



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Isothermal Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to 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.

AUDITOR'S TRANSMITTAL (CONTINUED)

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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Isothermal Community College
Spindale, North Carolina

We have audited the accompanying financial statements of Isothermal Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Isothermal Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Isothermal Community College Foundation, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity is based on the report of the other auditors.

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. The financial statements of Isothermal Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Isothermal Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

February 2, 2005

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 years ended June 30, 2004 and 2003. The preceding transmittal letter and the following financial statements and notes to the financial statements comprise our complete set of financial information and should be considered together.

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 under the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) principles.

Financial Highlights

The College's financial position remains strong at June 30, 2004, with assets of \$21.5 million and liabilities of \$2.2 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were \$19.3 million.

Factors that impact the financial position include a budget reversion of 3% or \$215 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 reverted funds through managed hiring and various operating reductions in order to minimize negative consequences for the College's learning mission. Other considerations impacting the financial position are enrollment growth of 5.2%, tuition increases of 3.6%, and a reduction of receipts of 2000 bond fund allocations received due to the timing of construction projects.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2004, and includes all assets and liabilities of the College. The difference between total assets and total liabilities (net assets) is an indicator of whether the overall financial condition has improved or worsened. This data provides information on assets available to continue operations, liabilities due to outside parties 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, 2004, and 2003 are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<i>(Dollars in thousands)</i>		
	2004	2003	Increase (Decrease)
Assets			
Current Assets	\$ 3,813	\$ 2,531	\$ 1,282
Noncurrent Assets	319	679	(360)
Capital Assets, Net	<u>17,357</u>	<u>17,709</u>	<u>(352)</u>
Total Noncurrent Assets	<u>17,676</u>	<u>18,388</u>	<u>(712)</u>
Total Assets	<u>21,489</u>	<u>20,919</u>	<u>570</u>
Liabilities			
Current Liabilities	1,469	723	746
Noncurrent Liabilities	<u>731</u>	<u>655</u>	<u>76</u>
Total Liabilities	<u>2,200</u>	<u>1,378</u>	<u>822</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	17,293	17,600	(307)
Restricted - Nonexpendable	127	127	
Restricted - Expendable	1,557	1,534	23
Unrestricted	<u>312</u>	<u>280</u>	<u>32</u>
Total Net Assets	<u>\$ 19,289</u>	<u>\$ 19,541</u>	<u>\$ (252)</u>

A review of the Statement of Net Assets at June 30, 2004 and 2003, shows that the College continues to maintain its strong financial foundation even though a reduction in net assets was realized.

Current assets consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2004, were \$3.8 million. Of this amount, \$3.0 million represented cash and cash equivalents alone. A portion of the cash balance includes \$939 thousand held for the Isothermal Community College Foundation, Inc., which is recorded in the financial statements for the first time. The next largest area reported in the current asset section is student and service receivables of \$488 thousand.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year were \$1.4 million, comprised primarily of funds held for others, including \$939 thousand held for the Isothermal Community College Foundation, Inc.; accounts payable, which totaled \$289 thousand; and deferred revenue totaling \$103 thousand, that relates to the portion of tuition received for summer terms for services not yet rendered.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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, 2004, and 2003:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Dollars in thousands)

	2004	2003	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees	\$ 1,275	\$ 1,020	\$ 255
Federal Grants and Contracts	2,573	2,045	528
State and Local Grants and Contracts	3		3
Sales and Services, Net	2,249	2,153	96
Other Operating Revenues	4	73	(69)
	<u>6,104</u>	<u>5,291</u>	<u>813</u>
Total Operating Revenues			
Operating Expenses	(17,132)	(16,198)	(934)
Operating Loss	<u>(11,028)</u>	<u>(10,907)</u>	<u>(121)</u>
Nonoperating Revenues:			
State Aid	6,957	6,565	392
County Appropriations	1,478	1,406	72
Other Nonoperating Revenues	<u>1,590</u>	<u>1,798</u>	<u>(208)</u>
Total Nonoperating Revenues	<u>10,025</u>	<u>9,769</u>	<u>256</u>
Loss Before Other Revenues and Expenses	(1,003)	(1,138)	135
Other Revenues - Capital	<u>751</u>	<u>1,049</u>	<u>(298)</u>
Decrease in Net Assets	(252)	(89)	(163)
Net Assets Beginning of Year, as Restated	<u>19,541</u>	<u>19,630</u>	<u>(89)</u>
Net Assets End of Year	<u>\$ 19,289</u>	<u>\$ 19,541</u>	<u>\$ (252)</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease in net assets at year-end of \$252 thousand. Operating income is the residual amount after operating expenses are deducted from operating revenues, both of which are described above.

Overall total revenues were \$16.9 million. Operating revenues totaled \$6.1 million and consisted primarily of three areas: student tuition and fees, net; grants and contracts; and sales and services, net.

Increases in operating revenues of \$813 thousand were primarily due to increases in federal and State grants and contracts, Federal Pell Grant and student tuition and fees. There were also slight increases in sales and services revenue that account for approximately \$96 thousand.

Nonoperating revenue consists primarily of State aid. Other nonoperating revenues consist of appropriations received from county government, noncapital grants, noncapital gifts, and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

investment income. Of the \$10 million recognized as net nonoperating revenue, \$6.9 million reflect appropriated funds from the State.

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 years ended June 30, 2004 and 2003:

	<i>(Dollars in thousands)</i>		
	2004	2003	Increase (Decrease)
Cash Provided (Used) by:			
Operating Activities	\$ (9,271)	\$ (9,840)	\$ 569
Noncapital Financing Activities	9,945	9,721	224
Capital Financing Activities	442	371	71
Investing Activities	47	58	(11)
Net Change in Cash	1,163	310	853
Cash Beginning of Year	2,125	1,815	310
Cash, End of Year	<u>\$ 3,288</u>	<u>\$ 2,125</u>	<u>\$ 1,163</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 \$6 million for 2004 and \$5.3 million for 2003. 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 \$9.7 million for 2004 and \$9.3 million for 2003.

Noncapital financing activities include receiving and borrowing money for purposes other than to acquire, construct, or improve capital assets. The College does not engage in borrowing funds and receives project funding from State and County appropriations.

Capital financing activities include funds received from State and County appropriations for the acquisition, construction, improvement and disposal of capital assets used in providing services or producing goods. The final category under the Statement of Cash Flows is investing activities, which is comprised of interest earned from cash invested in the State Treasurer's Investment Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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. A most notable addition to the College's capital assets was a donation of a collection of artwork valued at \$62,305.

The College had \$17.3 million invested in capital assets at year-end. There was a net decrease of \$352 thousand in capital assets for the year due to normal additions, deletions and recording of current depreciation expenses.

Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets are land, the above-mentioned art collection, and construction in progress. Depreciable assets are buildings, machinery and equipment, and infrastructure.

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 is still in a recovery mode and has much progress to be made in order to provide employment for county residents. The College, however, is realizing increased enrollment during these times of economic slowdown. The State continues to look for new economic investment and has begun funding for biotech companies that have been forecast as a market of the future. 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)

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, 2004****Exhibit A-1****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	904,822.23
Restricted Cash and Cash Equivalents		2,186,101.29
Receivables, Net (Note 4)		487,877.93
Inventories		232,496.95
Notes Receivable, Net (Note 4)		1,200.00

Total Current Assets		3,812,498.40
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Noncurrent Assets:

Restricted Cash and Cash Equivalents		197,268.68
Restricted Due from Primary Government		121,736.51
Capital Assets - Nondepreciable (Note 5)		556,327.75
Capital Assets - Depreciable, Net (Note 5)		16,801,168.28

Total Noncurrent Assets		17,676,501.22
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Total Assets		21,488,999.62
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		289,060.58
Deferred Revenue		103,322.66
Funds Held for Others		964,189.83
Long-Term Liabilities - Current Portion (Note 7)		112,184.31

Total Current Liabilities		1,468,757.38
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		731,263.60
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Total Liabilities		2,200,020.98
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NET ASSETS

Invested in Capital Assets, Net of Related Debt		17,292,885.60
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Restricted for:

Nonexpendable:

Scholarships and Fellowships		126,676.83
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Expendable:

Scholarships and Fellowships		405,404.00
Loans		62,731.00
Capital Projects		199,586.59
Other		890,014.25

Unrestricted		311,680.37
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Total Net Assets	\$	19,288,978.64
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The accompanying notes to the financial statements are an integral part of this statement.

<i>Isothermal Community College</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-2</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,275,308.47
Federal Grants and Contracts		2,572,542.96
State and Local Grants and Contracts		3,015.00
Sales and Services, Net (Note 9)		2,248,769.86
Other Operating Revenues		4,297.58
Total Operating Revenues		6,103,933.87
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,899,227.41
Supplies and Materials		1,913,115.18
Services		2,042,383.10
Scholarships and Fellowships		1,904,777.22
Utilities		601,021.04
Depreciation		771,637.45
Total Operating Expenses		17,132,161.40
Operating Loss		(11,028,227.53)
NONOPERATING REVENUES (EXPENSES)		
State Aid		6,957,143.13
County Appropriations		1,478,239.27
Noncapital Grants		1,048,671.72
Noncapital Gifts		499,881.71
Investment Income, Net		42,788.17
Other Nonoperating Expenses		(1,468.96)
Net Nonoperating Revenues		10,025,255.04
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,002,972.49)
State Capital Aid		610,484.88
County Capital Appropriations		78,000.00
Capital Gifts		62,305.00
Decrease in Net Assets		(252,182.61)
NET ASSETS		
Net Assets, July 1, 2003		19,541,161.25
Net Assets, June 30, 2004	\$	19,288,978.64
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Isothermal Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,023,294.89
Payments to Employees and Fringe Benefits		(9,769,961.18)
Payments to Vendors and Suppliers		(4,565,136.06)
Payments for Scholarships and Fellowships		(1,904,777.22)
Other Receipts		945,589.59
Net Cash Used by Operating Activities		(9,270,989.98)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,957,143.13
County Appropriations		1,478,239.27
Noncapital Grants Received		1,015,645.98
Noncapital Gifts and Endowments Received		493,991.37
Net Cash Provided by Noncapital Financing Activities		9,945,019.75
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		975,378.13
County Capital Appropriations		78,000.00
Capital Grants Received		
Proceeds from Sale of Capital Assets		1,001.32
Acquisition and Construction of Capital Assets		(567,712.78)
Principal Paid on Capital Debt and Leases		(44,965.86)
Net Cash Provided by Capital and Related Financing Activities		441,700.81
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		46,688.91
Net Increase in Cash and Cash Equivalents		1,162,419.49
Cash and Cash Equivalents, July 1, 2003		2,125,772.71
Cash and Cash Equivalents, June 30, 2004	\$	3,288,192.20
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(11,028,227.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		771,637.45
Miscellaneous Nonoperating Income		2,982.76
Changes in Assets and Liabilities:		
Receivables, Net		(68,534.02)
Inventories		(20,916.27)
Accounts Payable and Accrued Liabilities		(1,465.33)
Deferred Revenue		(17,562.15)
Funds Held for Others		942,606.83
Compensated Absences		148,488.28
Net Cash Used by Operating Activities	\$	(9,270,989.98)

<i>Isothermal Community College</i>			
<i>Statement of Cash Flows</i>			<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>			<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
	Current Assets:		
	Cash and Cash Equivalents	\$	904,822.23
	Restricted Cash and Cash Equivalents		2,186,101.29
	Noncurrent Assets:		
	Restricted Cash and Cash Equivalents		197,268.68
Total Cash and Cash Equivalents - June 30, 2004		\$	3,288,192.20
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
	Assets Acquired through a Gift	\$	62,305.00
	Increase in Receivables Related to Nonoperating Income		38,916.08
The accompanying notes to the financial statements are an integral part of this statement.			

<i>Isothermal Community College Foundation, Inc.</i>					
<i>Statement of Financial Position</i>					
<i>June 30, 2004</i>					<i>Exhibit B-1</i>
ASSETS					
	Cash and Cash Equivalents			\$	945,432.00
	Investments				152,424.00
	Total Assets				1,097,856.00
NET ASSETS					
	Unrestricted				43,324.00
	Temporarily Restricted				1,054,532.00
	Total Net Assets			\$	1,097,856.00
	See Note 1 in the Notes to the Financial Statements				

<i>Isothermal Community College Foundation, Inc.</i>				
<i>Statement of Activities</i>				
<i>For the Fiscal Year Ended June 30, 2004</i>				<i>Exhibit B-2</i>
CHANGES IN UNRESTRICTED NET ASSETS				
Revenues and Gains:				
	Income on Long-Term Investments		\$	1,507.00
Net Assets Released from Restrictions:				
	Satisfaction of Program Restrictions			21,127.00
	Total Unrestricted Revenues, Gains, and Other Support			22,634.00
Expenses and Losses:				
	Endowed Chairs			3,518.00
	Scholarships			14,774.00
	Management and General			12,410.00
	Total Expenses			30,702.00
	Decrease in Unrestricted Net Assets			(8,068.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
	Contributions			247,375.00
	Other			800.00
	Income on Long-Term Investments			27,431.00
	Net Unrealized and Realized Gains on Long-Term Investments			19,990.00
Net Assets Released from Restrictions:				
	Satisfaction of Program Restrictions			(21,127.00)
	Increase in Temporarily Restricted Net Assets			274,469.00
Increase in Net Assets				266,401.00
Net Assets at Beginning of Year				831,455.00
Net Assets at End of Year			\$	1,097,856.00
See Note 1 in the Notes to the Financial Statements				

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ISOTHERMAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units – Isothermal Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Isothermal Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 31 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Isothermal Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$12,991.68 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College Controller's office at Post Office Box 804 Spindale, North Carolina 28160 or by calling (828) 286-3636.

- 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.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.
- 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 40 years for buildings, and 3 to 15 years for equipment.

The Andrew and Flora Major Art collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- 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.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the Campus Bookstore, WNCW-FM 88.7 Radio, and the Performing Arts Center. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,286,327.20 and the bank balance was \$3,471,619.06.

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	\$ 2,264,275.41	\$ 2,264,275.41
Cash on Deposit with Private Financial Institutions	1,022,051.79	1,207,343.65
	<u>\$ 3,286,327.20</u>	<u>\$ 3,471,619.06</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$102,471.25 of the bank balance was covered by federal depository insurance and \$1,104,872.40 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College’s endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College’s endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$4,114.71 was available to be spent, of which \$4,114.71 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 174,286.88	\$ 37,615.51	\$ 136,671.37
Accounts	206,984.60		206,984.60
Intergovernmental	66,681.43		66,681.43
Pledges	72,083.34		72,083.34
Other	5,457.19		5,457.19
Total Current Receivables	<u>\$ 525,493.44</u>	<u>\$ 37,615.51</u>	<u>\$ 487,877.93</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 1,200.00</u>	<u>\$ 0.00</u>	<u>\$ 1,200.00</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 11,921.02</u>	<u>\$ 11,921.02</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 458,792.75	\$ 0.00	\$ 0.00	\$ 0.00	\$ 458,792.75
Art Collection			62,305.00		62,305.00
Construction in Progress	375,163.26	(359,141.19)	19,207.93		35,230.00
Total Capital Assets, Nondepreciable	833,956.01	(359,141.19)	81,512.93		556,327.75
Capital Assets, Depreciable:					
Buildings	21,700,891.24	359,141.19	233,446.87		22,293,479.30
Machinery and Equipment	2,547,396.19		110,457.47	208,024.73	2,449,828.93
General Infrastructure	334,947.72				334,947.72
Total Capital Assets, Depreciable	24,583,235.15	359,141.19	343,904.34	208,024.73	25,078,255.95
Less Accumulated Depreciation:					
Buildings	6,207,842.85		567,239.41		6,775,082.26
Machinery and Equipment	1,477,849.21		182,068.19	202,571.69	1,457,345.71
General Infrastructure	22,329.85		22,329.85		44,659.70
Total Accumulated Depreciation	7,708,021.91		771,637.45	202,571.69	8,277,087.67
Total Capital Assets, Depreciable, Net	16,875,213.24	359,141.19	(427,733.11)	5,453.04	16,801,168.28
Capital Assets, Net	\$ 17,709,169.25	\$ 0.00	\$ (346,220.18)	\$ 5,453.04	\$ 17,357,496.03

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 74,033.47
Accrued Payroll	215,027.11
Total Accounts Payable and Accrued Liabilities	\$ 289,060.58

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Capital Leases Payable	\$ 109,576.29	\$ 0.00	\$ 44,965.86	\$ 64,610.43	\$ 25,655.48
Compensated Absences	<u>630,349.20</u>	<u>481,428.88</u>	<u>332,940.60</u>	<u>778,837.48</u>	<u>86,528.83</u>
Total Long-Term Liabilities	<u>\$ 739,925.49</u>	<u>\$ 481,428.88</u>	<u>\$ 377,906.46</u>	<u>\$ 843,447.91</u>	<u>\$ 112,184.31</u>

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to the 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, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 25,725.72
2006	18,971.40
2007	18,971.40
2008	<u>1,012.15</u>
Total Minimum Lease Payments	64,680.67
Amount Representing Interest (6.29441% Rate of Interest)	<u>70.24</u>
Present Value of Future Lease Payments	<u>\$ 64,610.43</u>

Machinery and equipment acquired under capital lease amounted to \$210,050.93 at June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	<u>\$ 1,710,566.81</u>	<u>\$ 0.00</u>	<u>\$ 435,593.69</u>	<u>\$ (335.35)</u>	<u>\$ 1,275,308.47</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 998,328.10	\$ 8,989.10	\$ 263,593.62	\$ 13,930.38	\$ 711,815.00
Radio Station	460,072.45				460,072.45
Performing Arts Foundation	182,341.04				182,341.04
Other	54,337.71				54,337.71
Sales and Services of Education and Related Activities	<u>840,203.66</u>				<u>840,203.66</u>
Total Sales and Services	<u>\$ 2,535,282.96</u>	<u>\$ 8,989.10</u>	<u>\$ 263,593.62</u>	<u>\$ 13,930.38</u>	<u>\$ 2,248,769.86</u>

NOTE 10 - 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	\$ 5,626,122.13	\$ 541,178.31	\$ 759,228.21	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,926,528.65
Public Service	485,714.89	49,318.82	483,781.41		8,147.67		1,026,962.79
Academic Support	1,258,441.25	208,778.96	42,993.68				1,510,213.89
Student Services	440,979.13	34,501.72	70,556.33				546,037.18
Institutional Support	1,263,906.86	138,030.59	325,579.41				1,727,516.86
Operations and Maintenance of Plant	613,709.97	99,119.24	148,273.71		592,873.37		1,453,976.29
Student Financial Aid	28,356.96		2,215.08	1,904,777.22			1,935,349.26
Auxiliary Enterprises	181,996.22	842,187.54	209,755.27				1,233,939.03
Depreciation						771,637.45	771,637.45
Total Operating Expenses	<u>\$ 9,899,227.41</u>	<u>\$ 1,913,115.18</u>	<u>\$ 2,042,383.10</u>	<u>\$ 1,904,777.22</u>	<u>\$ 601,021.04</u>	<u>\$ 771,637.45</u>	<u>\$ 17,132,161.40</u>

NOTE 11 - 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)

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,423,369.40, of which \$6,617,264.20 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$397,035.85 and \$14,557.98, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,557.98, \$0.00, and \$391,609.42, 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 \$89,128.00 for the year ended June 30, 2004.

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 \$66,852.20 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$211,752.45. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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 13 - 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,000,000 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. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 14 - 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 \$3,193,172.26 and on other purchases were \$296,318.25 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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 \$2,394,341.00 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - RELATED PARTY

The Polk County Campus Isothermal Community College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, 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 this Foundation, except for the distributions made and benefits provided by the Foundation. The College received no benefits for the year ended June 30, 2004.

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

NOTE 17 - SUBSEQUENT EVENTS

On October 1, 2004, the College gave 4.48 acres of land to Polk County for the purpose of a Polk County Library. The approximate value of this land is \$42,963.93.

The Stonecutter Foundation financed the purchase and delivery of an electronic sign for the College after June 30, 2004. This electronic sign transmits information about college activities and schedules as well as events scheduled at the Performing Arts Center. The approximate value of this sign is \$58,850.00.

***Isothermal Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Capital Improvement Projects									
<i>Projects Approved by the State Board</i>									
HVAC Controls Renovation	Jul 2002	Sep 2002	\$ 185,273.00	\$ 0.00	\$ 185,273.00	\$ 181,795.95	100.00%	Apr 2003	Apr 2003
Continuing Education Building Renovation	Jan 2002	Jan 2003	550,000.00		550,000.00	548,417.17	100.00%	Aug 2003	Aug 2003
ADA Compliance Project	Oct 2002	Jan 2003	124,727.00		124,727.00	77,200.36	61.90%	Jul 2003	Jun 2005
Materials Testing Lab	Jul 2003	Mar 2003	1,658,309.00	1,658,309.00	3,316,618.00	21,950.00	0.66%	Feb 2006	Mar 2007
<i>Projects Pending Approval by the State Board</i>									
Roofing Project	May 2004	Oct 2004	150,000.00		150,000.00			Sep 2004	May 2005
Repair and Replacement Projects	May 2004	Mar 2005	256,867.00		256,867.00			Sep 2004	Jul 2005
<i>Projects Not Started - To Be Funded in Future Years</i>									
Undetermined Projects	Nov 2005	Nov 2005	416,868.00		416,868.00			Jul 2006	Jul 2006
Total All Projects			\$ 3,342,044.00	\$ 1,658,309.00	\$ 5,000,353.00	\$ 829,363.48			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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

Board of Trustees
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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Isothermal Community College's basic financial statements, and have issued our report thereon dated February 2, 2005. We did not audit the financial statements of Isothermal Community College Foundation, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Isothermal Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Isothermal Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to this discretely presented component unit.

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 opinions on the financial statements and not to provide an opinion 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 reportable condition in which the

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

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, 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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

February 2, 2005

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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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President, Isothermal Community College
Director of Administrative Services
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Isothermal Community College

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March 10, 2005

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