



STATE OF NORTH CAROLINA

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

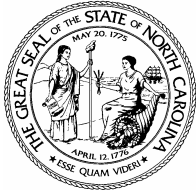
BOARD OF TRUSTEES

DR. WARREN J. CARSON, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. WILLIARD L. LEWIS, PRESIDENT

STEPHEN L. MATHENY, VICE PRESIDENT OF ADMINISTRATIVE SERVICES



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Isothermal Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

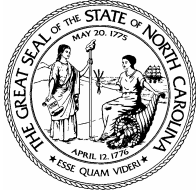
Leslie W. Merritt, Jr.

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

June 26, 2007

TABLE OF CONTENTS

| | PAGE |
|---|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| FINANCIAL STATEMENTS | |
| College Exhibits | |
| A-1 Statement of Net Assets | 8 |
| A-2 Statement of Revenues, Expenses, and Changes in Net Assets | 9 |
| A-3 Statement of Cash Flows | 10 |
| Component Unit Exhibits | |
| B-1 Statement of Financial Position | 12 |
| B-2 Statement of Activities | 13 |
| Notes to the Financial Statements | 15 |
| 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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> | 33 |
| ORDERING INFORMATION | 35 |



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Isothermal Community 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 represent 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 the discretely presented component unit, 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 the 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2007, 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 that 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.

Leslie W. Merritt, Jr.

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

June 4, 2007

ISOTHERMAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provide an overview of the financial position and activities of Isothermal Community College for the years ended June 30, 2006, and 2005. 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 remained sound under normal operations following the receipt of the Lee L. Powers Memorial bequest in fiscal year 2005. The College crafted an investment policy, chose an investment manager, and created several scholarship programs within the Lee L. Powers Memorial Scholarship fund during the year. The first scholarships were awarded after June 30, 2006, year end for the 2006 fall semester.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2006, 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 statement also 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, with the exception of capital assets which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's Statement of Net Assets at June 30, 2006, and 2005 are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

| | <u>2006</u> | <u>Restated 2005</u> | <u>Increase (Decrease)</u> |
|--|-------------------------|--------------------------|--------------------------------|
| Assets | | | |
| Current Assets | \$ 5,305,326.00 | \$ 13,487,282.95 | \$ (8,181,956.95) |
| Noncurrent Assets | 10,028,575.92 | 1,353,251.20 | 8,675,324.72 |
| Capital Assets, Net | <u>16,759,130.86</u> | <u>16,961,856.27</u> | <u>(202,725.41)</u> |
| Total Assets | <u>32,093,032.78</u> | <u>31,802,390.42</u> | <u>290,642.36</u> |
| Liabilities | | | |
| Current Liabilities | 519,804.47 | 951,013.30 | (431,208.83) |
| Long-Term Liabilities | <u>792,890.77</u> | <u>757,167.88</u> | <u>35,722.89</u> |
| Total Liabilities | <u>1,312,695.24</u> | <u>1,708,181.18</u> | <u>(395,485.94)</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 16,739,147.26 | 16,922,901.28 | (183,754.02) |
| Restricted - Nonexpendable | 126,676.83 | 126,676.83 | |
| Restricted - Expendable | 13,535,999.57 | 12,353,839.97 | 1,182,159.60 |
| Unrestricted | <u>378,513.88</u> | <u>513,382.02</u> | <u>(134,868.14)</u> |
| Total Net Assets | <u>\$ 30,780,337.54</u> | <u>\$ 29,916,800.10</u> | <u>\$ 863,537.44</u> |

Current assets consist primarily of cash, short-term investments, receivables expected to be collected within one year, and inventories expected to be used within one year. The \$8,181,956.95 decrease in current assets is offset by a \$8,675,324.72 increase in noncurrent assets as the proceeds from Lee L. Powers Memorial Scholarship fund were moved from restricted short-term investments into long-term investments.

Current liabilities are comprised of accounts payable, deferred revenue, and the current portions of long-term liabilities. In 2005, the College accrued broker fees and other costs in the amount of \$473,489.00 associated with the sale of the bequest land resulting in a significant decrease in accounts payable. Long-term liabilities include a reserve for compensated absences which are vacation and bonus days earned by current employees which are either taken as paid time off or paid out at termination of employment.

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. The growth in the College's net asset balance is primarily attributed to earnings of \$588,791.38 on the Lee L. Powers Memorial Scholarship Fund, against which major expenditures will not be incurred until Fall of 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2006, and 2005:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

| | <u>2006</u> | <u>Restated 2005</u> | <u>Increase (Decrease)</u> |
|--|-------------------------|--------------------------|--------------------------------|
| Operating Revenues | | | |
| Student Tuition and Fees, Net | \$ 2,261,343.78 | \$ 2,140,682.64 | \$ 120,661.14 |
| Federal Grants and Contracts | 2,712,854.46 | 2,636,916.19 | 75,938.27 |
| State and Local Contracts and Grants | 246,707.12 | 3,145.00 | 243,562.12 |
| Sales and Services, Net | 1,374,266.80 | 1,234,431.75 | 139,835.05 |
| Other Operating Revenues | <u>33,155.45</u> | <u>3,979.04</u> | <u>29,176.41</u> |
| Total Operating Revenues | <u>6,628,327.61</u> | <u>6,019,154.62</u> | <u>609,172.99</u> |
| Operating Expenses | (19,800,279.17) | (18,833,411.90) | (966,867.27) |
| Operating Loss | (13,171,951.56) | (12,814,257.28) | (357,694.28) |
| Nonoperating Revenues (Expenses): | | | |
| State Aid | 7,872,444.07 | 7,778,743.97 | 93,700.10 |
| County Appropriations | 1,658,802.00 | 1,598,724.96 | 60,077.04 |
| Other Nonoperating Revenues | <u>2,510,467.90</u> | <u>12,342,525.69</u> | <u>(9,832,057.79)</u> |
| Total Nonoperating Revenues (Expenses) | <u>12,041,713.97</u> | <u>21,719,994.62</u> | <u>(9,678,280.65)</u> |
| Loss Before Other Revenues and Expenses | (1,130,237.59) | 8,905,737.34 | (10,035,974.93) |
| Other Revenues - Capital | <u>1,993,775.03</u> | <u>1,722,084.15</u> | <u>271,690.88</u> |
| Increase in Net Assets | 863,537.44 | 10,627,821.49 | (9,764,284.05) |
| Net Assets, July 1 | <u>29,916,800.10</u> | <u>19,288,978.61</u> | <u>10,627,821.49</u> |
| Net Assets, June 30 | <u>\$ 30,780,337.54</u> | <u>\$ 29,916,800.10</u> | <u>\$ 863,537.44</u> |

The major components of operating revenues are tuition and fees collected from students, Federal Financial Aid received from the United States Department of Education to disburse to students, and sales/revenues generated from auxiliary operations such as our campus

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

bookstore and our public radio station. Tuition and fees are directly correlated to our enrollment as defined by our full time equivalent figures. The increase of \$120,661.14 in tuition and fees is primarily a function of the increased tuition rate per credit hour, and a small increase in full time equivalent enrollment whereas the growth of \$139,835.05 in sales and services is a function of a rebound of \$50,000.00 in underwriting revenue for our public radio station WNCW-FM as we reorganized our underwriting staffing to pursue underwriting more aggressively. Sales in our campus bookstore also increased \$58,106.82 as we implemented a new point of sale system to make our bookstore a more attractive, efficient place for students to shop.

Operating Expenses increased by almost 5.1% which reflects an increased salary and benefits due to employee raises of \$591,759.38 and an increase in supplies and materials costs of \$317,944.08 as the College underwent roof replacements and other major facility repairs during the year.

Nonoperating revenue consists primarily of aid from the State of North Carolina and appropriations received from Rutherford and Polk Counties. Other nonoperating revenue includes noncapital grants, investment income, and noncapital gifts donated to the College. The Lee L. Powers Memorial Scholarship land bequest of \$10,476,149.00 was received in 2005 resulting in the other nonoperating revenues decrease for 2006.

Other Revenues are made up entirely of capital aid received from the State in the amount of \$1,840,775.03 and capital appropriation received from Rutherford County of \$153,000.00. The State capital aid consists of funds received by the College and used to purchase equipment, along with the 2000 bond funds that are appropriated to the College for building projects.

The College's net assets increased by \$863,537.44, which brings ending net assets to \$30,780,337.54, reflecting a fiscally sound position.

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 existing facilities, and will begin construction of a new classroom/office building in October 2006. The 2000 Higher Education Bond Issue provided the College with \$3,342,044.00 of funding to construct a new academic building and renovate older facilities and update or replace campus infrastructure.

The College has \$16,739,147.26 invested in capital assets at year end. There was a decrease of \$202,725.41 in capital assets for the year due to normal additions and deletions.

Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land, The Andrew and Flora Major Art Collection, and construction in progress. Depreciable assets include buildings, machinery and equipment, and infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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 recovery mode and has much progress to make in order to provide employment for county residents. The College, however, realizes strong enrollment during these times of economic slowdown. Management also feels that the Lee L. Powers Memorial Scholarship will encourage residents of Rutherford County to pursue higher education at the College for no or reduced costs. The College is continuing to evaluate future programs, and will continue to add programs that are needed in the community, such as the Building Construction Trades program that was implemented in fiscal year 2006.

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 critical in the preparation of a well-trained workforce. As our local workforce has been displaced, enrollment has increased, 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.

Isothermal Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

| | |
|--|---------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 958,752.69 |
| Restricted Cash and Cash Equivalents | 1,374,773.96 |
| Restricted Short-Term Investments | 2,202,193.31 |
| Receivables, Net (Note 4) | 545,058.38 |
| Inventories | 209,761.53 |
| Prepaid Items | 7,412.97 |
| Notes Receivable (Note 4) | 7,373.16 |
| | <hr/> |
| Total Current Assets | 5,305,326.00 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 216,368.62 |
| Restricted Due from Primary Government | 1,695,203.77 |
| Investments | 8,117,003.53 |
| Capital Assets - Nondepreciable (Note 5) | 761,847.57 |
| Capital Assets - Depreciable, Net (Note 5) | 15,997,283.29 |
| | <hr/> |
| Total Noncurrent Assets | 26,787,706.78 |
| | <hr/> |
| Total Assets | 32,093,032.78 |

LIABILITIES

| | |
|---|--------------|
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities (Note 6) | 242,483.22 |
| Due to Primary Government | 1,335.05 |
| Deferred Revenue | 107,611.43 |
| Funds Held for Others | 37,517.32 |
| Long-Term Liabilities - Current Portion (Note 7) | 130,857.45 |
| | <hr/> |
| Total Current Liabilities | 519,804.47 |
| Noncurrent Liabilities: | |
| Long-Term Liabilities (Note 7) | 792,890.77 |
| | <hr/> |
| Total Liabilities | 1,312,695.24 |

NET ASSETS

| | |
|---|------------------|
| Invested in Capital Assets, Net of Related Debt | 16,739,147.26 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 126,676.83 |
| Expendable: | |
| Scholarships and Fellowships | 10,937,030.68 |
| Loans | 66,257.40 |
| Capital Projects | 1,767,660.18 |
| Specific Programs | 514,098.12 |
| Other | 250,953.19 |
| Unrestricted | 378,513.88 |
| | <hr/> |
| Total Net Assets | \$ 30,780,337.54 |

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

***Isothermal Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|-----------------|
| Student Tuition and Fees, Net (Note 9) | \$ 2,261,343.78 |
| Federal Grants and Contracts | 2,712,854.46 |
| State and Local Grants and Contracts | 246,707.12 |
| Sales and Services, Net (Note 9) | 1,374,266.80 |
| Other Operating Revenues | 33,155.45 |

| | |
|--------------------------|--------------|
| Total Operating Revenues | 6,628,327.61 |
|--------------------------|--------------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|---------------|
| Personal Services | 11,533,480.58 |
| Supplies and Materials | 1,988,867.70 |
| Services | 2,982,340.33 |
| Scholarships and Fellowships | 1,787,889.73 |
| Utilities | 723,373.20 |
| Depreciation | 784,327.63 |

| | |
|--------------------------|---------------|
| Total Operating Expenses | 19,800,279.17 |
|--------------------------|---------------|

| | |
|----------------|-----------------|
| Operating Loss | (13,171,951.56) |
|----------------|-----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|--------------|
| State Aid | 7,872,444.07 |
| County Appropriations | 1,658,802.00 |
| Noncapital Grants | 1,181,694.21 |
| Noncapital Gifts | 727,817.17 |
| Investment Income, Net | 603,696.23 |
| Other Nonoperating Expenses | (2,739.71) |

| | |
|---------------------------|---------------|
| Net Nonoperating Revenues | 12,041,713.97 |
|---------------------------|---------------|

| | |
|---|----------------|
| Loss Before Other Revenues and Expenses | (1,130,237.59) |
|---|----------------|

| | |
|-------------------------------|--------------|
| State Capital Aid | 1,840,775.03 |
| County Capital Appropriations | 153,000.00 |

| | |
|------------------------|------------|
| Increase in Net Assets | 863,537.44 |
|------------------------|------------|

NET ASSETS

| | |
|--------------------------|---------------|
| Net Assets, July 1, 2005 | 29,916,800.10 |
|--------------------------|---------------|

| | |
|---------------------------|------------------|
| Net Assets, June 30, 2006 | \$ 30,780,337.54 |
|---------------------------|------------------|

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

***Isothermal Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-----------------|
| Received from Customers | \$ 6,546,298.13 |
| Payments to Employees and Fringe Benefits | (11,577,728.73) |
| Payments to Vendors and Suppliers | (6,097,503.12) |
| Payments for Scholarships and Fellowships | (1,778,783.54) |
| Loans Issued to Students | (6,173.16) |
| Other Receipts | 6,721.15 |
| | <hr/> |
| Net Cash Used by Operating Activities | (12,907,169.27) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------------|
| State Aid Received | 7,872,444.07 |
| County Appropriations | 1,658,802.00 |
| Noncapital Grants Received | 1,184,372.60 |
| Noncapital Gifts Received | 735,260.78 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 11,450,879.45 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------|
| State Capital Aid Received | 1,293,926.36 |
| County Capital Appropriations | 153,000.00 |
| Proceeds from Sale of Capital Assets | 61,955.90 |
| Acquisition and Construction of Capital Assets | (708,977.32) |
| Principal Paid on Capital Leases | (18,971.39) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 780,933.55 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-----------------|
| Proceeds from Sales and Maturities of Investments | 10,794,254.04 |
| Investment Income | 314,129.87 |
| Purchase of Investments and Related Fees | (10,409,408.69) |
| | <hr/> |
| Net Cash Provided by Investing Activities | 698,975.22 |

| | |
|---|-----------------|
| Net Decrease in Cash and Cash Equivalents | 23,618.95 |
| Cash and Cash Equivalents, July 1, 2005 | 2,526,276.32 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2006 | \$ 2,549,895.27 |

***Isothermal Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

Exhibit A-3

Page 2

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

| | |
|--|---------------------------|
| Operating Loss | \$ (13,171,951.56) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities | |
| Depreciation Expense | 784,327.63 |
| Miscellaneous Nonoperating Income | 1,309.02 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (78,734.98) |
| Inventories | 64,019.97 |
| Prepaid Items | (7,412.97) |
| Notes Receivable, Net | (6,173.16) |
| Accounts Payable and Accrued Liabilities | (565,373.00) |
| Due to Primary Government | (153.47) |
| Deferred Revenue | 6,969.19 |
| Funds Held for Others | 4,254.63 |
| Compensated Absences | 61,749.43 |
| | <u>61,749.43</u> |
| Net Cash Used by Operating Activities | <u>\$ (12,907,169.27)</u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 958,752.69 |
| Restricted Cash and Cash Equivalents | 1,374,773.96 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | <u>216,368.62</u> |
| Total Cash and Cash Equivalents - June 30, 2006 | <u>\$ 2,549,895.27</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|-------------------------------------|----------------|
| Change in Fair Value of Investments | \$ (73,725.64) |
|-------------------------------------|----------------|

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

Isothermal Community College Foundation, Inc.
Statement of Financial Position
June 30, 2006

Exhibit B-1

ASSETS

| | | |
|---------------------------|----|---------------------|
| Cash and Cash Equivalents | \$ | 1,720,021.00 |
| Investments | | <u>244,943.00</u> |
| Total Assets | | <u>1,964,964.00</u> |

LIABILITIES

| | | |
|------------------|--|------------------|
| Accounts Payable | | <u>12,500.00</u> |
|------------------|--|------------------|

NET ASSETS

| | | |
|------------------------|----|---------------------|
| Unrestricted | | 482,028.00 |
| Temporarily Restricted | | <u>1,470,436.00</u> |
| Total Net Assets | \$ | <u>1,952,464.00</u> |

See Note 1 in the Notes to the Financial Statements

Isothermal Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

| | |
|---|------------------|
| Revenues and Gains: | |
| Other Investment Income | \$ 16,257.00 |
| Net Assets Released from Restrictions: | |
| Satisfaction of Program Restrictions | 80,414.00 |
| Total Unrestricted Revenues, Gains, and Other Support | <u>96,671.00</u> |
| Expenses and Losses: | |
| Performing Arts | 32,000.00 |
| Scholarships | 8,889.00 |
| Mentoring | 15,884.00 |
| Management and General | 19,496.00 |
| Fund Raising | 9,626.00 |
| Total Expenses | <u>85,895.00</u> |
| Total Expenses and Losses | <u>85,895.00</u> |
| Increase in Unrestricted Net Assets | <u>10,776.00</u> |

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

| | |
|--|------------------------|
| Contributions | 239,875.00 |
| Rental Income | 300.00 |
| Interest and Investment Earnings | 44,273.00 |
| Net Unrealized and Realized Gains on Long-Term Investments | 20,448.00 |
| Net Assets Released from Restrictions: | |
| Satisfaction of Program Restrictions | <u>(80,414.00)</u> |
| Increase in Temporarily Restricted Net Assets | <u>224,482.00</u> |
| Increase in Net Assets | 235,258.00 |
| Net Assets at Beginning of Year | <u>1,717,206.00</u> |
| Net Assets at End of Year | <u>\$ 1,952,464.00</u> |

See Note 1 in the Notes to the Financial Statements

[This Page Left Blank Intentionally]

ISOTHERMAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 the 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 units' 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 Unit – Isothermal Community College Foundation, Inc., (Foundation) 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 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 35 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.

The Foundation 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from Governmental Accounting Standards Board (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, 2006, the Foundation distributed \$46,146.24 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 PO Box 804, Spindale, NC 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 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, overnight sweep agreement, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** – This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, real estate, and other asset holdings by the College. Except for money market funds and real estate not held by a governmental external investment pool, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charged 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.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 40 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

Invested in Capital Assets, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- O. 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 Public Radio Station 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 units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina 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. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,955.00, and deposits in private financial institutions with a carrying value of \$1,006,271.30, and a bank balance of \$1,275,123.92.

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. As of June 30, 2006, \$89,271.27 of the College's bank balance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

in excess of federal depository insurance coverage was covered under the pooling method.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$1,020,670.35 of the College's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

- B. Investments** – In addition to real estate held by the College, the College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,541,668.97, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Investments of the College's component units, The Isothermal Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

Interest Rate Risk: Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the College's investments.

Investments

| Investment Type | Fair Value | Investment Maturities (in Years) | | |
|----------------------------|-------------------------|----------------------------------|------------------------|------------------------|
| | | Less Than 1 | 1 to 5 | 6 to 10 |
| Debt Securities | | | | |
| U.S. Treasuries | \$ 1,138,746.00 | \$ 0.00 | \$ 497,232.75 | \$ 641,513.25 |
| U.S. Agencies | 2,013,606.00 | | 734,298.75 | 1,279,307.25 |
| Mutual Bond Funds | 199,796.02 | | | 199,796.02 |
| Money Market Mutual Funds | 1,575,694.31 | 1,575,694.31 | | |
| Domestic Corporate Bonds | 938,832.25 | 122,462.50 | 700,876.00 | 115,493.75 |
| | 5,866,674.58 | <u>\$ 1,698,156.81</u> | <u>\$ 1,932,407.50</u> | <u>\$ 2,236,110.27</u> |
| Other Securities | | | | |
| Mutual Funds | 1,281,194.76 | | | |
| Investments in Real Estate | 626,499.00 | | | |
| Domestic Stocks | 2,544,828.50 | | | |
| Total Investments | <u>\$ 10,319,196.84</u> | | | |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College Investment Policy Statement requires that no more than 15% of the corporate debt security in the fixed income portfolio may be rated below investment-grade of Baa. As of June 30, 2006, the College's investments were rated as follows:

| | Fair Value | AAA Aaa | AA Aa | A |
|---------------------------|-----------------|-----------------|---------------|-----------------|
| U.S. Agencies | \$ 2,013,606.00 | \$ 1,570,846.50 | \$ 442,759.50 | \$ 0.00 |
| Mutual Bond Funds | 199,796.02 | 102,102.10 | 97,693.92 | |
| Money Market Mutual Funds | 1,575,694.31 | 653,738.28 | | 921,956.03 |
| Domestic Corporate Bonds | 938,832.25 | | 399,227.00 | 539,605.25 |
| | \$ 4,727,928.58 | \$ 2,326,686.88 | \$ 939,680.42 | \$ 1,461,561.28 |

Rating Agencies: Moody's/Standard & Poor's/Fitch

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were exposed to custodial credit risk as follows:

| Investment Type | Held by Counterparty's Trust Dept or Agent not in College's Name |
|---------------------------|---|
| US Treasuries | \$ 1,138,746.00 |
| US Agencies | 2,013,606.00 |
| Mutual Bond Funds | 199,796.02 |
| Domestic Corporate Bonds | 938,832.25 |
| Mutual Money Market Funds | 1,575,694.31 |
| Mutual Funds | 1,281,194.76 |
| Domestic Corporate Stocks | 2,544,828.50 |
| Real Estate | 626,499.00 |
| Total | \$ 10,319,196.84 |

Concentration of Credit Risk: The College limits the amount that may be invested in any one issuer or of any one security to no more than 5% of the College's investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

| | |
|---|-------------------------|
| Cash on Hand | \$ 1,955.00 |
| Carrying Amount of Deposits with Private Financial Institutions | 1,006,271.30 |
| Investments in the Short-Term Investment Fund | 1,541,668.97 |
| Other Investments | <u>10,319,196.84</u> |
| Total Deposits and Investments | <u>\$ 12,869,092.11</u> |
| Current: | |
| Cash and Cash Equivalents | \$ 958,752.69 |
| Restricted Cash and Cash Equivalents | 1,374,773.96 |
| Restricted Short-Term Investments | 2,202,193.31 |
| Noncurrent: | |
| Restricted Cash and Cash Equivalents | 216,368.62 |
| Investments | <u>8,117,003.53</u> |
| Total | <u>\$ 12,869,092.11</u> |

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, 2006, net appreciation of \$4,391.88 was available to be spent, of which \$4,391.88 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|-------------------------------------|----------------------|---|----------------------|
| Current Receivables: | | | |
| Students | \$ 382,245.58 | \$ 69,561.38 | \$ 312,684.20 |
| Accounts | 199,798.37 | 36,316.10 | 163,482.27 |
| Intergovernmental | 26,662.00 | | 26,662.00 |
| Pledges | 55,020.20 | 29,248.00 | 25,772.20 |
| Other | 16,457.71 | | 16,457.71 |
| Total Current Receivables | \$ 680,183.86 | \$ 135,125.48 | \$ 545,058.38 |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Institutional Student Loan Programs | \$ 7,373.16 | \$ 0.00 | \$ 7,373.16 |

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|-------------------------|------------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 415,828.75 | \$ 0.00 | \$ 0.00 | \$ 415,828.75 |
| Art, Literature, and Artifacts | 62,305.00 | | | 62,305.00 |
| Construction in Progress | 40,250.00 | 243,463.82 | | 283,713.82 |
| Total Capital Assets, Nondepreciable | 518,383.75 | 243,463.82 | | 761,847.57 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 22,112,923.31 | | 180,555.99 | 21,932,367.32 |
| Machinery and Equipment | 2,815,412.13 | 374,773.03 | 265,183.56 | 2,925,001.60 |
| General Infrastructure | 515,503.71 | 29,370.00 | | 544,873.71 |
| Total Capital Assets, Depreciable | 25,443,839.15 | 404,143.03 | 445,739.55 | 25,402,242.63 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 7,161,765.67 | 567,239.40 | 180,555.99 | 7,548,449.08 |
| Machinery and Equipment | 1,591,055.43 | 193,534.64 | 199,178.93 | 1,585,411.14 |
| General Infrastructure | 247,545.53 | 23,553.59 | | 271,099.12 |
| Total Accumulated Depreciation | 9,000,366.63 | 784,327.63 | 379,734.92 | 9,404,959.34 |
| Total Capital Assets, Depreciable, Net | 16,443,472.52 | (380,184.60) | 66,004.63 | 15,997,283.29 |
| Capital Assets, Net | \$ 16,961,856.27 | \$ (136,720.78) | \$ 66,004.63 | \$ 16,759,130.86 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 85,868.78 |
| Accrued Payroll | 153,987.73 |
| Intergovernmental Payables | 2,626.71 |
| Total Accounts Payable and Accrued Liabilities | \$ 242,483.22 |

NOTE 7 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2005 | Additions | Reductions | Balance June 30, 2006 | Current Portion |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| Capital Leases Payable | \$ 38,954.99 | \$ 0.00 | \$ 18,971.39 | \$ 19,983.60 | \$ 18,971.40 |
| Compensated Absences | 842,015.19 | 428,900.92 | 367,151.49 | 903,764.62 | 111,886.05 |
| Total Long-Term Liabilities | \$ 880,970.18 | \$ 428,900.92 | \$ 386,122.88 | \$ 923,748.22 | \$ 130,857.45 |

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

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations – Capital lease obligations relating to print shop 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, 2006:

| Fiscal Year | Amount |
|--|--------------|
| 2007 | \$ 18,971.40 |
| 2008 | 1,012.20 |
| Present Value of Future Lease Payments | 19,983.60 |

Machinery and equipment acquired under capital lease amounted to \$56,648.05 at June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

| Fiscal Year | Amount |
|------------------------------|--------------|
| 2007 | \$ 12,699.13 |
| 2008 | 2,671.20 |
| 2009 | 2,671.20 |
| Total Minimum Lease Payments | \$ 18,041.53 |

Rental expense for all operating leases during the year was \$49,088.15.

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 | \$ 2,822,286.41 | \$ 0.00 | \$ 556,200.26 | \$ 4,742.37 | \$ 2,261,343.78 |
| Sales and Services: | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Student Union Services | \$ 8,007.32 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 8,007.32 |
| Bookstore | 1,064,400.58 | 5,549.82 | 315,662.40 | 26,440.07 | 716,748.29 |
| Public Radio | 405,354.00 | 12,220.00 | | 18,216.06 | 374,917.94 |
| Performing Arts Center | 199,008.06 | 1,430.00 | | | 197,578.06 |
| Other | 5,508.45 | | | | 5,508.45 |
| Sales and Services of Education and Related Activities | 36,806.74 | | | | 36,806.74 |
| Rental Income | 34,700.00 | | | | 34,700.00 |
| Total Sales and Services | \$ 1,753,785.15 | \$ 19,199.82 | \$ 315,662.40 | \$ 44,656.13 | \$ 1,374,266.80 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

| | Personal Services | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|-------------------------|------------------------------|------------------------|------------------------------------|----------------------|----------------------|-------------------------|
| Instruction | \$ 6,469,087.09 | \$ 378,558.74 | \$ 826,933.69 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 7,674,579.52 |
| Public Service | 572,117.95 | 120,848.05 | 498,092.76 | | | | 1,191,058.76 |
| Academic Support | 1,476,082.92 | 262,586.18 | 64,144.94 | | | | 1,802,814.04 |
| Student Services | 592,977.23 | 34,982.78 | 75,277.81 | | | | 703,237.82 |
| Institutional Support | 1,536,496.97 | 172,446.75 | 362,535.98 | | | | 2,071,479.70 |
| Operations and Maintenance of Plant | 701,017.28 | 103,993.40 | 803,282.46 | | 722,679.20 | | 2,330,972.34 |
| Student Financial Aid | 45,745.86 | 3,373.13 | 155,507.76 | 1,787,889.73 | | | 1,992,516.48 |
| Auxiliary Enterprises | 139,955.28 | 912,078.67 | 196,564.93 | | 694.00 | | 1,249,292.88 |
| Depreciation | | | | | | 784,327.63 | 784,327.63 |
| Total Operating Expenses | <u>\$ 11,533,480.58</u> | <u>\$ 1,988,867.70</u> | <u>\$ 2,982,340.33</u> | <u>\$ 1,787,889.73</u> | <u>\$ 723,373.20</u> | <u>\$ 784,327.63</u> | <u>\$ 19,800,279.17</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.

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$9,606,394.44, of which \$7,498,148.53 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$449,888.91 and \$175,456.68, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$175,456.68, \$157,349.31, and \$14,557.98, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$116,243.00 for the year ended June 30, 2006.

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 \$49,505.06 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$284,929.64. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 year ended June 30, 2006, the College's total contribution to the DIPNC was \$38,990.37. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The employer contribution rate was .16% for the current fiscal year.

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$169,583.00 and on other purchases were \$21,516.44 at June 30, 2006.

NOTE 15 - RELATED PARTIES

Foundation – The Polk County Campus Community College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as a 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$571.50 for the year ended June 30, 2006.



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 4, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Isothermal Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

**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)**

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 Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

June 4, 2007

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647