



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT REVIEW REPORT OF ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT REVIEW REPORT OF**

**ISOTHERMAL COMMUNITY COLLEGE**

**SPINDALE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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## REVIEWER'S TRANSMITTAL

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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 review of Isothermal Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Isothermal Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Isothermal Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

**Results** - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

## REVIEWER'S TRANSMITTAL (CONCLUDED)

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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 that came to our attention during our review of the financial statements.

**Results** - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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Board of Trustees  
Isothermal Community College  
Spindale, North Carolina

We have reviewed the accompanying Statement of Net Assets of Isothermal Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. 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 inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.  
State Auditor

March 9, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **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, 2003 and 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 being presented.

### **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 Governmental Accounting Standards Board (GASB) principles. Other significant changes to the financial statements are listed below:

### **Financial Highlights**

The College's financial position remains strong at June 30, 2003, with assets of \$20.9 million and liabilities of \$1.37 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were \$19.5 million.

Along with other Community Colleges, Isothermal Community College was again subject to a one-time reversion of 2.18% or \$162 thousand during the fiscal year due to the continuance of the struggling 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, 2003 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, 2003 and 2002 are as follows:



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<i>(Dollars in thousands)</i>		
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Current Assets	\$ 2,531	\$ 2,185	\$ 346
Noncurrent Assets	679	675	4
Capital Assets, Net	<u>17,709</u>	<u>17,544</u>	<u>165</u>
Total Noncurrent Assets	<u>18,388</u>	<u>18,219</u>	<u>169</u>
Total Assets	<u>20,919</u>	<u>20,404</u>	<u>515</u>
<b>Liabilities</b>			
Current Liabilities	723	380	343
Noncurrent Liabilities	<u>655</u>	<u>394</u>	<u>261</u>
Total Liabilities	<u>1,378</u>	<u>774</u>	<u>604</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	17,600	17,406	194
Restricted - Nonexpendable	127	127	
Restricted - Expendable	1,534	1,652	(118)
Unrestricted	<u>280</u>	<u>445</u>	<u>(165)</u>
Total Net Assets	<u>\$ 19,541</u>	<u>\$ 19,630</u>	<u>\$ (89)</u>

A review of the Statement of Net Assets at June 30, 2003 and 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, 2003 were \$2.5 million. Of this amount, \$1.9 million represented cash and cash equivalents alone, with the next largest area being student and service receivables of \$384 thousand.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year were \$723 thousand, comprised mostly of accounts payable, which totaled \$495 thousand and deferred revenue totaling \$121 thousand. The college recorded deferred revenue that relates to the portion of un-expired summer term in which collections had been made and services not yet rendered.

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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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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 \$19.5 million in net assets this year, \$17.6 million was attributable to Isothermal Community College's Investment in Capital Assets. Until the prior 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, 2003, accumulated depreciation was \$7.7 million, and was \$7 million at June 30, 2002.

Restricted nonexpendable net assets primarily include the College's permanent endowment funds. This category of net assets made up \$127 thousand of the \$19.5 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 \$280 thousand represent 1.4% 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, 2003 and 2002:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

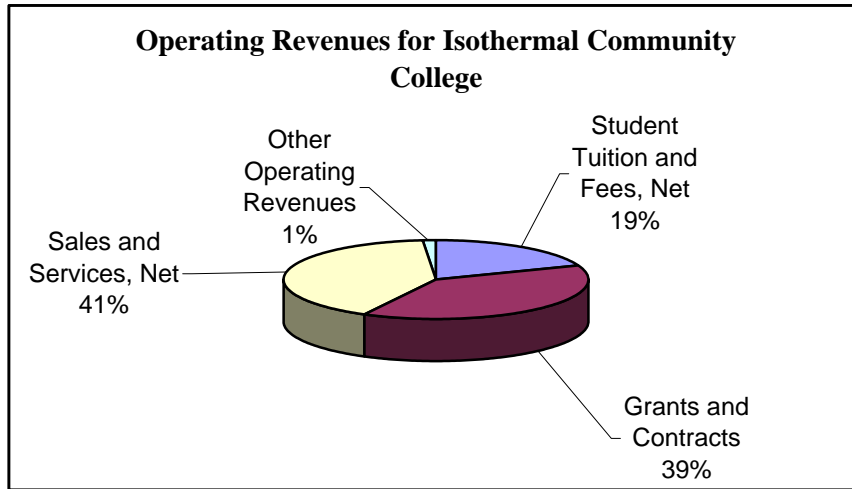
	<i>(Dollars in thousands)</i>		
	2003	2002	Increase (Decrease)
Operating (Loss):			
Operating Revenues	\$ 5,291	\$ 5,214	\$ 77
Operating Expenses	(16,198)	(15,232)	(966)
Total Operating Loss	(10,907)	(10,018)	(889)
Nonoperating Revenues	9,769	9,588	181
Loss Before Other Revenues, Expenses, Gains and Losses	(1,138)	(430)	(708)
Other Revenues, Expenses, Gains and Losses	1,049	555	494
Change in Net Assets	(89)	125	(214)
Net Assets - July 1, as previously stated	19,630	27,218	(7,588)
Restatements		(7,713)	7,713
Net Assets - June 30	\$ 19,541	\$ 19,630	\$ (89)

The College actively seeks for 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 will enlist the first class in the coming fiscal year that will benefit from the funds produced by the New Century Scholars Program. 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 decrease in net assets at year-end of \$89 thousand. Operating income is the residual amount after operating expenses are deducted from operating revenues, both of which were described above.

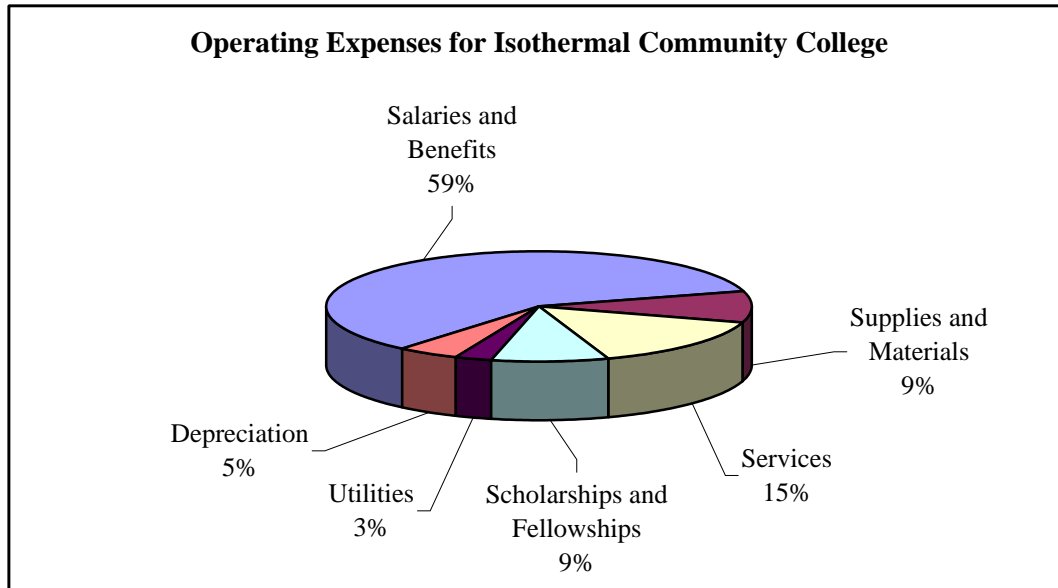
Operating revenues totaled \$5.29 million and consisted primarily of three areas: student tuition and fees, net; grants and contracts; and sales and services, net. The graph below shows each component of operating revenue as it relates to total operating revenues as a whole:

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



Student tuition and fees 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 reported in this manner prior to June 30, 2002.

Operating expenses are mainly attributable to salaries and benefits for the faculty and staff of the College. Of the \$16.1 million in operating expenses, \$9.6 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 \$9.8 million recognized as net nonoperating

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

revenue, \$6.6 million reflect appropriated funds from the State. These appropriations contribute greatly to the overall revenues of the College. The appropriations from the State represent 43% of total revenue and 63.6% of nonoperating revenue. Community colleges were required to make a one-time reversion to the State. This amount totaled \$162 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 or 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, 2003 and 2002:

	<i>(Dollars in thousands)</i>		
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Cash Provided (Used) by:			
Operating Activities	\$ (9,840)	\$ (9,276)	\$ (564)
Noncapital Financing Activities	9,721	9,449	272
Capital Financing Activities	371	(175)	546
Investing Activities	<u>58</u>	<u>76</u>	<u>(18)</u>
Net Change in Cash	310	74	236
Cash, Beginning of Year	<u>1,815</u>	<u>1,741</u>	<u>74</u>
Cash, End of Year	<u><u>\$ 2,125</u></u>	<u><u>\$ 1,815</u></u>	<u><u>\$ 310</u></u>

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 \$5.3 million for 2003 and \$5.2 million for 2002. 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 for 2003 and for 2002.

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 inter-fund or inter-governmental receipts and payments. Almost all of this activity results from appropriations from the State.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

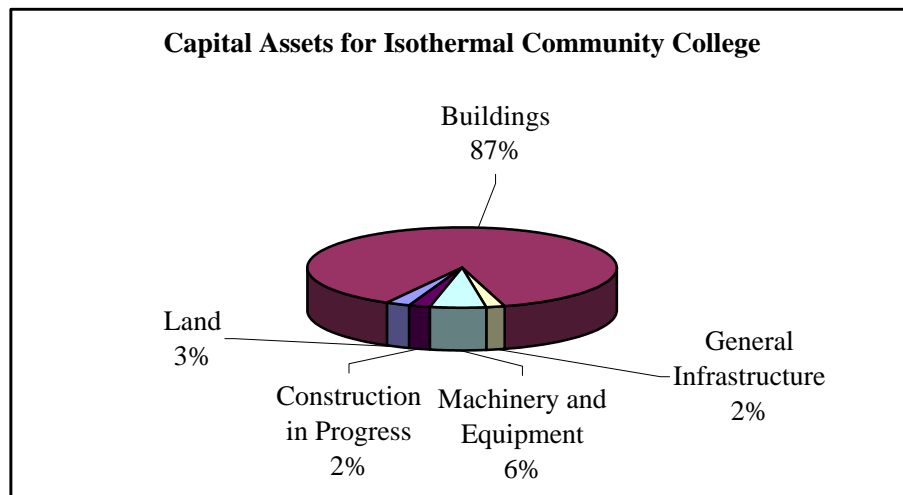
The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Interest on investments makes up the entire amount in this group.

### 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 and renovate older facilities, and update or replace campus infrastructure has enhanced this goal.

The College had \$17.7 million invested in capital assets at year-end. There was a net increase of \$164 thousand in capital assets for the year due to normal additions and recording of current depreciation expenses. For 2002, the implementation of a new accounting model caused a significant prior period adjustment to be recorded to capture depreciation for previous years. This was the first time depreciation was recorded, causing a much greater reduction in capital assets than should be expected in future years.

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



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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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 in progress to be completed for the next fiscal year:

Description	Funding Source	Amount
Continuing Ed 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 funding for increased student enrollment. Isothermal Community College has established a Materials Testing Lab that provides services to the area businesses in the field of product testing. The impact of this lab has not been fully realized, though it is still expected that the lab can and will 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 ensure 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **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.



<b><i>Isothermal Community College</i></b>		
<b><i>Statement of Net Assets</i></b>		
<b><i>June 30, 2003</i></b>		<b><i>Exhibit A</i></b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	858,181.40
Restricted Cash and Cash Equivalents		1,075,523.25
Receivables, Net (Note 3)		384,328.57
Inventories		211,580.68
Notes Receivable, Net (Note 3)		1,200.00
<b>Total Current Assets</b>		<b>2,530,813.90</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		192,068.06
Restricted Due from Primary Government		486,629.76
Capital Assets - Nondepreciable, Net (Note 4)		833,956.01
Capital Assets - Depreciable, Net (Note 4)		16,875,213.24
<b>Total Noncurrent Assets</b>		<b>18,387,867.07</b>
<b>Total Assets</b>		<b>20,918,680.97</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		495,126.42
Deferred Revenue		120,884.81
Funds Held for Others		21,583.00
Long-Term Liabilities - Current Portion (Note 6)		85,340.71
<b>Total Current Liabilities</b>		<b>722,934.94</b>
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		654,584.78
<b>Total Noncurrent Liabilities</b>		<b>654,584.78</b>
<b>Total Liabilities</b>		<b>1,377,519.72</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		17,599,592.96
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		126,676.83
Expendable:		
Scholarships and Fellowships		7,243.99
Loans		60,625.66
Capital Projects		(142,355.96)
Other		1,609,499.13
Unrestricted		279,878.64
<b>Total Net Assets</b>	<b>\$</b>	<b>19,541,161.25</b>
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>Isothermal Community College</i></b>		
<b><i>Statement of Revenues, Expenses, and</i></b>		
<b><i>Changes in Net Assets</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Exhibit B</i></b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,019,904.63
Federal Grants and Contracts		2,044,948.69
Sales and Services, Net (Note 8)		2,153,669.84
Other Operating Revenues		72,538.95
Total Operating Revenues		5,291,062.11
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		9,643,443.16
Supplies and Materials		1,474,553.23
Services		2,427,613.27
Scholarships and Fellowships		1,450,431.72
Utilities		446,848.89
Depreciation		755,177.49
Total Operating Expenses		16,198,067.76
Operating Loss		(10,907,005.65)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Aid		6,564,551.93
County Appropriations		1,405,956.21
Noncapital Grants		1,179,527.04
Noncapital Gifts, Net (Note 8)		566,966.01
Investment Income, Net		57,021.00
Other Nonoperating Expenses		(5,406.66)
Net Nonoperating Revenues		9,768,615.53
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,138,390.12)
State Capital Aid		319,643.49
County Capital Appropriations		98,000.00
Capital Grants		631,733.00
Decrease in Net Assets		(89,013.63)
<b>NET ASSETS</b>		
Net Assets, July 1, 2002		19,630,174.88
Net Assets, June 30, 2003	\$	19,541,161.25
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>Isothermal Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Exhibit C</i></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 5,316,921.72
Payments to Employees and Fringe Benefits		(9,309,977.76)
Payments to Vendors and Suppliers		(4,400,751.70)
Payments for Scholarships and Fellowships		(1,450,431.72)
Loans Issued to Students		(1,200.00)
Other Receipts		5,286.07
Net Cash Used by Operating Activities		(9,840,153.39)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		6,564,551.93
County Appropriations		1,405,956.21
Noncapital Grants Received		1,189,314.97
Noncapital Gifts and Endowments Received		561,586.22
Net Cash Provided by Noncapital Financing Activities		9,721,409.33
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		12,624.24
County Capital Appropriations		98,000.00
Capital Grants Received		1,009,617.16
Proceeds from Sale of Capital Assets		2,718.08
Acquisition and Construction of Capital Assets		(710,745.76)
Principal Paid on Capital Debt and Leases		(41,380.86)
Net Cash Provided by Capital and Related Financing Activities		370,832.86
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income		58,481.20
Net Cash Provided by Investing Activities		58,481.20
Net Increase in Cash and Cash Equivalents		310,570.00
Cash and Cash Equivalents, July 1, 2002		1,815,202.71
Cash and Cash Equivalents, June 30, 2003		\$ 2,125,772.71
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating (Loss)		\$ (10,907,005.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		755,177.49
Changes in Assets and Liabilities:		
Receivables, Net		(95,025.20)
Inventories		(20,053.76)
Notes Receivable, Net		(1,200.00)
Accounts Payable and Accrued Liabilities		51,848.89
Deferred Revenue		120,884.81
Funds Held for Others		5,286.07
Compensated Absences		249,933.96
Net Cash Used by Operating Activities		\$ (9,840,153.39)

<b><i>Isothermal Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit C</i></b>
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
	Cash and Cash Equivalents	\$ 858,181.40
	Restricted Cash and Cash Equivalents	1,075,523.25
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	192,068.06
	<b>Total Cash and Cash Equivalents - June 30, 2003</b>	<b>\$ 2,125,772.71</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
	Assets Acquired through Assumption of a Liability	\$ 299,014.04
	Increase in Receivables Related to Nonoperating Income	312,399.04
The accompanying notes to the financial statements are an integral part of this statement.		

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**ISOTHERMAL COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**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 nonprofit 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*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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 provider's 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

**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 the 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,865.00. The carrying amount of cash on deposit was \$2,123,907.71 and the bank balance was \$2,326,626.62.

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:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 1,269,010.72	\$ 1,269,010.72
Cash on Deposit with Private Financial Institutions	<u>854,896.99</u>	<u>1,057,615.90</u>
	<u>\$ 2,123,907.71</u>	<u>\$ 2,326,626.62</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 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, 2003, \$104,856.07 of the bank balance was covered by federal depository insurance and \$952,759.83 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, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 92,290.30	\$ 24,020.48	\$ 68,269.82
Accounts	234,540.54		234,540.54
Intergovernmental	11,380.92		11,380.92
Pledges	66,193.00		66,193.00
Investment Earnings	3,900.74		3,900.74
Other	43.55		43.55
	<u>\$ 408,349.05</u>	<u>\$ 24,020.48</u>	<u>\$ 384,328.57</u>
<b>Total Current Receivables</b>			
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 1,200.00</u>	<u>\$ 0.00</u>	<u>\$ 1,200.00</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 11,921.02</u>	<u>\$ 11,921.02</u>	<u>\$ 0.00</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 458,792.75	\$ 0.00	\$ 0.00	\$ 0.00	\$ 458,792.75
Construction in Progress	113,229.22	(362,616.72)	624,550.76		375,163.26
<b>Total Capital Assets, Nondepreciable</b>	<u>572,021.97</u>	<u>(362,616.72)</u>	<u>624,550.76</u>		<u>833,956.01</u>
Capital Assets, Depreciable:					
Buildings	21,673,222.24	27,669.00			21,700,891.24
Machinery and Equipment	2,325,495.44		303,205.74	81,304.99	2,547,396.19
General Infrastructure		334,947.72			334,947.72
<b>Total Capital Assets, Depreciable</b>	<u>23,998,717.68</u>	<u>362,616.72</u>	<u>303,205.74</u>	<u>81,304.99</u>	<u>24,583,235.15</u>
Less Accumulated Depreciation:					
Buildings	5,664,306.96		543,535.89		6,207,842.85
Machinery and Equipment	1,361,717.71		189,311.75	73,180.25	1,477,849.21
General Infrastructure			22,329.85		22,329.85
<b>Total Accumulated Depreciation</b>	<u>7,026,024.67</u>		<u>755,177.49</u>	<u>73,180.25</u>	<u>7,708,021.91</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>16,972,693.01</u>	<u>362,616.72</u>	<u>(451,971.75)</u>	<u>8,124.74</u>	<u>16,875,213.24</u>
<b>Capital Assets, Net</b>	<u>\$ 17,544,714.98</u>	<u>\$ 0.00</u>	<u>\$ 172,579.01</u>	<u>\$ 8,124.74</u>	<u>\$ 17,709,169.25</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 260,877.26
Accrued Payroll	234,249.16
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 495,126.42</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Capital Leases Payable	\$ 56,543.62	\$ 94,413.53	\$ 41,380.86	\$ 109,576.29	\$ 44,682.92
Compensated Absences	380,415.24	513,042.12	263,108.16	630,349.20	40,657.79
<b>Total Long-Term Liabilities</b>	<u>\$ 436,958.86</u>	<u>\$ 607,455.65</u>	<u>\$ 304,489.02</u>	<u>\$ 739,925.49</u>	<u>\$ 85,340.71</u>

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

### NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to a telephone system and duplicating 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, 2003:

Fiscal Year	Amount
2004	\$ 43,737.24
2005	27,978.20
2006	18,971.40
2007	18,971.40
2008	1,295.09
	<u>110,953.33</u>
Total Minimum Lease Payments	110,953.33
Amount Representing Interest (6.29441% Rate of Interest)	<u>1,377.04</u>
Present Value of Future Lease Payments	<u>\$ 109,576.29</u>

Machinery and equipment acquired under capital leases amounted to \$210,050.93 at June 30, 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 1,418,945.51	\$ 395,418.79	\$ 3,622.09	\$ 1,019,904.63
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 759,950.60	\$ 211,983.35	\$ 3,843.16	\$ 544,124.09
Radio Station	568,761.36			568,761.36
Performing Arts Foundation	163,036.64			163,036.64
Other	52,613.56			52,613.56
Sales and Services of Education and Related Activities	824,832.34		(301.85)	825,134.19
<b>Total Sales and Services</b>	<b>\$ 2,369,194.50</b>	<b>\$ 211,983.35</b>	<b>\$ 3,541.31</b>	<b>\$ 2,153,669.84</b>
<b>Nonoperating - Noncapital Gifts</b>	<b>\$ 566,966.01</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 566,966.01</b>

### 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	\$ 5,524,828.78	\$ 359,677.27	\$ 909,161.87	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,793,667.92
Public Service	502,866.94	84,186.31	597,624.31		15,416.47		1,200,094.03
Academic Support	1,252,250.73	40,772.76	53,703.97				1,346,727.46
Student Services	424,847.87	39,245.64	110,889.32				574,982.83
Institutional Support	1,230,189.97	166,882.26	323,574.00		1,009.36		1,721,655.59
Operations and Maintenance of Plant	600,217.89	186,181.08	225,258.81		430,423.06		1,442,080.84
Student Financial Aid	23,436.24		2,098.97	1,447,560.18			1,473,095.39
Auxiliary Enterprises	84,804.74	597,607.91	205,302.02	2,871.54			890,586.21
Depreciation						755,177.49	755,177.49
<b>Total Operating Expenses</b>	<b>\$ 9,643,443.16</b>	<b>\$ 1,474,553.23</b>	<b>\$ 2,427,613.27</b>	<b>\$ 1,450,431.72</b>	<b>\$ 446,848.89</b>	<b>\$ 755,177.49</b>	<b>\$ 16,198,067.76</b>

### NOTE 10 - PENSION PLANS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the year ended June 30, 2003, the College had a total payroll of \$8,065,725.09, of which \$6,429,202.55 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$385,752.15. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$391,609.42, and \$343,248.02, 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 \$99,019.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$68,839.56 for the year ended June 30, 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$151,086.26. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$33,431.85. 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$3,478,021.00 and on other purchases were \$221,431.54 at June 30, 2003.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$2,534,083.00 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 nonprofit 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

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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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 \$92,440.89 and \$369.00, respectively, for the year ended June 30, 2003.

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

***Schedule 1***

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<b><i>Projects Approved by the State Board</i></b>							
HVAC Controls Renovation	Sep 2002	\$ 200,000.00	\$ 0.00	\$ 200,000.00	\$ 154,165.48	77.08%	Aug 2003
Continuing Education Building Renovation	Jan 2003	550,000.00		550,000.00	314,970.30	57.27%	Aug 2003
ADA Compliance Project	Jan 2003	110,000.00		110,000.00	50,192.96	45.63%	Jun 2004
Material Testing Lab	Mar 2003	1,658,309.00	1,658,309.00	3,316,618.00	10,000.00	0.30%	Dec 2006
<b><i>Projects Not Started - To Be Funded in Future Years</i></b>							
Repair and Replacement Projects	Nov 2004	256,867.00		256,867.00			
Repair and Replacement Projects	Nov 2005	566,868.00		566,868.00			
<b>Total All Projects</b>		<b>\$ 3,342,044.00</b>	<b>\$ 1,658,309.00</b>	<b>\$ 5,000,353.00</b>	<b>\$ 529,328.74</b>		

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.

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

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Willard L. Lewis, III	President, Isothermal Community College
Mr. Stephen L. Matheny	Director of Administrative Services Isothermal Community College
Mrs. Elizabeth Owens	Chairman, Board of Trustees Isothermal Community College

### LEGISLATIVE BRANCH

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### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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April 13, 2004

## ORDERING INFORMATION

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