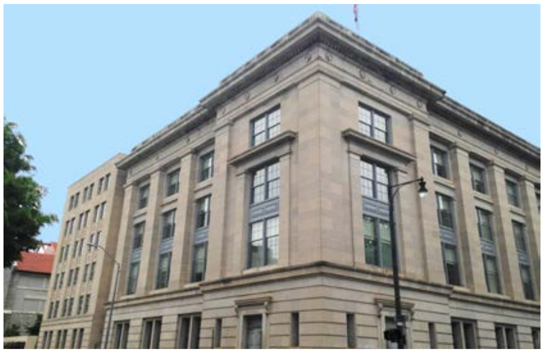
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Halifax Community College

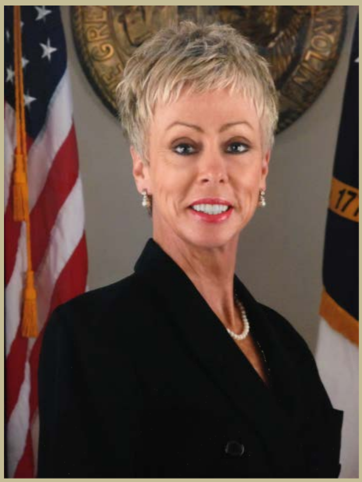
We have completed a financial statement audit of Halifax Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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 and any organization that receives public funding. 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

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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, 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.

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, 2017, 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 and other required supplementary information, as listed in the table of contents, 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 May 11, 2018 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

May 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information. Responsibility for the completeness and fairness of this information rests with the College.

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 Changes 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.'s total net position was $1,436,414.41 at June 30, 2017.

The Statement of Net Position presents information on all of the College's assets, liabilities, and deferred inflows and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 nonoperating 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 operating, investing, and financing activities. The statement reconciles the beginning cash on hand as of July 1, 2016, to the ending cash on hand as of June 30, 2017.

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

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 $505,349.93 for the fiscal year ended June 30, 2017, to $12,492,303.70.

Current assets decreased by $174,246.69 or 13.04%. A significant portion of this decrease was due to the use of bookstore cash on hand to supplement the state budget short fall.

Capital assets, net decreased by $259,220.45 or 2.02%, primarily driven by depreciation, as the College made only minor purchases of machinery and equipment and additions to buildings. For more information see Note 6 of the Notes to the Financial Statements. Other noncurrent assets increased by $41,447.33 or 3.11% from the prior fiscal year, primarily due to an increase in invested donor endowment contributions.

Current liabilities increased by $109,520.48 or 24.48%. This increase is significantly attributed to the year-end accruals related to county funds for additional repairs and utilities.

Long-term liabilities increased by $2,311,573.64 or 103.76% primarily due to the change in actuarial assumptions related to the net pension liability. See Notes 8 and 12 of the Notes to the Financial Statements for further details.

Deferred outflows of resources related to pensions for the College were $2,809,577.00 at June 30, 2017. This was an increase from the prior year of $2,159,090.00 due to a change in actuarial assumptions by the pension plan trustees. Approximately $728,311.78 of this deferred outflow will reduce the net pension liability for the year ended June 30, 2018. The College also recorded deferred inflows of resources related to pensions in the amount of $308,970.00. This amount represents the net amount of the College's pension deferrals that will decrease pension expense in fiscal years 2018 to 2021. For more information about the College's deferred outflows and inflows of resources related to pensions, refer to Note 12 of the Notes to the Financial Statements.

Most of the College's net position is invested in capital assets (i.e. land, buildings, machinery and equipment, and general infrastructure) which decreased by $259,220.45. This decrease was primarily caused by current year depreciation of $526,991.15 offset by current year increases to machinery and equipment for educational computer equipment and the purchase of an energy management/building automation system for the College's buildings. Restricted net position decreased by $146,841.51 or 8.85% primarily as the result of spending $100,000 in capital grant funds on the capitalized building addition previously mentioned. The deficit amount of $1,570,384.00 in unrestricted net position at June 30, 2017 was largely attributed to the College outsourcing its bookstore operations in June 2016. This resulted in a $99,287.97 change in unrestricted net position from the prior year.

Condensed Statement of Net Position

	2017	2016	Dollar Change	Percent Change
Assets				
Current	$ 1,161,877.10	$ 1,336,123.79	$ (174,246.69)	(13.04%)
Capital Assets, Net	12,550,815.04	12,810,035.49	(259,220.45)	(2.02%)
Other Noncurrent	1,375,258.61	1,333,811.28	41,447.33	(3.11%)
Total Assets	15,087,950.75	15,479,970.56	(392,019.81)	(2.53%)
Deferred Outflows of Resources	2,809,577.00	650,487.00	2,159,090.00	331.92%
Liabilities				
Current	556,914.35	447,393.87	109,520.48	24.48%
Long-Term	4,539,339.70	2,227,766.06	2,311,573.64	103.76%
Total Liabilities	5,096,254.05	2,675,159.93	2,421,094.12	90.50%
Deferred Inflows of Resources	308,970.00	457,644.00	(148,674.00)	(32.49%)
Net Position				
Investment in Capital Assets	12,550,815.04	12,810,035.49	(259,220.45)	(2.02%)
Restricted	1,511,872.66	1,658,714.17	(146,841.51)	(8.85%)
Unrestricted	(1,570,384.00)	(1,471,096.03)	(99,287.97)	6.75%
Total Net Position	$ 12,492,303.70	$ 12,997,653.63	$ (505,349.93)	(3.89%)

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 nonoperating revenues and expenses.

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

	2017	2016	Dollar Change	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 689,585.87	$ 581,127.93	$ 108,457.94	18.66%
Sales and Services	313,337.22	714,583.97	(401,246.75)	(56.15%)
Other Operating Revenues	16,169.30	115,940.39	(99,771.09)	(86.05%)
Total Operating Revenues	1,019,092.39	1,411,652.29	(392,559.90)	(27.81%)
Operating Expenses:				
Salaries and Benefits	10,783,317.03	9,903,226.67	880,090.36	8.89%
Supplies and Materials	389,025.09	1,209,623.11	(820,598.02)	(67.84%)
Services	1,893,439.97	1,949,925.26	(56,485.29)	(2.90%)
Scholarships and Fellowships	1,736,606.26	1,357,502.96	379,103.30	27.93%
Utilities	398,959.18	359,529.31	39,429.87	10.97%
Depreciation	526,991.15	559,434.57	(32,443.42)	(5.80%)
Total Operating Expenses	15,728,338.68	15,339,241.88	389,096.80	2.54%
Operating Loss	(14,709,246.29)	(13,927,589.59)	(781,656.70)	5.61%
Nonoperating Revenues:				
State Aid	7,962,062.19	7,862,817.54	99,244.65	1.26%
County Appropriations	1,345,978.00	1,546,444.00	(200,466.00)	(12.96%)
Noncapital Grants and Gifts	4,134,234.73	4,520,186.02	(385,951.29)	(8.54%)
Investment Income (Loss), Net	124,430.97	(10,403.47)	134,834.44	1296.05%
Other Nonoperating Revenues	45,557.95	41,642.26	3,915.69	9.40%
Net Nonoperating Revenues	13,612,263.84	13,960,686.35	(348,422.51)	(2.50%)
Income (Loss) Before Other Revenues	(1,096,982.45)	33,096.76	(1,130,079.21)	(3414.41%)
Other Revenues:				
Capital Contributions	502,821.52	168,946.56	333,874.96	197.62%
Additions to Endowments	88,811.00		88,811.00	
Total Other Revenues	591,632.52	168,946.56	422,685.96	250.19%
Increase (Decrease) in Net Position	(505,349.93)	202,043.32	(707,393.25)	(350.12%)
Net Position, July 1	12,997,653.63	12,795,610.31	202,043.32	1.58%
Net Position, June 30	$ 12,492,303.70	$ 12,997,653.63	$ (505,349.93)	(3.89%)

Total revenues decreased by $328,699.92 or 2.11% from $15,551,688.67 in the prior year to $15,222,988.75 in fiscal year 2017. Total expenses increased by $378,693.33, or 2.47%, from $15,349,645.35 in the prior year to $15,728,338.68 in the current fiscal year.

Total operating revenues for the College decreased by $392,559.90 or 27.81%, when compared to June 30, 2016. Student tuition and fees increased by $108,457.94 or 18.66%. The Full-Time Equivalent (FTE) enrollment earned in the 2015-16 fiscal year totaled 1,309 and increased to 1,361 during the 2016-17 fiscal year (52 FTE). Sales and services revenue decreased by $401,246.75 or 56.15%, primarily due to outsourcing the bookstore operations in June 2016.

Total operating expenses for fiscal year 2017 increased by $389,096.80 or 2.54%. Salaries and benefits increased by $880,090.36 or 8.89% primarily due to an increase in pension expense of $595,400.00 and a 1.5% legislative salary increase. Supplies and materials decreased by $820,598.02 or 67.84% because purchases related to the bookstore operations were no longer necessary. The bookstore was outsourced to Follett in June 2016 because the College was unable to compete on the same economies of scale and Follett was able to significantly reduce book and supply expenses for students. Scholarships and fellowships increased by $379,103.30 or 27.93% primarily due to the College outsourcing the bookstore as mentioned above.

Total nonoperating revenues decreased by $348,422.51 or 2.50% when compared to fiscal year 2016. County appropriations decreased by $200,466.00 or 12.96% because county appropriations in 2016 included funds for repairs to the chiller and a roof replacement. Noncapital grants and gifts decreased by $385,951.29 or 8.54% primarily due to a reduction in the number of students that qualified for the Pell grant. The increase of $134,834.44 in net investment income was the result of increases in capital gains, dividend and interest income, and favorable market conditions.

Other revenues increased $422,685.96 or 250.19% mostly due to the College receiving $396,165.00 of Connect NC bond funds for roof renovations during the current year.

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 (RVEC) program has an enrollment of 143 students in grades 9-13. The fourth class graduated in Spring 2017. The students are able to complete their high school education while earning college credits. Many will graduate from high school with up to two 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 recently partnered with the Northampton County Early College program and will be operated similarly to the RVEC program. The program began Fall 2016 with an enrollment of 71 students. This will help to increase the FTEs for the College.

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. For example, the Student Support Services grant was renewed for five years and the new PBI-Competitive grant was awarded for five years to help support students. Also, the College received grants for TechHire of $898,000 over five years beginning with the current fiscal year, Educational Opportunity Center (EOC) of $1,180,000 over five years, and Workforce Innovation and Opportunity Act (WIOA) of $559,697 for the 2017-18 year. The TechHire grant will allow the College to recruit an additional 25 students per year for the next four years within the welding and industrial maintenance program. The EOC grant will give the College the opportunity to make 1,000 potential students per year aware of what the College offers. The WIOA grant helps support individuals in obtaining employment, training, and assisting dislocated workers.

Choanoke Area Development Association of NC, Inc. rents the childcare center space from the College and continues to be a valuable resource to our community by operating a Head Start program.

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.

Financial Statements

Halifax Community College
Statement of Net Position
June 30, 2017 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	225,254.67
Restricted Cash and Cash Equivalents		395,677.77
Receivables, Net (Note 5)		396,602.31
Due from State of North Carolina Component Units		46,260.39
Inventories		40,218.09
Prepaid Items		57,584.47
Notes Receivable, Net (Note 5)		279.40
Total Current Assets		1,161,877.10
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		88,059.52
Restricted Due from Primary Government		91,664.58
Endowment Investments		770,421.30
Other Restricted Investments		425,113.21
Capital Assets - Nondepreciable (Note 6)		194,800.00
Capital Assets - Depreciable, Net (Note 6)		12,356,015.04
Total Noncurrent Assets		13,926,073.65
Total Assets		15,087,950.75
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		2,809,577.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		355,028.30
Unearned Revenue		53,480.32
Funds Held for Others		14,329.49
Long-Term Liabilities - Current Portion (Note 8)		134,076.24
Total Current Liabilities		556,914.35
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		4,539,339.70
Total Liabilities		5,096,254.05
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		308,970.00
NET POSITION		
Investment in Capital Assets		12,550,815.04
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		859,232.30
Expendable:		
Scholarships and Fellowships		565,120.44
Loans		13,027.47
Capital Projects		74,492.45
Unrestricted		(1,570,384.00)
Total Net Position	$	12,492,303.70

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, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 689,585.87
Sales and Services	313,337.22
Other Operating Revenues	16,169.30
Total Operating Revenues	1,019,092.39
EXPENSES	
Operating Expenses:	
Salaries and Benefits	10,783,317.03
Supplies and Materials	389,025.09
Services	1,893,439.97
Scholarships and Fellowships	1,736,606.26
Utilities	398,959.18
Depreciation	526,991.15
Total Operating Expenses	15,728,338.68
Operating Loss	(14,709,246.29)
NONOPERATING REVENUES	
State Aid	7,962,062.19
County Appropriations	1,345,978.00
Noncapital Grants - Student Financial Aid	3,113,185.93
Noncapital Grants	932,922.77
Noncapital Gifts	88,126.03
Investment Income (Net of Investment Expense of $6,781.87)	124,430.97
Other Nonoperating Revenues	45,557.95
Total Nonoperating Revenues	13,612,263.84
Loss Before Other Revenues	(1,096,982.45)
State Capital Aid	473,963.00
Capital Grants	28,858.52
Additions to Endowments	88,811.00
Decrease in Net Position	(505,349.93)
NET POSITION	
Net Position, July 1, 2016	12,997,653.63
Net Position, June 30, 2017	$ 12,492,303.70

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

Halifax Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	996,510.77
Payments to Employees and Fringe Benefits		(10,761,896.53)
Payments to Vendors and Suppliers		(2,602,195.22)
Payments for Scholarships and Fellowships		(1,742,292.18)
Other Receipts		59,157.57
Net Cash Used by Operating Activities		(14,050,715.59)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,962,062.19
County Appropriations		1,345,978.00
Noncapital Grants - Student Financial Aid		3,113,185.93
Noncapital Grants		990,174.29
Noncapital Gifts		88,126.03
Additions to Endowments		88,811.00
Total Cash Provided by Noncapital Financing Activities		13,588,337.44
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		511,943.00
Capital Grants		28,858.52
Acquisition of Capital Assets		(279,860.49)
Net Cash Provided by Capital and Related Financing Activities		260,941.03
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		853,232.73
Investment Income		23,374.54
Purchase of Investments and Related Fees		(894,839.86)
Net Cash Used by Investing Activities		(18,232.59)
Net Decrease in Cash and Cash Equivalents		(219,669.71)
Cash and Cash Equivalents, July 1, 2016		928,661.67
Cash and Cash Equivalents, June 30, 2017	$	708,991.96

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(14,709,246.29)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		526,991.15
Nonoperating Other Income		57,647.74
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(26,040.26)
Inventories		29,270.30
Prepaid Items		(42,668.35)
Deferred Outflows for Pensions		(2,159,090.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		113,194.22
Unearned Revenue		(2,227.28)
Net Pension Liability		2,333,184.00
Funds Held for Others		1,509.83
Deferred Inflows for Pensions		(148,674.00)
Compensated Absences		(24,566.65)
Net Cash Used by Operating Activities	$	(14,050,715.59)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	225,254.67
Restricted Cash and Cash Equivalents		395,677.77
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		88,059.52
Total Cash and Cash Equivalents - June 30, 2017	$	708,991.96

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	34,326.66
Loss on Disposal of Capital Assets		(12,089.79)

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 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 (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. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, Halifax Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a nine-member board consisting of three ex officio directors and six elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Halifax Community College Board of Trustees and the Foundation's sole purpose is to benefit Halifax Community College, its financial statements have been blended with those of the College.

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

Condensed combining information regarding the blended component unit is provided in Note 15.

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 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 aid, 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, 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 change in the value of investments is recognized as a component of investment income. Money market funds are reported at cost.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants 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 the first-in, first-out method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	30-50 years
Machinery and Equipment	5-50 years
General Infrastructure	25-50 years

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 net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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. **Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

M. **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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources.

N. **Scholarship Discounts** - Student tuition and fees 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.

O. **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 (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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. Cash on hand at June 30, 2017 was $1,637.15. The carrying amount of the College's deposits with private financial institutions was $707,354.81 and the bank balance was $828,733.27.

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, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments - In addition to donated securities 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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

Investments of the College's component unit, Halifax Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2017, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures - An Amendment of GASB Statement No.3,* as the risk a government may face should interest rate variances affect the value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Debt Mutual Funds	$ 433,263.24	$ 0.00	$ 12,446.57	$ 420,816.67
Money Market Mutual Funds	41,709.29	41,709.29		
Total Debt Securities	474,972.53	$ 41,709.29	$ 12,446.57	$ 420,816.67
Other Securities				
International Mutual Funds	230,498.17			
Equity Mutual Funds	490,063.81			
Total Investments	$ 1,195,534.51			

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, 2017, the College's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	$ 433,263.24	$ 266,388.45	$ 18,416.30	$ 57,511.58	$ 68,918.68	$ 21,177.33	$ 850.90
Money Market Mutual Funds	41,709.29	41,709.29					
Totals	$ 474,972.53	$ 308,097.74	$ 18,416.30	$ 57,511.58	$ 68,918.68	$ 21,177.33	$ 850.90

Rating Agency: Morningstar

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2017, is as follows:

Cash on Hand	$	1,637.15
Carrying Amount of Deposits with Private Financial Institutions		707,354.81
Investments		1,195,534.51
Total Deposits and Investments	$	1,904,526.47
Deposits		
Current:		
Cash and Cash Equivalents	$	225,254.67
Restricted Cash and Cash Equivalents		395,677.77
Noncurrent:		
Restricted Cash and Cash Equivalents		88,059.52
Total Deposits		708,991.96
Noncurrent Investments:		
Endowment Investments		770,421.30
Other Restricted Investments		425,113.21
Total Investments		1,195,534.51
Total Deposits and Investments	$	1,904,526.47

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2017. 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.

The following table summarizes the College's investments within the fair value hierarchy at June 30, 2017:

	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 433,263.24	$ 433,263.24	$ 0.00	$ 0.00
Other Securities				
International Mutual Funds	230,498.17	230,498.17		
Equity Mutual Funds	490,063.81	490,063.81		
Total Investments by Fair Value Level	$ 1,153,825.22	$ 1,153,825.22	$ 0.00	$ 0.00

Debt and Equity Securities - Debt and equity securities 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 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 based on a fixed percentage of the three-year rolling average of the market value of the endowment at the fiscal year-end. The payout rate is currently 3% of the three year rolling average.

The College provided scholarships that exceeded the related endowment's available annual payouts in prior years. As a result, the College 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, 2017, the amount of the deficit reported against the restricted expendable scholarships and fellowships balance was $158,349.05. This is a decrease from the prior year of $4,350.35.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 592,699.85	$ 551,302.96	$ 41,396.89
Student Sponsors	66,286.70		66,286.70
Accounts	34,631.55		34,631.55
Intergovernmental	105,866.46		105,866.46
Other	148,420.71		148,420.71
Total Current Receivables	$ 947,905.27	$ 551,302.96	$ 396,602.31
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 800.90	$ 521.50	$ 279.40

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 194,800.00	$ 0.00	$ 0.00	$ 194,800.00
Capital Assets, Depreciable:				
Buildings	18,111,761.14	100,000.00		18,211,761.14
Machinery and Equipment	2,954,250.56	179,860.49	121,616.30	3,012,494.75
General Infrastructure	592,177.07			592,177.07
Total Capital Assets, Depreciable	21,658,188.77	279,860.49	121,616.30	21,816,432.96
Less Accumulated Depreciation for:				
Buildings	7,214,360.31	363,155.16		7,577,515.47
Machinery and Equipment	1,680,318.01	150,427.31	109,526.51	1,721,218.81
General Infrastructure	148,274.96	13,408.68		161,683.64
Total Accumulated Depreciation	9,042,953.28	526,991.15	109,526.51	9,460,417.92
Total Capital Assets, Depreciable, Net	12,615,235.49	(247,130.66)	12,089.79	12,356,015.04
Capital Assets, Net	$ 12,810,035.49	$ (247,130.66)	$ 12,089.79	$ 12,550,815.04

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 182,656.78
Accrued Payroll	172,371.52
Total Current Accounts Payable and Accrued Liabilities	$ 355,028.30

NOTE 8 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 1,795,428.00	$ 2,333,184.00	$ 0.00	$ 4,128,612.00	$ 0.00
Compensated Absences	569,370.59	415,184.24	439,750.89	544,803.94	134,076.24
Total Long-Term Liabilities	$ 2,364,798.59	$ 2,748,368.24	$ 439,750.89	$ 4,673,415.94	$ 134,076.24

Additional information regarding the net pension liability is included in Note 12.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 39,928.86
2019	30,950.04
2020	29,235.48
2021	13,883.45
2022	8,246.26
Total Minimum Lease Payments	$ 122,244.09

Rental expense for all operating leases during the year was $76,415.90.

NOTE 10 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 1,720,144.04	$ 1,004,005.58	$ 26,552.59	$ 689,585.87

NOTE 11 - 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	$ 5,536,502.91	$ 159,646.59	$ 122,721.59	$ 0.00	$ 0.00	$ 0.00	$ 5,818,871.09
Academic Support	1,213,801.98	27,722.26	20,873.47				1,262,397.71
Student Services	1,517,188.18	13,418.20	200,910.89				1,731,517.27
Institutional Support	2,275,163.28	56,629.37	330,902.18				2,662,694.83
Operations and Maintenance of Plant	137,871.79	99,586.50	1,007,415.24		398,959.18		1,643,832.71
Student Financial Aid		4,563.52	36,448.97	1,736,606.26			1,777,618.75
Auxiliary Enterprises	102,788.89	27,458.65	174,167.63				304,415.17
Depreciation						526,991.15	526,991.15
Total Operating Expenses	$ 10,783,317.03	$ 389,025.09	$ 1,893,439.97	$ 1,736,606.26	$ 398,959.18	$ 526,991.15	$ 15,728,338.68

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $437,862.79, and the College's contributions were $728,311.78 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $4,128,612.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the College's proportion was 0.04492%, which was a decrease of 0.0038 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections.

Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 7,765,121.00	$ 4,128,612.00	$ 1,070,806.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $753,179.00. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 195,124.00
Changes of Assumptions	608,870.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,472,395.22	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		113,846.00
Contributions Subsequent to the Measurement Date	728,311.78	
Total	$ 2,809,577.00	$ 308,970.00

The amount of $728,311.78 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2018	$ 276,012.00
2019	283,580.00
2020	772,731.00
2021	439,972.22
Total	$ 1,772,295.22

NOTE 13 - 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 (TSERS). 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 TSERS 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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $424,109.43, $398,112.44, and $415,828.56, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 TSERS. 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $27,731.31, $29,147.52, and $31,054.59, 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 14 - 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.

A. Public Entity Risk Pool

Public School Insurance Fund

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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 deductible. Employees paid from county and institutional funds are covered by commercial insurance with coverage of $100,000 with a $1,000 deductible.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the College

Teachers and students are covered for medical malpractice through the Healthcare Providers Service Organization. Students pay $16.00 per year for coverage, while teachers are covered for free. The limits of liability are $2,000,000 per claim and $5,000,000 aggregate.

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2017, is presented as follows:

Condensed Statement of Net Position
June 30, 2017

	College	Halifax Community College Foundation, Inc.	Total
ASSETS			
Current Assets	$ 1,012,480.70	$ 149,396.40	$ 1,161,877.10
Capital Assets, Net	12,550,815.04		12,550,815.04
Other Noncurrent Assets	88,240.60	1,287,018.01	1,375,258.61
Total Assets	13,651,536.34	1,436,414.41	15,087,950.75
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,809,577.00		2,809,577.00
LIABILITIES			
Current Liabilities	556,914.35		556,914.35
Long-Term Liabilities	4,539,339.70		4,539,339.70
Total Liabilities	5,096,254.05		5,096,254.05
TOTAL DEFERRED INFLOWS OF RESOURCES	308,970.00		308,970.00
NET POSITION			
Investment in Capital Assets	12,550,815.04		12,550,815.04
Restricted - Nonexpendable		859,232.30	859,232.30
Restricted - Expendable	75,458.25	577,182.11	652,640.36
Unrestricted	(1,570,384.00)		(1,570,384.00)
Total Net Position	$ 11,055,889.29	$ 1,436,414.41	$ 12,492,303.70

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	College	Halifax Community College Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 689,585.87	$ 0.00	$ 0.00	$ 689,585.87
Sales and Services	313,337.22			313,337.22
Other Operating Revenues	16,169.30			16,169.30
Contributions		88,126.03	(88,126.03)	
Total Operating Revenues	1,019,092.39	88,126.03	(88,126.03)	1,019,092.39
OPERATING EXPENSES				
Operating Expenses	14,987,386.41	213,961.12		15,201,347.53
Depreciation	526,991.15			526,991.15
Total Operating Expenses	15,514,377.56	213,961.12		15,728,338.68
Operating Loss	(14,495,285.17)	(125,835.09)	(88,126.03)	(14,709,246.29)
NONOPERATING REVENUES				
State Aid	7,962,062.19			7,962,062.19
County Appropriations	1,345,978.00			1,345,978.00
Noncapital Grants and Gifts	4,046,108.70		88,126.03	4,134,234.73
Investment Income, Net	8,299.82	116,131.15		124,430.97
Other Nonoperating Revenues	45,557.95			45,557.95
Total Nonoperating Revenues	13,408,006.66	116,131.15	88,126.03	13,612,263.84
Capital Contributions	502,821.52			502,821.52
Additions to Endowments		88,811.00		88,811.00
Increase (Decrease) in Net Position	(584,456.99)	79,107.06		(505,349.93)
NET POSITION				
Net Position, July 1, 2016	11,640,346.28	1,357,307.35		12,997,653.63
Net Position, June 30, 2017	$ 11,055,889.29	$ 1,436,414.41	$ 0.00	$ 12,492,303.70

Condensed Statement of Cash Flows
June 30, 2017

	College	Halifax Community College Foundation, Inc.	Total
Net Cash Used by Operating Activities	$ (13,926,081.50)	$ (124,634.09)	$ (14,050,715.59)
Cash Provided by Noncapital Financing Activities	13,499,526.44	88,811.00	13,588,337.44
Net Cash Provided by Capital and Related Financing Activities	260,941.03		260,941.03
Net Cash Provided (Used) by Investing Activities	2,299.86	(20,532.45)	(18,232.59)
Net Decrease in Cash and Cash Equivalents	(163,314.17)	(56,355.54)	(219,669.71)
Cash and Cash Equivalents, July 1, 2016	631,426.23	297,235.44	928,661.67
Cash and Cash Equivalents, June 30, 2017	$ 468,112.06	$ 240,879.90	$ 708,991.96

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues - An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

Halifax Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years

Exhibit B-1

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.04492%	0.04872%	0.05133%	0.0527%
Proportionate Share of TSERS Collective Net Pension Liability	$ 4,128,612.00	$ 1,795,428.00	$ 601,804.00	$ 3,199,427.00
Covered Payroll	$ 7,109,150.74	$ 7,574,290.79	$ 7,643,589.07	$ 7,602,403.48
Net Pension Liability as a Percentage of Covered Payroll	58.07%	23.70%	7.87%	42.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Halifax Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 728,311.78	$ 650,487.29	$ 693,047.61	$ 664,227.89	$ 633,280.21
Contributions in Relation to the Contractually Determined Contribution	728,311.78	650,487.29	693,047.61	664,227.89	633,280.21
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 7,297,713.19	$ 7,109,150.74	$ 7,574,290.79	$ 7,643,589.07	$ 7,602,403.48
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 563,929.47	$ 376,569.03	$ 274,582.76	$ 268,095.48	$ 227,881.14
Contributions in Relation to the Contractually Determined Contribution	563,929.47	376,569.03	274,582.76	268,095.48	227,881.14
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 7,579,697.22	$ 7,638,317.07	$ 7,691,393.94	$ 7,979,032.14	$ 7,471,512.72
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

Halifax Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.*

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 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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 11, 2018.

Internal Control Over Financial Reporting

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 opinion 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.

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. 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. 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.

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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

May 11, 2018

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This audit required 440 hours at an approximate cost of $45,320.