STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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, 2002

Administrative Officers

Dr. Willard L. Lewis, III, President

Stephen L. Matheny, Director of Administrative Services

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.osa.state.nc.us

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, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the 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 Isothermal 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 Isothermal 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 Isothermal 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.

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.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT....1

MANAGEMENT'S DISCUSSION AND ANALYSIS....3

FINANCIAL STATEMENTS

Exhibits

A Statement of Net Assets....13

B Statement of Revenues, Expenses, and Changes in Net Assets....14

C Statement of Cash Flows....15

Notes to the Financial Statements....17

SUPPLEMENTARY INFORMATION

Schedule

1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures....32

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*....33

DISTRIBUTION OF AUDIT REPORT....35

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.osa.state.nc.us

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Isothermal Community College
Spindale, North Carolina

We have audited the accompanying basic financial statements of Isothermal Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, 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 Isothermal Community College as of June 30, 2002, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2002 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) on pages 3 to 12 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.

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 by us in the audit of the basic financial statements and, in our opinion, based on our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Isothermal Community College for the year ended June 30, 2002. The preceding transmittal letter and the following financial statements and footnotes comprise our complete set of financial information. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and past year are not required for this first year that MD&A is being presented. Future MD&A will have comparative data for the applicable years (past and current) with emphasis on the current year.

Using the Financial Statements

The College's financial report includes three financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. During 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These Statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole.

Other significant changes to the financial statements are listed below:

- Revenues and expenses are now categorized as either operating or nonoperating. GASB Statement No. 35 defines grouping.
- The Statement of Net Assets is separated into current and noncurrent assets and liabilities. Current assets are those that are expected to be converted to cash within one year and consist mainly of cash and accounts receivable. Current liabilities cover the same time frame and are mostly related to accounts payable and accrued compensation.
- Scholarships and fellowships applied to student accounts are now shown as a reduction of student tuition fees revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expense. Previously, all scholarships and fellowships were presented as expenses.
- Depreciation was recorded for the first time this year, resulting in a \$6.3 million restatement in the beginning balance for net assets as a result of accumulated depreciation. Additionally, library books that were previously capitalized are now expenses, causing a \$1.4 million reduction in the beginning balance for net assets.

- The Statement of Cash Flows is also required for the first time this year. This Statement reports cash activity divided into areas of operating, capital financing, noncapital financing, and investing. As required by the new GASB Statement, the Statement of Cash Flows was produced using the direct method.

Financial Highlights

The College's financial position remained strong at June 30, 2002, with assets of $20.4 million and liabilities of $774 thousand. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were $19.6 million.

Along with other Community Colleges, Isothermal Community College was subject to two one-time reversions totaling $218 thousand during the fiscal year due to the weak economy and its impact on the State of North Carolina. College administrators managed this loss of funds through managed hiring and various operating reductions in order to minimize negative consequences for the College's learning mission.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2002 and includes all assets and liabilities of the College. The difference between total assets and total liabilities, (net assets), is one indicator of whether the overall financial condition has improved or worsened during the year. This data provides information on assets available to continue operations; amounts due to vendors, investors, and lending institutions; and the net assets available for expenditure by the College. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's assets, liabilities, and net assets at June 30, 2002 is as follows:

		(Dollars in thousands)
Assets		
Current Assets		$ 2,185
Noncurrent Assets	675	
Capital Assets, Net	17,544	
Total Noncurrent Assets		18,219
Total Assets		20,404
Liabilities		
Current Liabilities		380
Noncurrent Liabilities		394
Total Liabilities		774
Net Assets		
Invested in Capital Assets, Net of Related Debt	17,406	
Restricted – Nonexpendable	127	
Restricted – Expendable	1,652	
Unrestricted	445	
Total Net Assets		$ 19,630

A review of the Statement of Net Assets at June 30, 2002 shows that the College continues to build upon its strong financial foundation.

Current assets consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2002 were $2.2 million. Of this amount, $1.6 million represented cash and cash equivalents alone, with the next largest area being student and service receivables of $372 thousand.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year were $380 thousand, comprised mostly of accounts payable, which totaled $321 thousand.

Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes, they are divided into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted net assets.

Net assets invested in capital assets, net of related debt, represent the College's capital assets net of accumulated depreciation and outstanding principal balances of debt resulting from the acquisition, construction, or improvement of those assets. Of the $19.6 million in net assets this year, $17.4 million was attributable to Isothermal Community College's investment in capital assets. Until this year, recognition of depreciation was not required on the financial statements. As a result of this change, the College incurred a substantial amount of accumulated depreciation in this first year of implementation. At June 30, 2002, accumulated depreciation was $7 million.

Restricted nonexpendable net assets primarily include the College's permanent endowment funds. This category of net assets made up $127 thousand of the $19.6 million net assets total. Restricted expendable net assets are subject to externally imposed restrictions governing their use.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the College's unrestricted net assets have been designated for various academic programs and initiatives, capital projects, and self-supporting activities. This year, unrestricted net assets amounting to $445 thousand represent two percent of total net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

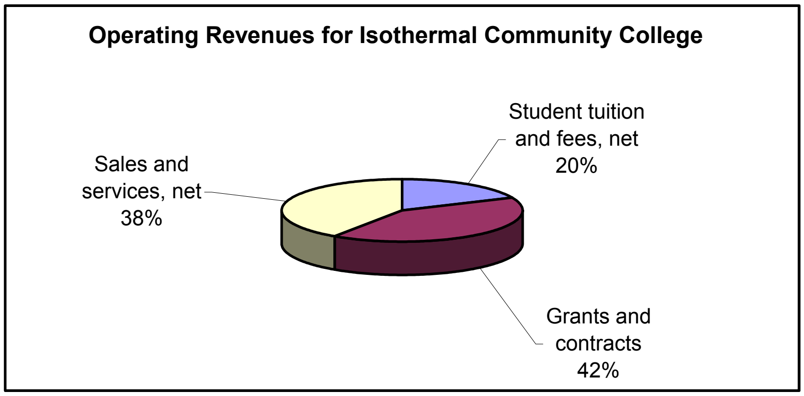
Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided, i.e., State appropriations and investment income. Nonoperating expenses include interest expense, extraordinary items, and accounting changes/corrections, i.e., expenses not involved in the normal operations of the College. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets for Isothermal Community College as of June 30, 2002:

	(Dollars in thousands)
Operating Loss	
Operating Revenues	$ 5,214
Operating Expenses	(15,232)
Total Operating Loss	(10,018)
Nonoperating Revenues (Expenses)	9,588
Loss before other Revenues, Expenses, Gains, and Losses	(430)
Other Revenues, Expenses, Gains, and Losses	555
Change in Net Assets	125
Net Assets – July 1, as previously stated	27,218
Restatements	(7,713)
Net Assets – June 30	$ 19,630

The College actively seeks opportunities to increase revenue streams that will supplement its student tuition and fees and State appropriations. These include voluntary private support from individuals, foundations, government, and other sponsored programs. An example of a program that the College will be involved in is called The New Century Scholars Program. This program identifies middle school students and provides for their expenses related to college tuition and is funded by a variety of sources including those mentioned above. The College has in the past and will continue to seek funding from all possible sources consistent with its mission, to supplement student tuition, and to manage the financial resources realized from these efforts to fund its operating activities.

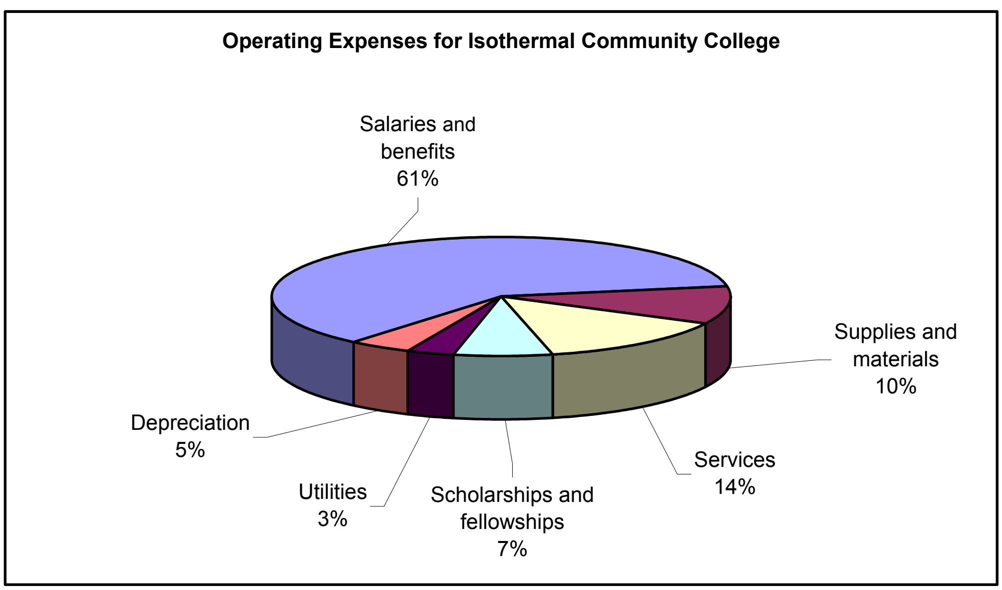
The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets at year-end of $125 thousand. Operating income is the residual amount after operating expenses are deducted from operating revenues, both of which were described above.

Operating revenues totaled $5.2 million and consisted of three areas: student tuition and fees, net; grants and contracts; and sales and services, net. The graph below shows each component of operating revenue as it relates to total operating revenues as a whole:



Student tuition and fees and sales and services are presented net of the tuition discount. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts. Tuition and fees were not previously displayed in this manner.

Operating expenses are mainly attributable to salaries and benefits for the faculty and staff of the College. Of the $15.2 million in operating expenses, $9.3 million were used for this purpose. Other elements included in operating expenses are supplies and materials, services, scholarships and fellowships, utilities, and depreciation. A chart of these follows:



Nonoperating revenue consists primarily of State appropriations. Other nonoperating revenues consist of appropriations received from County government, noncapital grants, noncapital gifts, and investment income. Of the $9.6 million recognized as net nonoperating revenue, $6.8 million reflect appropriated funds from the State. These appropriations contribute greatly to the overall revenues of the College. The appropriations from the State represent 47% of total revenue and 71% of nonoperating revenue. Community Colleges were required to make two one-time reversions to the State. This amount totaled $218 thousand for Isothermal Community College.

Statement of Cash Flows

The Statement of Cash Flows provides detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity, i.e., operating, noncapital financing, capital financing, and investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The following is a condensed version of the Statement of Cash Flows for the year ended June 30, 2002:

	(Dollars in thousands)
Cash Provided (Used) by:	
Operating activities	$ (9,276)
Noncapital financing activities	9,449
Capital financing activities	(175)
Investing activities	76
Net change in cash	74
Cash, beginning of year	1,741
Cash, end of year	$ 1,815

Operating activities are those activities that result from providing goods and services and include the cash effects of transactions that enter into the determination of operating income. This is also the residual category, meaning that it covers transactions that do not fit into any of the other categories. The most significant source of operating cash is cash that has been received from customers, which amounted to $5.2 million. This includes tuition and fees, grants and contracts, and sales and services of educational and auxiliary nature. The most notable use of operating cash was for compensation and benefits for College employees, which totaled $9.3 million.

Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets. These activities also include repaying those amounts borrowed, including interest, along with certain other interfund or intergovernmental receipts and payments. Almost all of this activity results from appropriations from the State.

Capital financing activities include borrowing money for the acquisition, construction, improvement, and disposal of capital assets used in providing services or producing goods. This also includes repayments as well as interest.

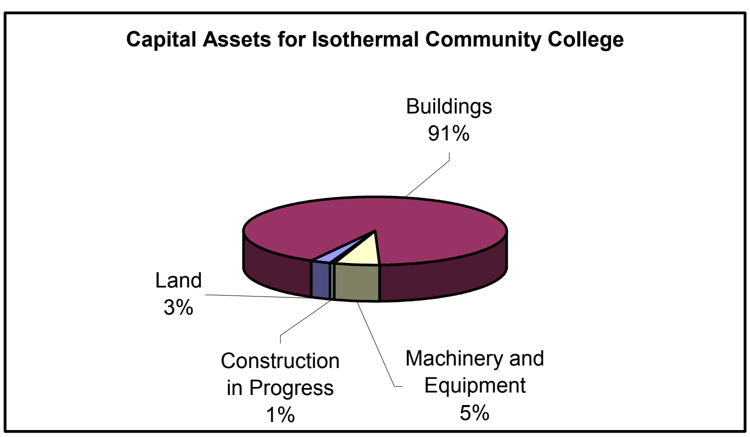
The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Interest on short-term investments with the State Treasurer's Cash and Investment Pool makes up the majority of the amount in this group.

Capital Assets

A major factor in continuing the quality of the College's academic programs is the acquisition, construction, and improvement of its capital assets. The College is in the process of renovating facilities for modernized classroom space and mechanical systems for efficient operation. The College also has long-range plans for new facility construction. The 2000 Higher Education Bond issue that has provided Isothermal Community College with $3.3 million of funding to construct a new academic building, renovate older facilities, and update or replace campus infrastructure has enhanced this goal.

The College had $17.5 million invested in capital assets at year-end. There was a net decrease of $8 million in capital assets for the year; however, this is slightly misleading. Because of the implementation of the new accounting model, depreciation had to be recognized for the first time, causing a much greater reduction in capital assets than should be expected in future years. Of this $8 million decrease, $6.3 million was attributable to accumulated depreciation in this year alone. In addition to depreciation, another change to affect capital assets resulting from the new model was the decision to expense previously capitalized library books. This brought another deduction in this category of $1.4 million.

Capital assets for the College were comprised of non-depreciable and depreciable assets. Non-depreciable assets were land and construction in progress. Depreciable assets were buildings and machinery and equipment. The following chart displays the relationship of each category to total capital assets as a whole:



As is evident from the above chart, most of the College's capital assets are in the form of buildings that have been completed.

In order to continue to provide quality educational experiences, it is important that the College maintains a level of growth in regards to capital assets. A plan will assist the College in avoiding obsolescence and will also provide a marketable tool for attracting students in the future. The following list contains capital additions for next fiscal year:

(Dollars in thousands)

Description	Funding Source	Amount
Continuing Education Building Renovation	2000 Bond Proceeds	$ 550
HVAC Controls Upgrade	2000 Bond Proceeds	200
ADA Compliance Upgrades	2000 Bond Proceeds	110

Economic Forecast

Management believes that the College is well positioned to continue its strong financial condition and level of service to students and the community at large. The local economic situation has remained stagnate due to plant closings and continued slower than expected economic development. The College, however, tends to realize increased enrollment during these times of economic slowdown. The overall economy in North Carolina continues to lag due to weak financial markets and a large economic dependency on textiles and tobacco. This provides a challenge to The North Carolina General Assembly and the Community College System to identify ways to provide enrollment funding for increased student enrollment. Isothermal Community College is in the process of establishing a Materials Testing Lab that will provide services to the area businesses in the field of product testing. This has the potential to contribute to the region's economic development as well as provide supplemental funding for operational expenses for the institution.

A critical element of the College's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and the role of Community Colleges is viewed as very important in the preparation of a displaced workforce. As the workforce has been displaced, enrollment has increased steadily and to this point, the State continues to fully fund enrollment increases, providing resources necessary to offer excellent services to students.

While it is not possible to predict the ultimate results, management believes that the College's financial condition is strong enough to withstand the economic uncertainties. Conservative and realistic approaches have been made to insure that operating costs required to offer services to the students and community who rely on Isothermal Community College, are covered by revenues and allocations allotted to the College.

Contacting the College's Financial Management

This financial report is designed to provide our citizens, donors, and creditors with a general overview of the College's finances and show accountability of all funds received. If you have any questions or need additional financial information, please contact Stephen Matheny, Director of Administrative Services for Isothermal Community College, at (828) 286-3636.

Isothermal Community College
Statement of Net Assets
June 30, 2002 ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	662,510.57
Restricted Cash and Cash Equivalents		958,428.10
Receivables, Net (Note 3)		372,210.87
Inventories		191,526.92
Total Current Assets		2,184,676.46
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		194,264.04
Receivables, Net (Note 3)		300,845.00
Restricted Due from Primary Government		179,610.51
Capital Assets, Net (Note 4)		17,544,714.98
Total Noncurrent Assets		18,219,434.53
Total Assets		20,404,110.99
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		320,680.32
Funds Held for Others		16,296.93
Long-Term Liabilities - Current Portion (Note 6)		43,109.31
Total Current Liabilities		380,086.56
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		393,849.55
Total Noncurrent Liabilities		393,849.55
Total Liabilities		773,936.11
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		17,406,168.06
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		126,676.83
Expendable:		
Scholarships and Fellowships		7,243.99
Loans		57,821.75
Capital Projects		333,037.26
Other		1,254,299.89
Unrestricted		444,927.10
Total Net Assets	$	19,630,174.88

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

Isothermal Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002 ***Exhibit B***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,065,146.39
Federal Grants and Contracts		1,595,324.62
State and Local Grants and Contracts		560,343.57
Sales and Services, Net (Note 8)		1,993,315.16
Total Operating Revenues		5,214,129.74
EXPENSES		
Operating Expenses:		
Personal Services		9,311,283.77
Supplies and Materials		1,565,903.89
Services		2,117,843.97
Scholarships and Fellowships		1,026,842.83
Utilities		505,518.14
Depreciation		705,496.31
Total Operating Expenses		15,232,888.91
Operating Loss		(10,018,759.17)
NONOPERATING REVENUES		
State Aid		6,819,575.33
County Appropriations		1,395,181.76
Noncapital Grants		539,001.16
Noncapital Gifts, Net (Note 8)		721,706.03
Investment Income		76,615.85
Other Nonoperating Revenues		36,288.52
Net Nonoperating Revenues		9,588,368.65
Loss Before Other Revenues, Expenses, Gains, and Losses		(430,390.52)
State Capital Aid		420,822.88
County Capital Appropriations		85,000.00
Capital Gifts, Net (Note 8)		50,000.00
Increase in Net Assets		125,432.36
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		19,504,742.52
Net Assets, June 30, 2002	$	19,630,174.88

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

Isothermal Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002 ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	5,192,191.50
Payments to Employees and Fringe Benefits		(9,309,411.00)
Payments to Vendors and Suppliers		(4,117,984.34)
Payments for Scholarships and Fellowships		(1,026,842.83)
Other Payments		(13,619.22)
Net Cash Used by Operating Activities		(9,275,665.89)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,819,575.33
County Appropriations		1,395,181.76
Noncapital Grants Received		547,177.52
Noncapital Gifts and Endowments Received		687,025.09
Net Cash Provided by Noncapital Financing Activities		9,448,959.70
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		266,469.13
County Capital Appropriations		85,000.00
Capital Grants Received		(156,313.73)
Capital Gifts Received		50,000.00
Acquisition and Construction of Capital Assets		(390,674.03)
Principal Paid on Capital Debt and Leases		(29,766.52)
Net Cash Used by Capital and Related Financing Activities		(175,285.15)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		76,513.35
Net Cash Provided by Investing Activities		76,513.35
Net Increase in Cash and Cash Equivalents		74,522.01
Cash and Cash Equivalents, July 1, 2001		1,740,680.70
Cash and Cash Equivalents, June 30, 2002	$	1,815,202.71

Isothermal Community College
Statement of Cash Flows — ***Exhibit C***
For the Fiscal Year Ended June 30, 2002 — ***Page 2***

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(10,018,759.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		705,496.31
Provision for Uncollectible Loans and Write-offs		241.99
Miscellaneous Nonoperating Income		36,288.52
Changes in Assets and Liabilities:		
Receivables, Net		(21,938.24)
Inventories		42,620.17
Accounts Payable and Accrued Liabilities		36,585.45
Funds Held for Others		(49,907.74)
Compensated Absences		(6,293.18)
Net Cash Used by Operating Activities	$	(9,275,665.89)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	41,297.41
Increase in Receivables Related to Nonoperating Income		346,418.85

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

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. Isothermal 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 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* effective for the College's year ended June 30, 2002, 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.

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.

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.

D. Cash and Cash Equivalents – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. 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 federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. 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.

G. 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 one or more years. Library books are expensed.

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

H. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

I. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

J. **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.

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

K. **Net Assets –** The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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.

L. **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.

M. **Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

N. **Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as WNCW – FM 88.7 Radio and Performing Arts Foundation. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

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 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 $1,765.00. The carrying amount of cash on deposit was $1,813,437.71 and the bank balance was $2,069,967.86.

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	$ 1,331,963.81	$ 1,331,963.81
Cash on Deposit with Private Financial Institutions	481,473.90	738,004.05
	$ 1,813,437.71	$ 2,069,967.86

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 General Statutes 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 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.

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/ 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, 2002, $102,598.00 of the bank balance was covered by federal depository insurance and $635,406.05 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 96,094.44	$ 12,332.57	$ 83,761.87
Sales and Services	128,591.35	4,524.51	124,066.84
Intergovernmental	21,168.85		21,168.85
Pledges	60,813.21		60,813.21
Investment Earnings	5,360.94		5,360.94
Other	77,039.16		77,039.16
Total Current Receivables	$ 389,067.95	$ 16,857.08	$ 372,210.87
Noncurrent Receivables:			
Other	$ 300,845.00	$ 0.00	$ 300,845.00
Notes Receivable:			
Notes Receivable - Current			
Federal Loan Programs	$ 11,992.70	$ 11,992.70	$ 0.00

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	$ 458,792.75	$ 0.00	$ 0.00	$ 458,792.75
Construction in Progress	392,651.50	(392,651.50)	113,229.22	113,229.22
Total Capital Assets, Non-Depreciable	851,444.25	(392,651.50)	113,229.22	572,021.97
Capital Assets, Depreciable:				
Buildings	21,280,570.74	392,651.50		21,673,222.24
Machinery and Equipment	2,006,753.22		318,742.22	2,325,495.44
Total Capital Assets, Depreciable	23,287,323.96	392,651.50	318,742.22	23,998,717.68
Less Accumulated Depreciation:				
Buildings	5,107,906.87		556,400.09	5,664,306.96
Machinery and Equipment	1,212,621.49		149,096.22	1,361,717.71
Total Accumulated Depreciation	6,320,528.36		705,496.31	7,026,024.67
Total Capital Assets, Depreciable, Net	16,966,795.60	392,651.50	(386,754.09)	16,972,693.01
Capital Assets, Net	$ 17,818,239.85	$ 0.00	$ (273,524.87)	$ 17,544,714.98

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	$ 87,959.30
Accrued Payroll	150,717.72
Other	82,003.30
Total Accounts Payable and Accrued Liabilities	$ 320,680.32

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Capital Leases Payable	$ 86,310.14	$ 0.00	$ 29,766.52	$ 56,543.62	$ 22,076.33
Compensated Absences	386,708.42	239,525.60	245,818.78	380,415.24	21,032.98
Total Long-Term Liabilities	$ 473,018.56	$ 239,525.60	$ 275,585.30	$ 436,958.86	$ 43,109.31

Additional information regarding capital lease obligations is included in Note 7.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

The capital lease obligation relating to a telephone system is recorded at the present value of the minimum lease payments. Future minimum lease payments under this capital lease obligation consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	$ 24,765.84
2004	27,017.28
2005	9,006.80
Total Minimum Lease Payments	$ 60,789.92
Amount Representing Interest (6.29441% Rate of Interest)	4,246.30
Present Value of Future Lease Payments	$ 56,543.62

Leased assets amounted to $115,637.40 at June 30, 2002.

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	$ 1,308,895.25	$ 233,146.61	$ 10,602.25	$ 1,065,146.39
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Student Union Services	$ 28,036.00	$ 0.00	$ 0.00	$ 28,036.00
Bookstore	646,457.34	115,353.55	(907.21)	532,011.00
Other	706,392.79			706,392.79
Sales and Services of Educational and Related Activities	725,835.52		(1,039.85)	726,875.37
Total Sales and Services	$ 2,106,721.65	$ 115,353.55	$ (1,947.06)	$ 1,993,315.16
Nonoperating - Noncapital gifts	$ 721,706.03	$ 0.00	$ 0.00	$ 721,706.03
Capital Gifts	$ 50,000.00	$ 0.00	$ 0.00	$ 50,000.00

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	$ 5,259,769.19	$ 566,772.33	$ 840,721.82	$ 0.00	$ 0.00	$ 0.00	$ 6,667,263.34
Public Service	515,252.15	83,778.24	543,821.84		50,285.67		1,193,137.90
Academic Support	1,209,548.32	49,795.84	46,954.50				1,306,298.66
Student Services	390,053.83	21,330.33	56,371.99				467,756.15
Institutional Support	1,240,439.01	148,881.28	328,137.10		4,100.00		1,721,557.39
Operations and Maintenance of Plant	593,698.93	110,972.26	82,938.15		451,132.47		1,238,741.81
Student Financial Aid	30,675.67		5,636.31	1,026,603.81			1,062,915.79
Auxiliary Enterprises	71,846.67	584,373.61	213,262.26	239.02			869,721.56
Depreciation						705,496.31	705,496.31
Total Operating Expenses	$ 9,311,283.77	$ 1,565,903.89	$ 2,117,843.97	$ 1,026,842.83	$ 505,518.14	$ 705,496.31	$ 15,232,888.91

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

After five years of creditable service, members of the Teachers' and State Employees' Retirement System 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 1.81% 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).

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, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of $7,946,012.27, of which $6,526,823.61 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $128,578.43 and $391,609.42, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $391,609.42, $343,248.02, and $334.674.47, 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/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **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. No costs are incurred by the College. The voluntary contributions by employees amounted to $119,532.00 for the year ended June 30, 2002.

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 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 $70,373.06 for the year ended June 30, 2002.

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, 2002, the College's total contribution to the Plan was $153,380.35. 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, 2002, the College's total contribution to the DIPNC was $33,939.48. 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 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 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. 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. 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 (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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. 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 $748,515.78 and on other purchases were $209,246.49 at June 30, 2002.

B. Pending Litigation and Claims – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these 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 of these matters will not have a material adverse effect on the financial position of the College.

C. 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 are authorized to be issued 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 $3,322,669.00 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.

NOTE 14 - 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 the Foundations, except for the distributions made and benefits provided by the Foundations. The distributions received and/or benefits provided by Isothermal Community College Foundation, Inc. and the Polk County Campus I.C.C. Foundation, Inc. approximated $105,119.00 and $59.01, respectively, for the year ended June 30, 2002.

NOTE 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* Changes in existing disclosures include more detailed information on debt service requirements and obligations under leases. New disclosures include the major components of receivable and payable balances.

NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	$ 27,217,614.88
Implementation of GASB 34/35	(7,712,872.36)
July 1, 2001 Net Assets as Restated	$ 19,504,742.52

Isothermal Community College
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
HVAC Controls Renovation	Sep 2002	$ 200,000.00	$ 0.00	$ 200,000.00	$ 0.00	0.00%	Feb 2003
Continuing Education Building Renovation	Jan 2003	550,000.00		550,000.00	19,375.00	3.52%	Jun 2003
ADA Compliance Project	Jan 2003	110,000.00		110,000.00			Jun 2003
Projects Pending Approval by the State Board							
Testing/Training Center Construction	Nov 2003	1,658,309.00	1,658,309.00	3,316,618.00			Dec 2005
Projects Not Started - To Be Funded in Future Years							
Repair and Replacement Projects	Nov 2004	256,867.00		256,867.00			
Repair and Replacement Projects	Nov 2005	566,868.00		566,868.00			
Total All Projects		$ 3,342,044.00	$ 1,658,309.00	$ 5,000,353.00	$ 19,375.00		

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.

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.osa.state.nc.us

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, 2002, and have issued our report thereon dated December 9, 2002.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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*.

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)

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 over financial reporting 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 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.

Ralph Campbell, Jr.
State Auditor

December 9, 2002

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 Roy A. Cooper, III	Attorney General
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Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

January 28, 2003

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