



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Halifax Community College

This report presents the results of our financial statement audit of Halifax Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Halifax Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Halifax Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Halifax Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Halifax Community College
Weldon, North Carolina

We have audited the accompanying basic financial statements of Halifax Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

May 27, 2004

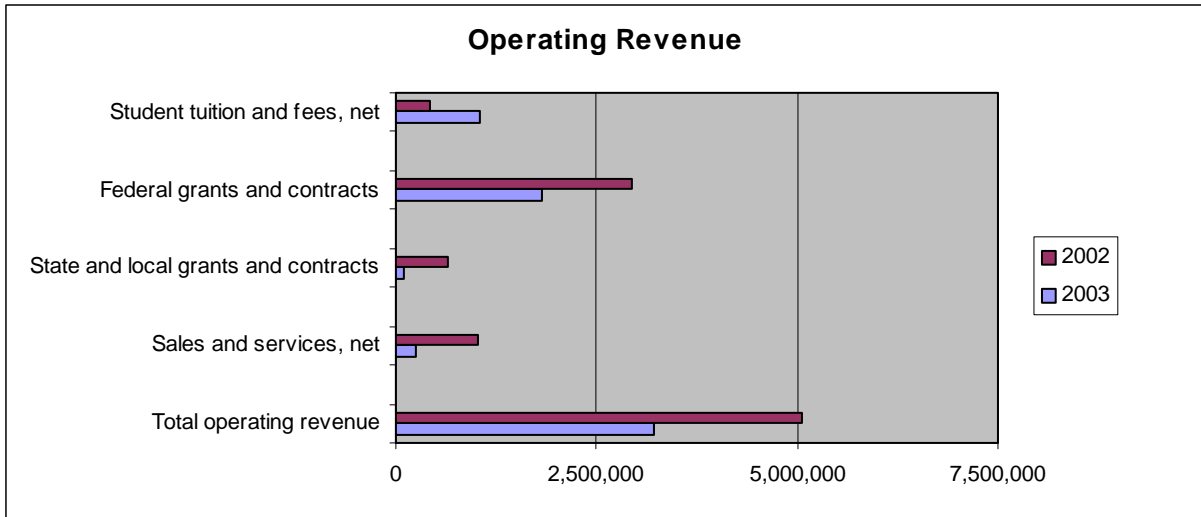
MANAGEMENT'S DISCUSSION AND ANALYSIS

The overall financial position of Halifax Community College at the end of fiscal year 2002-2003 remains fairly constant with last year. Increases in outside grant funds have helped the College maintain its current financial position.

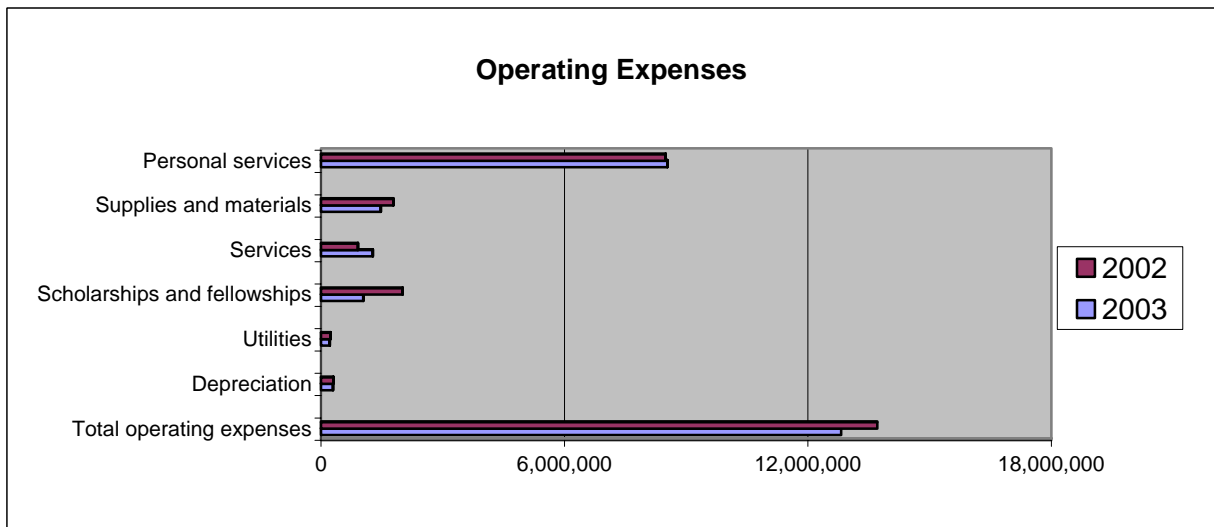
	<u>Amounts</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Capital Assets	\$ 12,348,723.47	\$ 6,202,141.81
Other	2,473,382.48	2,014,713.24
Total Assets	<u>14,822,105.95</u>	<u>8,216,855.05</u>
Liabilities		
Noncurrent Long-Term Liabilities	479,591.30	459,374.53
Other Liabilities	187,680.77	177,791.97
Total Liabilities	<u>667,272.07</u>	<u>637,166.50</u>
Net Assets		
Invested in Capital Assets	12,348,723.47	6,185,706.13
Restricted	972,025.98	638,800.84
Unrestricted	834,084.43	755,181.58
Total Net Assets	<u>\$ 14,154,833.88</u>	<u>\$ 7,579,688.55</u>
Operating Revenues		
Federal Grants and Contracts	\$ 1,810,040.81	\$ 2,945,671.56
Sales and Services	260,967.90	1,028,785.89
Other	1,138,890.95	1,083,521.74
Total Operating Revenues	<u>3,209,899.66</u>	<u>5,057,979.19</u>
Nonoperating Revenues		
State Aid	6,549,952.45	6,240,527.74
Other	2,565,711.38	1,725,054.98
Total Nonoperating Revenues	<u>9,115,663.83</u>	<u>7,965,582.72</u>
Capital Contributions	7,074,043.13	387,031.71
Total Revenues	<u>19,399,606.62</u>	<u>13,410,593.62</u>
Operating Expenses		
Personal Services	8,535,588.96	8,491,974.83
Scholarships and Fellowships	1,039,232.23	2,006,984.74
Other Expenses	3,249,640.10	3,217,853.54
Total Operating Expenses	<u>12,824,461.29</u>	<u>13,716,813.11</u>
Increase (Decrease) in Net Assets	6,575,145.33	(306,219.49)
Net Assets, July 1, 2002	<u>7,579,688.55</u>	<u>7,885,908.04</u>
Net Assets, June 30, 2003	<u>\$ 14,154,833.88</u>	<u>\$ 7,579,688.55</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating revenues for the year have decreased by 36.54%. This decrease is mainly due to the decrease in State and local grants and contracts and the discounting of bookstore sales. Halifax Community College received \$5,453,013.00 in 2003 and \$347,256.00 in 2002 towards the construction of the Allied Health Building and \$44,700.00 towards the Wellness/Fitness Center. All of the construction money came from State Bond Funds.



Total operating expenses decreased by 6.51%. One of the largest expenses was supplies and materials. There was also an increase of \$520,239.00 in Pell funds received this year, which results in an increased deduction for scholarships and fellowships for discounting.



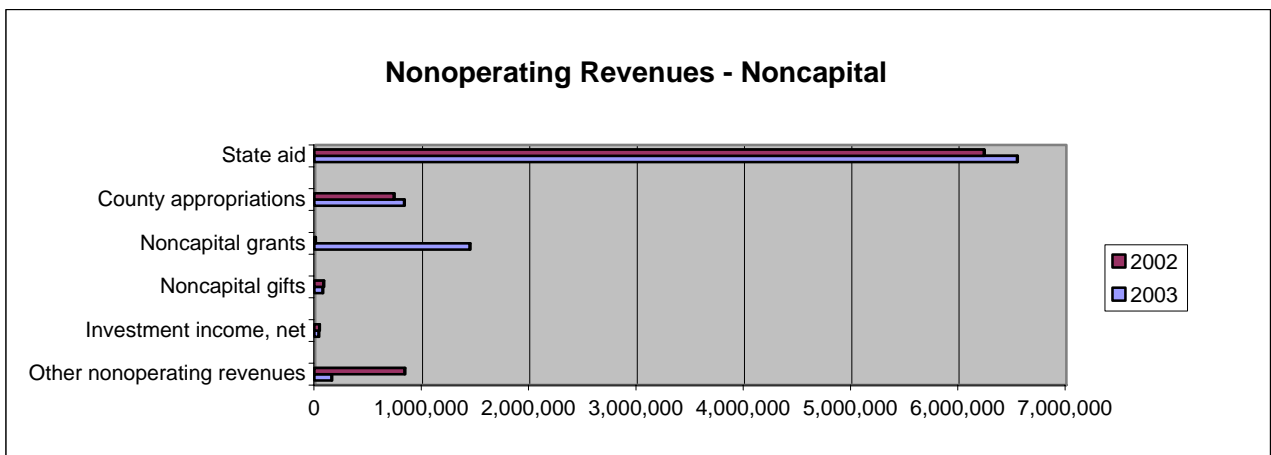
In the category of nonoperating/noncapital revenues, our largest source of revenue, State aid showed a \$309,424.71 increase. This increase was due to increased enrollment the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

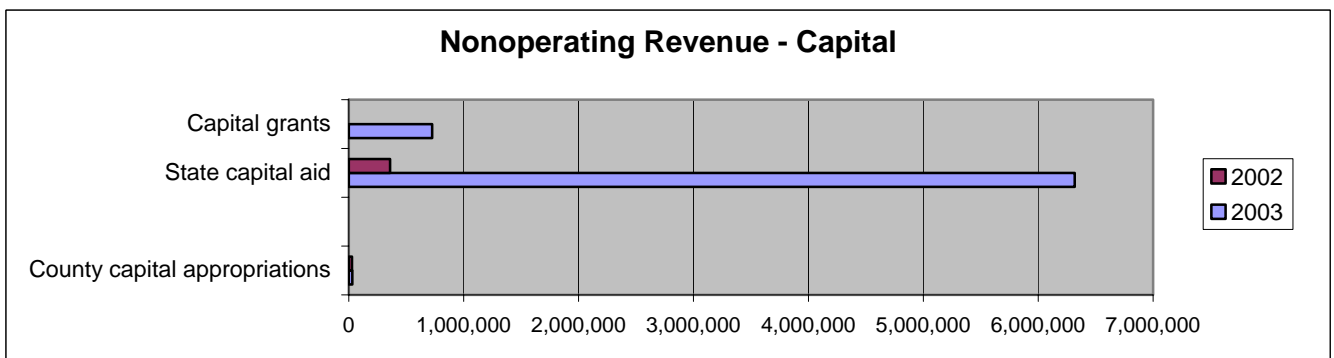
In 2002, county noncapital appropriations showed a decrease of 7.29% (\$58,323). This decrease was due to the State retaining tax revenues generated by local governments Statewide, which caused a shortfall in the county budget, thus a reduction in funds available to us. In 2003 there was a 12.86% increase (\$95,371.48). This increase is because we received full appropriations with no funds being withheld by the county.

Halifax Community College received \$555,369.66 in new Kate B. Reynolds grants that accounts for the increase in noncapital grants.

Halifax Community College also received \$725,950.00 this year from EDA to help on the construction cost to the Allied Health Building. This increase shows as capital grants in the nonoperating revenues section.



Nonoperating capital revenue shows an overall increase of \$6,687,011.42 in the current year over the prior fiscal year. Our State capital aid increased \$5,598,541.72. The increase in State capital aid came from the Statewide bond issue. Our county capital appropriations increased \$2,520.00 over the prior year.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cash Flows

	<u>Amounts</u>	
	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities	\$ (9,092,910.34)	\$ (7,584,800.31)
Cash Flows from Noncapital Financing Activities	8,683,345.71	7,290,163.25
Cash Flows from Capital and Related Financing Activities	613,146.88	301,338.02
Cash Flows from Investing Activities	<u>13,367.34</u>	<u>40,174.70</u>
Net Increase in Cash and Cash Equivalents	216,949.59	46,875.66
Cash and Cash Equivalents, July 1	<u>938,236.58</u>	<u>891,360.92</u>
Cash and Cash Equivalents, June 30	<u>\$ 1,155,186.17</u>	<u>\$ 938,236.58</u>

Halifax Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,133,427.22
Short-Term Investments	87,028.74
Restricted Short-Term Investments	27,844.18
Receivables, Net (Note 4)	156,066.48
Inventories	127,480.94
Notes Receivable, Net (Note 4)	1,653.84

Total Current Assets 1,533,501.40

Noncurrent Assets:

Restricted Cash and Cash Equivalents	21,758.95
Restricted Due from Primary Government	483,700.37
Endowment Investments	434,121.76
Notes Receivable, Net (Note 4)	300.00
Capital Assets - Nondepreciable (Note 5)	6,229,665.77
Capital Assets - Depreciable, Net (Note 5)	6,119,057.70

Total Noncurrent Assets 13,288,604.55

Total Assets 14,822,105.95

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	117,880.99
Deferred Revenue	20,426.65
Funds Held for Others	22,741.94
Long-Term Liabilities - Current Portion (Note 7)	26,631.19

Total Current Liabilities 187,680.77

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	479,591.30
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Total Liabilities 667,272.07

NET ASSETS

Invested in Capital Assets 12,348,723.47

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	434,121.76

Expendable:	
Scholarships and Fellowships	169,569.93
Loans	(19,842.84)
Capital Projects	388,177.13

Unrestricted 834,084.43

Total Net Assets \$ 14,154,833.88

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 Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,048,577.43
Federal Grants and Contracts		1,810,040.81
State and Local Grants and Contracts		90,313.52
Sales and Services, Net (Note 8)		260,967.90
Total Operating Revenues		3,209,899.66
EXPENSES		
Operating Expenses:		
Personal Services		8,535,588.96
Supplies and Materials		1,471,051.75
Services		1,276,276.71
Scholarships and Fellowships		1,039,232.23
Utilities		210,449.30
Depreciation		291,862.34
Total Operating Expenses		12,824,461.29
Operating Loss		(9,614,561.63)
NONOPERATING REVENUES		
State Aid		6,549,952.45
County Appropriations		836,745.00
Noncapital Grants		1,449,576.45
Noncapital Gifts		77,631.90
Investment Income, Net		40,496.90
Other Nonoperating Revenues		161,261.13
Net Nonoperating Revenues		9,115,663.83
Loss Before Other Revenues, Expenses, Gains, and Losses		(498,897.80)
State Capital Aid		6,317,733.13
County Capital Appropriations		30,360.00
Capital Grants		725,950.00
Increase in Net Assets		6,575,145.33
NET ASSETS		
Net Assets, July 1, 2002		7,579,688.55
Net Assets, June 30, 2003	\$	14,154,833.88
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, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 3,281,165.39
Payments to Employees and Fringe Benefits		(8,540,795.98)
Payments to Vendors and Suppliers		(2,978,050.59)
Payments for Scholarships and Fellowships		(1,039,232.23)
Other Receipts		184,003.07
Net Cash Used by Operating Activities		(9,092,910.34)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,549,952.45
County Appropriations		836,745.00
Noncapital Grants Received		1,219,016.36
Noncapital Gifts and Endowments Received		77,631.90
Net Cash Provided by Noncapital Financing Activities		8,683,345.71
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		6,317,733.13
County Capital Appropriations		30,360.00
Capital Grants Received		725,950.00
Acquisition and Construction of Capital Assets		(6,444,460.57)
Principal Paid on Capital Debt and Leases		(16,435.68)
Net Cash Provided by Capital and Related Financing Activities		613,146.88
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		114,375.59
Investment Income		40,496.90
Purchase of Investments and Related Fees		(141,505.15)
Net Cash Provided by Investing Activities		13,367.34
Net Increase in Cash and Cash Equivalents		216,949.59
Cash and Cash Equivalents, July 1, 2002		938,236.58
Cash and Cash Equivalents, June 30, 2003		\$ 1,155,186.17

Halifax Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (9,614,561.63)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		291,862.34
Provision for Uncollectible Loans and Write-Offs		(791.31)
Miscellaneous Nonoperating Income		161,261.13
Changes in Assets and Liabilities:		
Receivables, Net		50,839.08
Inventories		(28,061.20)
Accounts Payable and Accrued Liabilities		(10.43)
Deferred Revenue		20,426.65
Funds Held for Others		22,741.94
Compensated Absences		3,383.09
Net Cash Used by Operating Activities		\$ (9,092,910.34)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 1,133,427.22
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		21,758.95
Total Cash and Cash Equivalents - June 30, 2003		\$ 1,155,186.17
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Change in Fair Value of Investments		\$ 6,016.57
Increase in Receivables Related to Nonoperating Income		239,028.25
The accompanying notes to the financial statements are an integral part of this statement.		

HALIFAX COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Halifax Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Halifax Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 16-member board consisting of 1 ex officio director and 15 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, P.O. Box 809 Weldon, NC 27890, or by calling (252)-536-7243. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. **Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. **Investments** - This classification includes long-term fixed income investments, money market funds and other asset holdings by the College. Except for money market funds, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. **Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the State government and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

The College does not capitalize the Halifax Community College Library book collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

I. Restricted Assets – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Assets – This represents the College’s total investment in capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include 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 Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. 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 appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,205.55. The carrying amount of cash on deposit was \$1,152,980.62 and the bank balance was \$1,193,211.45. All of the cash was on deposit with private financial institutions

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Of the cash on deposit with private financial institutions at June 30, 2003, \$148,833.43 of the bank balance was covered by federal depository insurance and \$1,044,378.02 was covered by collateral held by the depository's agent in the name of the College under the dedicated method described above.

- B. Investments** – In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 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 the form of investments pursuant to General Statute 159-30(c), as follows: 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 and banker's acceptances; 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.

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

Investments of the College's component unit, the Foundation, are subject to and restricted by General Statute 36B "Uniform Management of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Institutional Funds Act” (UMIFA) and any requirements placed on them by contract or donor agreements.

The College’s investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty’s trust department or agent in the College’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty’s trust department or agent, but not in the College’s name.

A summary of the College’s investments at June 30, 2003 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Bonds	\$ 117,514.74	\$ 0.00	\$ 0.00	\$ 117,514.74
Corporate Bonds	290,502.78			290,502.78
Stocks, Rights, Warrants	46,048.71			46,048.71
Total Categorized Investments	\$ 454,066.23	\$ 0.00	\$ 0.00	\$ 454,066.23
Investments Not Categorized:				
Money Market Funds				94,928.45
Total Investments				\$ 548,994.68

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College’s endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

not available for expenditure. To the extent that the income for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 91,496.04	\$ 56,675.54	\$ 34,820.50
Accounts	<u>121,245.98</u>	<u> </u>	<u>121,245.98</u>
Total Current Receivables	<u>\$ 212,742.02</u>	<u>\$ 56,675.54</u>	<u>\$ 156,066.48</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 79,183.59</u>	<u>\$ 77,529.75</u>	<u>\$ 1,653.84</u>
Notes Receivable - Noncurrent:			
Institutional Student Loan Programs	<u>\$ 300.00</u>	<u>\$ 0.00</u>	<u>\$ 300.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 134,800.00	\$ 0.00	\$ 0.00	\$ 134,800.00
Construction in Progress		6,094,865.77		6,094,865.77
Total Capital Assets, Nondepreciable	134,800.00	6,094,865.77		6,229,665.77
Capital Assets, Depreciable:				
Buildings	8,586,175.03			8,586,175.03
Machinery and Equipment	986,710.28	362,312.91	18,734.68	1,330,288.51
General Infrastructure	173,330.35			173,330.35
Total Capital Assets, Depreciable	9,746,215.66	362,312.91	18,734.68	10,089,793.89
Less Accumulated Depreciation:				
Buildings	3,134,807.80	214,654.32		3,349,462.12
Machinery and Equipment	465,774.82	65,499.02		531,273.84
General Infrastructure	78,291.23	11,709.00		90,000.23
Total Accumulated Depreciation	3,678,873.85	291,862.34		3,970,736.19
Total Capital Assets, Depreciable, Net	6,067,341.81	70,450.57	18,734.68	6,119,057.70
Capital Assets, Net	\$ 6,202,141.81	\$ 6,165,316.34	\$ 18,734.68	\$ 12,348,723.47

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 82,216.49
Accrued Payroll	35,664.50
Total Accounts Payable and Accrued Liabilities	\$ 117,880.99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 16,435.68	\$ 0.00	\$ 16,435.68	\$ 0.00	\$ 0.00
Compensated Absences	502,839.40	3,383.09		506,222.49	26,631.19
Total Long-Term Liabilities	\$ 519,275.08	\$ 3,383.09	\$ 16,435.68	\$ 506,222.49	\$ 26,631.19

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Modular Units	Municipal Services Group	6.33%	12/10/2002	<u>\$ 61,620.01</u>	<u>\$ 61,620.01</u>	<u>\$ 0.00</u>

NOTE 8 - 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	<u>\$ 1,697,501.94</u>	<u>\$ 634,955.40</u>	<u>\$ 13,969.11</u>	<u>\$ 1,048,577.43</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Vending	\$ 30,487.63	\$ 0.00	\$ 0.00	\$ 30,487.63
Patron Fees - Cosmetology	10,263.50			10,263.50
Patron Fees - Child Care	77,371.52		9,528.19	67,843.33
Bookstore	775,732.80	651,232.00	4,069.69	120,431.11
Parking	6,721.00		875.00	5,846.00
Student Fees	26,452.43		395.00	26,057.43
Other	38.90			38.90
Total Sales and Services	<u>\$ 927,067.78</u>	<u>\$ 651,232.00</u>	<u>\$ 14,867.88</u>	<u>\$ 260,967.90</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - 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	\$ 4,902,871.72	\$ 247,616.88	\$ 523,019.73	\$ 180,840.00	\$ 0.00	\$ 0.00	\$ 5,854,348.33
Public Service	1,283.31	9,162.69	4,905.81				15,351.81
Academic Support	924,227.31	3,770.17	12,666.77				940,664.25
Student Services	748,547.76	41,571.72	151,417.11	282,218.60			1,223,755.19
Institutional Support	1,501,450.59	55,269.62	381,728.07				1,938,448.28
Operations and Maintenance of Plant	351,126.61	551,246.42	150,748.33		210,449.30		1,263,570.66
Student Financial Aid			320.00	576,173.63			576,493.63
Auxiliary Enterprises	106,081.66	562,414.25	51,470.89				719,966.80
Depreciation						291,862.34	291,862.34
Total Operating Expenses	<u>\$ 8,535,588.96</u>	<u>\$ 1,471,051.75</u>	<u>\$ 1,276,276.71</u>	<u>\$ 1,039,232.23</u>	<u>\$ 210,449.30</u>	<u>\$ 291,862.34</u>	<u>\$ 12,824,461.29</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$7,463,619.20, of which \$6,462,409.40 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$387,744.56. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$125,958.48, and \$330,162.94, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$29,941.40 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$57,900.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$19,596.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$151,866.62. 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*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$33,604.53. 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 12 - 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. Tort claims of up to \$500,000 are self-insured under the authority

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employees paid from county and institutional funds are covered by commercial insurance with coverage of \$100,000 and \$1,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Teachers and students are covered for malpractice through Healthcare Providers Service Organization. Students pay \$16 per year for coverage, while teachers are covered for free. The limits of liability are \$2,000,000 each claim and \$4,000,000 aggregate.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,989,576.76 at June 30, 2003.

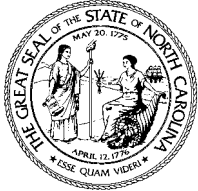
B. Community College General Obligation Bonds - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$3,735,544.37 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

**Halifax Community College
 Schedule of General Obligation Bond Project Authorizations,
 Budgets, and Expenditures
 For Project-to-Date as of June 30, 2003**

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Allied Health Classroom Building Project #1090	May 2002	\$ 7,673,039.00	\$ 2,042,678.00	\$ 9,715,717.00	\$ 6,290,276.93	64.74%	Nov 2003
Fitness/Wellness Center Project # 1292	Jul 2003	600,000.00		600,000.00	17,114.82	2.85%	Jan 2004
Repairs/Renovations Project #1165	Feb 2001	811,569.00		811,569.00	362,093.00	44.62%	Jul 2006
Total All Projects		\$ 9,084,608.00	\$ 2,042,678.00	\$ 11,127,286.00	\$ 6,669,484.75		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING 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 the financial statements of Halifax Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 27, 2004.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

May 27, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Theodore Gasper, Jr.	President, Halifax Community College
Mr. Ralph Reynolds	Vice President of Administrative Services Halifax Community College
Mr. Kenneth Brantley	Chairman, Board of Trustees Halifax Community College

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Mr. James D. Johnson	Director, Fiscal Research Division
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June 30, 2004

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