

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

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Ralph Campbell, Jr.
State Auditor

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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, Isothermal Community College

This report presents the results of our financial statement audit of Isothermal Community College, a component unit of the State of North Carolina, for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

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 subject 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 Isothermal Community College. The audit procedures were conducted in accordance with generally accepted auditing standards 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 Isothermal Community College. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with generally accepted accounting principles. These matters are described in the Independent Auditor's Report.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - 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.

Results - The following significant deficiencies were detected in internal controls over financial reporting:

Findings

1. Financial Statement Presentation
2. Receipting and Bank Reconciliation Controls

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Isothermal Community College
Spindale, North Carolina

We have audited the accompanying Balance Sheet of Isothermal Community College, a component unit of the State of North Carolina, as of June 30, 2000, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. 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 generally accepted auditing standards 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 Isothermal Community College as of June 30, 2000, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, the College changed its accounting for state-required tuition and fees during the year ended June 30, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2001 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

June 13, 2001

***Isothermal Community College
Balance Sheet
June 30, 2000***

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted			Loan	Endowment	Agency	Unexpended	Investment in Plant
	General	Proprietary	Restricted					
ASSETS								
Cash and Cash Equivalents	\$ 143,015.45	\$ 350,668.41	\$ 826,273.05	\$ 51,679.47	\$ 126,676.83	\$ 16,390.02	\$ 81,010.74	\$ 0.00
Investments			1,584.13					
Receivables:								
Accounts Receivable (Net)	88,710.74	101,018.47	240.00	258.71			198,926.23	
Intergovernmental Receivables	5,745.75							
Interest Receivable	166.24	1,250.95	3,986.04	207.82		18.47	143.16	
Due from Primary Government							388,061.84	
Inventories	114,244.22	103,803.53	3,984.04					
Fixed Assets (Note 4)								24,736,954.50
State Treasurer's Securities Lending Collateral	19,972.10	150,869.41	406,470.57	25,052.11	74,042.92	2,226.85	17,258.12	
Total Assets	\$ 371,854.50	\$ 707,610.77	\$ 1,242,537.83	\$ 77,198.11	\$ 200,719.75	\$ 18,635.34	\$ 685,400.09	\$ 24,736,954.50

***Isothermal Community College
Balance Sheet
June 30, 2000***

***Exhibit A
Page 2***

	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted			Loan	Endowment	Agency	Unexpended	Investment in Plant
	General	Proprietary	Restricted					
<i>LIABILITIES AND FUND EQUITY</i>								
Liabilities:								
Accounts Payable and Accrued Liabilities:								
Accounts Payable	\$ 28,928.97	\$ 10,366.47	\$ 7,050.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ 70,721.32	\$ 0.00
Accrued Payroll	99,750.66		232.53					
Intergovernmental Payables			690.96					
Capital Leases Payable								19,660.88
Accrued Vacation Leave	316,689.65	4,484.44	46,064.42					
Obligations Under State Treasurer's								
Securities Lending Agreements	19,972.10	150,869.41	406,470.57	25,052.11	74,042.92	2,226.85	17,258.12	
Funds Held for Others	2,845.43					16,408.49		
Total Liabilities	468,186.81	165,720.32	460,509.45	25,052.11	74,042.92	18,635.34	87,979.44	19,660.88
Fund Equity:								
Net Investment in Plant								24,717,293.62
Fund Balances:								
Restricted:								
Endowment					126,676.83			
Other Restricted Funds			782,028.38	52,146.00			597,420.65	
Other Unrestricted Funds	(96,332.31)	541,890.45						
Total Fund Equity (Deficit)	(96,332.31)	541,890.45	782,028.38	52,146.00	126,676.83		597,420.65	24,717,293.62
Total Liabilities and Fund Equity	\$ 371,854.50	\$ 707,610.77	\$ 1,242,537.83	\$ 77,198.11	\$ 200,719.75	\$ 18,635.34	\$ 685,400.09	\$ 24,736,954.50

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

***Isothermal Community College
Statement of Changes in Fund Equity
Year Ended June 30, 2000***

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds	
	Unrestricted			Loan	Endowment	Unexpended	Investment in Plant
	General	Proprietary	Restricted				
Revenues and Other Additions:							
Tuition and Fees	\$ 1,734,186.44	\$ 30,002.30	\$ 1,270.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
County Appropriations	1,212,257.00		5,834.82			132,478.00	
Federal Contracts and Grants	171,647.69		1,027,617.42			17,451.24	
State Contracts and Grants	6,489,511.46		271,728.70			854,362.80	
Nongovernmental Contracts and Grants			468,992.45				
Gifts	18,990.03	8,748.58	631,144.06	150.00		884,976.96	
Investment Income	17,874.70	17,430.60	46,622.10	2,852.77		3,266.63	
Endowment Income			7,540.79				
Sales and Services	27,346.59	691,869.85					
Expended for Plant Facilities							2,022,348.83
Retirement of Indebtedness							10,956.13
Other Revenues and Additions	26,736.72	18,759.22	123.00	348.88		6,442.57	
Total Revenues and Other Additions	9,698,550.63	766,810.55	2,460,873.34	3,351.65		1,898,978.20	2,033,304.96
Expenditures and Other Deductions:							
Educational and General	9,758,326.92	27,921.61	2,473,058.29				
Auxiliary Enterprises		707,597.91					
Indirect Costs Recovered			2,208.92				
Expended for Plant Facilities						2,419,692.68	
Retirement of Indebtedness						10,956.13	
Interest on Indebtedness						1,421.75	
Disposal of Plant Facilities							84,197.61
Other Expenditures and Deductions				281.39			
Total Expenditures and Other Deductions	9,758,326.92	735,519.52	2,475,267.21	281.39		2,432,070.56	84,197.61
Transfers:							
Non-Mandatory Transfers In (Out)	(385,428.12)	52,792.03	(52,792.03)			385,428.12	
Net Increase (Decrease) for the Year	(445,204.41)	84,083.06	(67,185.90)	3,070.26		(147,664.24)	1,949,107.35
Fund Equity July 1, 1999	311,637.15	457,807.39	849,214.28	49,075.74	126,676.83	745,084.89	22,768,186.27
Prior Period Adjustment (Note 13)	37,234.95						
Fund Equity (Deficit) June 30, 2000	\$ (96,332.31)	\$ 541,890.45	\$ 782,028.38	\$ 52,146.00	\$ 126,676.83	\$ 597,420.65	\$ 24,717,293.62

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

***Isothermal Community College
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2000, with comparative totals for 1999***

Exhibit C

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2000	1999
Revenues:						
Tuition and Fees	\$ 1,734,186.44	\$ 30,002.30	\$ 1,764,188.74	\$ 1,297.93	\$ 1,765,486.67	\$ 1,373,597.77
County Appropriations	1,212,257.00		1,212,257.00	5,834.82	1,218,091.82	1,032,179.91
Federal Contracts and Grants	171,647.69		171,647.69	1,027,617.42	1,199,265.11	761,995.51
State Contracts and Grants	6,489,511.46		6,489,511.46	271,728.70	6,761,240.16	6,437,220.89
Nongovernmental Contracts and Grants				482,854.09	482,854.09	1,069,420.11
Gifts	18,990.03	8,748.58	27,738.61	656,011.52	683,750.13	26,412.61
Investment Income	17,874.70	17,430.60	35,305.30	72,842.05	108,147.35	117,990.20
Endowment Income				7,540.79	7,540.79	743.67
Sales and Services	27,346.59	691,869.85	719,216.44		719,216.44	503,984.60
Other Sources	26,736.72	18,759.22	45,495.94	123.00	45,618.94	32,394.31
Total Revenues	9,698,550.63	766,810.55	10,465,361.18	2,525,850.32	12,991,211.50	11,355,939.58
Expenditures:						
Educational and General:						
Instruction	6,422,316.27		6,422,316.27	463,204.29	6,885,520.56	5,948,009.59
Public Service				926,734.26	926,734.26	917,746.93
Academic Support	334,685.01		334,685.01		334,685.01	392,174.96
Student Services	537,919.01	23,957.62	561,876.63	5,825.00	567,701.63	434,555.29
Institutional Support	1,433,987.19		1,433,987.19	16,631.06	1,450,618.25	1,300,440.00
Plant Maintenance and Operations	999,354.44		999,354.44		999,354.44	832,090.46
Student Financial Aid	30,065.00	3,963.99	34,028.99	1,060,663.68	1,094,692.67	916,787.43
Auxiliary Enterprises		707,597.91	707,597.91		707,597.91	479,839.16
Total Expenditures	9,758,326.92	735,519.52	10,493,846.44	2,473,058.29	12,966,904.73	11,221,643.82
Transfers and Additions/(Deductions):						
Restricted Receipts Over/(Under) Revenues Earned				(67,185.90)	(67,185.90)	31,117.15
Non-Mandatory Transfers In (Out)	(385,428.12)	52,792.03	(332,636.09)	(52,792.03)	(385,428.12)	
Net Increase (Decrease) in Fund Equity	\$ (445,204.41)	\$ 84,083.06	\$ (361,121.35)	\$ (67,185.90)	\$ (428,307.25)	\$ 165,412.91

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

**ISOTHERMAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

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 generally accepted accounting principles, 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. Isothermal Community College is a component unit of the North Carolina Community College System which is a part of the primary government 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the College has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the operations of the bookstore, other auxiliary enterprises and student activity funds is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for additions and deductions from fund equity of the Loan Fund and Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the College as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions and deductions from fund equity of the Unexpended Plant Fund and the Investment in Plant Fund.

- D. Basis of Accounting** - The financial statements of the College have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when they are earned and become measurable and expenditures are reported in the accounting period when materials or services are received or when incurred, if measurable.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).
- F. Investments** - This classification consists of common stock. These investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. State Treasurer's Securities Lending Collateral - While the College does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Cash and Investment Pool which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the College recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "State Treasurer's Securities Lending Collateral" and "Obligations Under State Treasurer's Securities Lending Agreements." The allocable share of the income and costs arising from these transactions is immaterial to the College and, as a result, is reported as part of "Investment Income" on the accompanying financial statements.

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

The College's allocable portion of securities lent at year-end for cash collateral amounted to \$695,892.08 and is not subject to categorization of custodial credit risk. Securities received as collateral are not recorded in either the Treasurer's or the College's financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At year-end, the weighted average maturity of unmatched investments was less than one month.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At year-end, the State Treasurer has no credit risk exposure to borrowers and incurred no losses during the year related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

- H. Receivables and Allowance for Doubtful Accounts** – Accounts receivable in the Unrestricted General Fund, the Unrestricted Proprietary Fund, and the Restricted Fund are shown in the accompanying financial statements net of allowances for doubtful accounts of \$6,892.57, \$1,267.12, and \$253.75, respectively. In addition, notes receivable in the Loan Fund is shown net of the allowance for doubtful accounts of \$16,798.62. The accounts receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.
- I. Inventories** - Inventories held by the College are priced at the lower of cost or market value using the first-in, first-out method. The inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption. Inventories for the Unrestricted Proprietary Fund consist of textbooks and other merchandise for resale.
- J. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The College capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as expenditures, in the case of normal replacement of furniture and movable equipment, and transfers of a non-mandatory nature for all other cases.

Public domain (“infrastructure”) fixed assets consisting of roads, parking lots, and sidewalks are capitalized as other structures and improvements.

- K. Vacation and Sick Leave** - 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)

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

- L. Revenue Recognition** - Current funds revenues, as reflected on Exhibit C, include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to funds other than current funds.

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

- M. Endowment Investment Return** – Investments of the College’s endowment funds are pooled unless required to be separately invested by the donor. Investment return of the College’s pooled 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 true endowment principal and are not available for expenditure.

Endowments are classified as either “true” or “quasi”. True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the net change in fair value of investments is classified as true endowment or, if stipulated by the donor, as quasi-endowment.

- N. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function (county current fund) and to fund construction projects, motor vehicles and maintenance equipment (county plant fund). Unexpended county current funds and county plant funds do not revert and are available for future use as approved by the county commissioners.

- O. Refunds of State Appropriations** – Refunds related to current year appropriations are reported on the accompanying financial statements as a reduction to State Appropriations. During the fiscal year ended June 30, 2000, these refunds resulted from the State’s action to assist in disaster relief efforts from Hurricane Floyd.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 G.S. § 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 Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,535.00. The carrying amount of cash on deposit was \$1,594,178.97 and the bank balance was \$1,649,397.24.

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.

Cash on deposit at year-end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,190,840.87	\$ 1,190,840.87
Cash on Deposit with Private Financial Institutions	403,338.10	458,556.37
	\$ 1,594,178.97	\$ 1,649,397.24

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with G.S. § 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or its agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2000, \$102,688.95 of the bank balance was covered by federal depository insurance and \$355,867.42 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – In addition to donated securities, 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 non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Cash Management Trust, an SEC registered mutual fund; repurchase agreements; 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.

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 its 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the College's investments at June 30, 2000 is presented below:

	Fair Value			
	Risk Category			Total
	1	2	3	
Investments Categorized:				
Common Corporate Stock	\$ 1,584.13	\$ 0	\$ 0	\$ 1,584.13

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the College, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTE 4 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Land	\$ 379,902.71	\$ 0.00	\$ 0.00	\$ 379,902.71
Buildings	8,388,592.26			8,388,592.26
Other Structures and Improvements	78,890.04			78,890.04
Furniture, Machinery and Equipment	1,767,676.73	176,266.00	84,125.97	1,859,816.76
Artwork, Artifacts and Literature	1,332,527.74	72,513.00	71.64	1,404,969.10
Construction in Progress	10,851,213.80	1,773,569.83		12,624,783.63
Total Fixed Assets	\$ 22,798,803.28	\$ 2,022,348.83	\$ 84,197.61	\$ 24,736,954.50

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL LEASES

Capital lease obligations relating to copier and duplicator equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2000:

<u>Fiscal Year</u>	<u>Amount</u>
2001	\$ 12,378.00
2002	<u>8,252.26</u>
Total Minimum Lease Payments	\$ 20,630.26
Amount Representing Interest (5.9% Rate of Interest)	<u>969.38</u>
Present Value of Future Lease Payments	<u><u>\$ 19,660.88</u></u>

Leased assets included in Plant Funds amounted to \$53,959.40 at June 30, 2000.

NOTE 6 - 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 \$540,166.45 at June 30, 2000. There were no outstanding commitments on other purchases at June 30, 2000.
- B. Pending Litigation and Other Contingencies** – The College is subject to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of such matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any matter which it is currently a party of, will not have a material adverse effect on the financial position of the College.

NOTE 7 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$150,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance 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 insurer.

Fire and other property losses are covered by contracts with private insurance companies. 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. Other college-owned vehicles are covered by liability insurance 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 State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$10,000 deductible. As of January 6, 2000, the deductible increased to \$50,000. In addition, losses from all employees are covered by a contract with a private insurance company with coverage of \$50,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical 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.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. The death benefit program is administered by the State Treasurer's Office 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - DEFICIT FUND BALANCE

The deficit fund balance in the Current Unrestricted General Fund is attributable to the College adjusting its cash basis records to the accrual basis of accounting as required by generally accepted accounting principles (GAAP). In accordance with GAAP, receivables were not recognized for liabilities associated with future period appropriations or certifications.

As required by G.S. 115D-31 and 115D-32, the State Board of Community Colleges and the associated local tax-levying authority(s) are responsible for supporting the financial needs of the College. This support is authorized on a cash basis through an annual appropriation or certification process for a specified fiscal year period. While GAAP prohibits the College from recording receivables from future period authorizations, the College will continue to receive, as provided by law, sufficient support for its financial needs.

NOTE 9 - 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 multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.80% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that expressed as percentages of annual covered payroll are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 8.15% of covered payroll for the year ended June 30, 2000. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2000, the College had a total payroll of \$6,879,161.90, of which \$5,577,902.08 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$334,674.47 and \$454,598.98, respectively. The College made one hundred percent of its annual required contributions to the retirement plans for the years ended June 30, 2000, 1999, and 1998, which were \$334,674.47, \$385,426.33, and \$392,266.80, 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 by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC> 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 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. The voluntary contributions by employees amounted to \$91,433.00 for the year ended June 30, 2000.

IRC Section 403(b) and 403(b)(7) Plans - All 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 non-profit 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 \$67,315.32 for the year ended June 30, 2000.

NOTE 10 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. For the fiscal year ended June 30, 2000, contributions to the plan were not required. 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. The Plan provides disability income to eligible participants. 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, 2000, the College's total contribution to the DIPNC was \$29,005.09. 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 11 - RELATED FOUNDATIONS

The Isothermal Community College Foundation, Inc. and the Polk County Campus I.C.C. Foundation, Inc. are separately incorporated non-profit foundations associated with the College. These organizations serve as the primary fundraising arms of the College through which individuals, corporations and other organizations support College programs by providing scholarships, fellowships, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets or operational transactions of these Foundations, except for the distributions made and benefits provided by the Foundations. The distributions received and/or benefits provided by the Isothermal Community College Foundation, Inc. and the Polk County Campus I.C.C. Foundation, Inc. approximated \$1,161,266.00 and \$10,269.87, respectively, for the year ended June 30, 2000.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

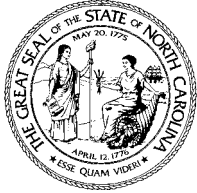
NOTE 12 - ACCOUNTING CHANGE

Accounting for State Required Tuition and Fees – During the fiscal year 2000, the College changed its method of accounting for state required tuition and fees to report them as an offset to state funded revenues. Prior to this change, the College accounted for state required tuition and fees as “Due to the State” and recorded funds received from the state as state funded revenues. As a result of this accounting change, state required tuition and fees received during the year are reported as a reduction to state funded revenues and as an increase to tuition and fee revenues. At year-end, student receivables related to state required tuition and fees is reported as tuition and fee revenues. The effect of this change on beginning fund equity represents the July 1, 1999, student receivables for state required tuition and fees and is identified in the prior period adjustment note to the financial statements.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

As of July 1, 1999, fund equity of the Unrestricted General Fund as previously reported was restated by \$37,234.95 as a result of the Accounting Change for State Required Tuition and Fees as noted above.

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Ralph Campbell, Jr.
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
Isothermal Community College
Spindale, North Carolina

We have audited the financial statements of Isothermal Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2000, and have issued our report thereon dated June 13, 2001. We conducted our audit in accordance with generally accepted auditing standards 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and

**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)**

report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Findings

1. Financial Statement Presentation
2. Receipting and Bank Reconciliation Controls

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 audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 1 to be a material weakness.

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

June 13, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Findings and Recommendations from Current Audit - The following presents findings and recommendations, determined during the current audit, which represent significant deficiencies in internal controls.

1. FINANCIAL STATEMENT PRESENTATION

The year-end financial statements and notes contained several preparation and presentation errors that were not detected by the College prior to completing its year-end financial package and submitting it to the Office of the State Controller.

The financial statements and notes contained material misclassifications, overstatements, and understatements in activities and balances as well as other misstatements and presentation errors. Additionally, several of the note disclosures were not supported by the accounting records and did not agree to pertinent items in the financial statements. Many of these same concerns were noted in the prior year audit.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with generally accepted accounting principles and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls surrounding the recording of transactions and the preparation and review of the year-end financial statements and notes so that material errors and misstatements are detected and corrected in a timely manner by employees performing their normal assigned duties.

Recommendation: The College should increase its understanding of generally accepted accounting principals, the policies of the Office of the State Controller, and reporting guidelines applicable to governmental colleges. The College should also establish controls to ensure that material misstatements and other presentation errors in the year-end financial statements are detected and corrected prior to submitting the package to the Office of the State Controller. Final reviews should be performed by knowledgeable individuals independent of the financial statement preparation process and these reviews should be documented.

College's Response: The College administration has already employed staff that is familiar with generally accepted accounting principles. This individual will allow the College to increase the overall understanding of the relevant policies and reporting guidelines applicable to governmental colleges. We will also make the assignments to reevaluate the internal control structure to prevent material misstatements and other presentation errors in the year-end financial statements, which will include a thorough review process. The review process will be documented for all future reporting.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. RECEIPTING AND BANK RECONCILIATION CONTROLS

The College did not complete, in a timely manner, key aspects of its daily cash analysis reports. The reconciliation and approval process were sometimes delayed for extended periods, precluding the timely identification and correction of errors. This practice continued after being brought to the attention of management in the prior audit.

The monthly bank reconciliations were also not performed timely, thereby extending the period that errors could go undetected and uncorrected. The controller performs the bank reconciliations without independent review.

The lack of timely and independent reviews of transactions and associated reports adversely affects the College's ability to record, process, summarize and report financial data consistent with management's responsibilities and assertions.

Recommendation: The College should strengthen controls related to the preparation and independent review of the daily cash analysis reports and monthly bank reconciliations to ensure that these functions are performed timely and that the review process is documented.

College's Response: The College has already employed staff responsible for the timely completion of its daily cash analysis reports. The reports are now and will continue to be completed and approved in a timely manner. This will prevent previously delayed completion of task and the identification and correction of errors.

The monthly bank reconciliations will be performed in a timely manner. The Controller will submit the reconciled accounts to the Director of Administrative Services for independent review monthly. This will ensure that these functions are performed timely and that the process is documented.

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In accordance with G.S. § 147-64.5 and G.S. § 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 Roy A. Cooper, III	Attorney General
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August 30, 2001

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