$ 1,357,307.35</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Halifax Community College Foundation, Inc.
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES

Operating Revenues:

Contributions	\$ 54,638.45
Total Operating Revenues	<u>54,638.45</u>

EXPENSES

Operating Expenses:

Supplies and Materials	11,046.57
Services	24,330.74
Scholarships and Fellowships	<u>48,565.94</u>
Total Operating Expenses	<u>83,943.25</u>
Operating Loss	<u>(29,304.80)</u>

NONOPERATING REVENUES

Investment Loss (Includes Investment Expense of \$6,794.15)	<u>(16,461.74)</u>
Net Nonoperating Revenues	<u>(16,461.74)</u>
Decrease in Net Position	<u>(45,766.54)</u>

NET POSITION

Net Position, July 1, 2015	<u>1,403,073.89</u>
Net Position, June 30, 2016	<u><u>\$ 1,357,307.35</u></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, 2016

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 60,025.45
Payments to Vendors and Suppliers	(35,377.31)
Payments for Scholarships and Fellowships	(48,565.94)
	<hr/>
Net Cash Used by Operating Activities	(23,917.80)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,418,553.00
Investment Income	25,463.06
Purchase of Investments and Related Fees	(1,355,358.43)
	<hr/>
Net Cash Provided by Investing Activities	88,657.63

Net Increase in Cash and Cash Equivalents	64,739.83
Cash and Cash Equivalents, July 1, 2015	232,495.61
	<hr/>
Cash and Cash Equivalents, June 30, 2016	\$ 297,235.44

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

Operating Loss	\$ (29,304.80)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets:	
Receivables	5,387.00
	<hr/>
Net Cash Used by Operating Activities	\$ (23,917.80)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Restricted Cash and Cash Equivalents	\$ 175,407.44
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	121,828.00
	<hr/>
Total Cash and Cash Equivalents - June 30, 2016	\$ 297,235.44

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 50,144.75
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The Halifax Community College Foundation, Inc. (Foundation), a component unit of Halifax Community College (College), is a North Carolina nonprofit corporation organized to benefit the College through administration of contributions. The Foundation is governed by a 9 member board consisting of 3 ex facto directors and 6 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 money market accounts.

E. Investments - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. 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** – 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 nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Foundation's principal ongoing operations. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions

that represent subsidies 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, 2016, the Foundation's total deposits with a private banking institution had a carrying value of \$297,235.44 and a bank balance of \$276,702.99.

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, 2016, the Foundation's bank balance in excess of the Federal Depository Insurance Corporation (FDIC) coverage is \$26,702.99 and is uninsured and uncollateralized. In addition, the Foundation's deposits include \$20,532.45 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 investments by type and investments subject to interest rate risk at June 30, 2016, 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.

Investments

	<u>Value</u>
Investment Type	
Mutual Funds	<u>\$ 1,058,870.91</u>

- C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the Foundation to the basic financial statements as of June 30, 2016, is as follows:

Carrying Amount of Deposits with Private Financial Institutions including Money Market Funds	\$ 297,235.44
Investments	<u>1,058,870.91</u>
Total Deposits and Investments	<u>\$ 1,356,106.35</u>
Deposits	
Current:	
Restricted Cash and Cash Equivalents	\$ 175,407.44
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>121,828.00</u>
Total Deposits	<u>297,235.44</u>
Investments	
Noncurrent :	
Endowment Investments	753,804.73
Other Restricted Investments	<u>305,066.18</u>
Total Investments	<u>1,058,870.91</u>
Total Deposits and Investments	<u>\$ 1,356,106.35</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Foundation's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Mutual Funds – At year-end, all of the Foundation's investments valued at \$1,058,870.91 were held in mutual funds which are Level 1 investments. Mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - 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 2016, the amount of the deficit reported against the restricted expendable scholarships balances was \$162,699.40. This is an increase from the prior year of \$22,854.44. The increase was a result of the reduction in contributions from donors. The Foundation has planned additional events for fiscal year 2017 to raise funds such as the Fifty for 50 Gala to help increase donor contributions.

NOTE 5 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016 members of the Foundation's Board of Directors made contributions to the Foundation totaling \$3,757.40. The Halifax Community College's Board of Trustees contributed \$6,360.00.

NOTE 6 - 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 7 - 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 the College's facilities and staffed by the College's 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 8 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the Foundation implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Halifax Community College Foundation, Inc. (Foundation), a component unit of Halifax Community College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated July 17, 2017.

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 opinion 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 Findings, Recommendations, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Foundation's Response to Finding

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

July 17, 2017



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes 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 spent funds restricted for scholarships for purposes other than what they were intended. Specifically,

- \$13,269 was spent on administrative and other general expenses after all unrestricted cash balances had been exhausted.
- \$9,586 was awarded in scholarships in excess of available funds.

As a result, the Foundation increased its deficit reported against restricted scholarships to a cumulative total of \$162,699 as of June 30, 2016. The \$162,699 deficit is the result of years of improperly tracking and managing its cash resources.

The Foundation does not have a system in place to properly track and manage its cash resources. This has led to the Foundation not being able to timely monitor the balances of its restricted and unrestricted cash resources to ensure that 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 *G.S. 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.

Foundations Response: See page 18 for the Foundation's response to this finding.

HALIFAX COMMUNITY COLLEGE FOUNDATION INC.

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Office of the State Auditor

July 11, 2017

Beth A Wood, CPA

2 S Salisbury Street

20601 Mall Service Center

Raleigh, NC 27699

Dear Ms. Wood:

Please accept the following as our response to the findings to our year end June 30, 2016 audit.

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 endeavored to recreate 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 in 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. The amount of overspent scholarships increased during the 2015-2016 fiscal year and funds received were not sufficient to cover necessary expenses. Unfortunately, the Foundation continued to spend restricted funds for unrestricted purposes.

We agree with your findings. The Foundation is raising unrestricted funds via donor contributions and fund-raising activities. For the 2017-2018 fiscal year there are several events scheduled which are designed to bring in unrestricted funds including the Founders Day activities, the annual Golf Tournament, The Brick by Brick campaign, the Alumni Breakfast and more.

The finance office of HCC and the Foundation office will work together to develop a better system for tracking and awarding scholarship funds for the 2017-2018 year. Allen Purser, the Executive Director of the Halifax Community College Foundation will be responsible to ensure that these actions are carried out.

Sincerely,



Allen W. Purser

Executive Director of HCC Foundation Inc.

Copy: Dr. Michael Elam, President

Mr. Steve Medlin, Foundation Board Chair

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