



# STATE OF NORTH CAROLINA

**ISOTHERMAL COMMUNITY COLLEGE**

**SPINDALE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**ISOTHERMAL COMMUNITY COLLEGE**

**SPINDALE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the 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>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue  
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, 2008, 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 disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

*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.

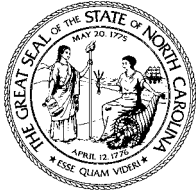
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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, 2008, 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.

As discussed in Note 17 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by*

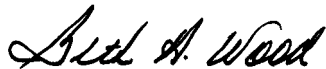
## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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*Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2009, 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.



Beth A. Wood, CPA  
State Auditor

May 18, 2009

## **ISOTHERMAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Introduction**

The following discussion and analysis provides an overview of the financial position and activities of Isothermal Community College for the years ended June 30, 2008 and 2007. This discussion 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**

Isothermal Community College serves the markets in Rutherford and Polk counties and beyond. The College had a strong year supporting the service area and was able to provide excellent programming to accommodate student needs. The Lee L. Powers Memorial Scholarship fund continues to gain exposure, and through successful marketing, 324 scholarships were awarded during the fiscal year, including tuition and a book allowance. The financial market has suffered during the period and the endowment has experienced realized and unrealized market losses that are reflected in the financial statements totaling \$336,820.47. The investment mix is reviewed annually and monitored month to month by College personnel and the portfolio managers.

During the year, the College completed a major construction project and opened the Willard L. Lewis Life Long Learning Center in January 2008. The completion of this project positions the College well in offering classes that will accommodate the Early College high school program and other partnership programs with secondary and postsecondary educational systems as well as specifically providing local residents with access to University level courses offered on campus. In addition, Isothermal completed a Facilities Master Plan and a Long Range Plan that sufficiently positions the institution to plan for programming growth and facilities needs that are anticipated to emerge during the next six to ten years.

### **Statement of Net Assets**

The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2008, 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

depreciation. A summarized comparison of the College's assets, liabilities, and net assets at June 30, 2008 and 2007 are as follows:

### Condensed Statement of Net Assets

	2008	2007	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 4,655,378.39	\$ 3,663,093.87	\$ 992,284.52
Noncurrent Assets	11,167,717.63	13,209,419.99	(2,041,702.36)
Capital Assets, net	<u>20,426,858.10</u>	<u>19,512,067.76</u>	<u>914,790.34</u>
<b>Total Assets</b>	36,249,954.12	36,384,581.62	(134,627.50)
<b>Liabilities</b>			
Current Liabilities	681,544.32	970,672.34	(289,128.02)
Noncurrent Liabilities	<u>843,943.47</u>	<u>739,006.76</u>	<u>104,936.71</u>
<b>Total Liabilities</b>	1,525,487.79	1,709,679.10	(184,191.31)
<b>Net Assets</b>			
Invested in Capital Assets	20,426,858.10	19,510,938.22	915,919.88
Restricted - Nonexpendable	126,676.83	126,676.83	
Restricted - Expendable	13,584,889.30	14,559,264.56	(974,375.26)
Unrestricted	<u>586,042.10</u>	<u>478,022.91</u>	<u>108,019.19</u>
<b>Total Net Assets</b>	<u>\$ 34,724,466.33</u>	<u>\$ 34,674,902.52</u>	<u>\$ 49,563.81</u>

Current assets consist primarily of cash, receivables expected to be collected within one year, and inventories expected to be used within one year. Note that the \$992,284.52 increase in current assets is primarily associated with cash and receivables held for the Golden Leaf Workforce Development Grant, the majority of which is scheduled to be spent in fall of 2008. Noncurrent assets consist of cash not expected to be used within one year, amounts due from the State of North Carolina for Capital Projects, and investments held in the Lee L. Powers Scholarship Account. Because our capital project, the Willard L. Lewis Life Long Learning Center Building, was completed in late 2007 the balance due from the State for capital projects dropped by \$1,351,400.84. In addition, assets held in the Lee L. Powers Scholarship Fund dropped by \$687,964.65. There are two reasons for this decline. First, the Lee L. Powers Scholarship programs continue to grow, so more cash is used. Second is the decline in investment results, which will be discussed in greater detail in the revenue section.

Capital Assets increased by \$914,790.34 as our new Willard L. Lewis Life Long Learning Center building was completed and placed into service.

Current liabilities are comprised of accounts payable, accrued compensation, and the current portion of long-term liabilities. In 2007, the College accrued contractor invoices in the amount of \$464,833.78 associated with the Willard L. Lewis Life Long Learning Center construction project. No similar accrual was necessary in 2008. Noncurrent liabilities include a reserve for compensated absences which are vacation and bonus days earned by



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

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current employees which are either taken as paid time off or paid out at termination of employment. Compensated absences increased by \$77,440.07 due to legislative wage increases and new positions.

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, restricted nonexpendable, restricted expendable and unrestricted net assets. The increase in invested in capital assets is due to completion of Willard L. Lewis Life Long Learning Center and is offset by the decrease in restricted expendable net assets due to the decline in the Lee L. Powers Memorial Scholarship Fund.

### **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 for Isothermal Community College as of June 30, 2008 and 2007:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2008	2007	Increase (Decrease)
<b>Operating Revenue:</b>			
Student Tuition & Fees	\$ 1,705,207.20	\$ 1,811,142.10	\$ (105,934.90)
Federal Grants/Contracts	2,265,425.82	2,173,120.25	92,305.57
State/Local Grants/Contracts	655,614.15	398,955.30	256,658.85
Non-Gov't Grants/Contracts	624.16	13,100.00	(12,475.84)
Sales & Service, net	1,487,776.87	1,342,659.77	145,117.10
Other Operating Revenue	51,942.51	43,165.33	8,777.18
<b>Total Operating Revenue</b>	<b>6,166,590.71</b>	<b>5,782,142.75</b>	<b>384,447.96</b>
<b>Operating Expenses</b>			
Personal Services	13,143,199.32	12,399,807.82	743,391.50
Supplies & Materials	2,565,256.34	2,212,885.74	352,370.60
Services	2,184,132.34	2,941,701.18	(757,568.84)
Scholarships and Fellowships	1,771,993.46	1,480,351.77	291,641.69
Utilities	594,323.28	561,976.91	32,346.37
Depreciation	842,922.46	813,495.31	29,427.15
<b>Operating Expenses</b>	<b>21,101,827.20</b>	<b>20,410,218.73</b>	<b>691,608.47</b>
<b>Operating Loss</b>	<b>(14,935,236.49)</b>	<b>(14,628,075.98)</b>	<b>(307,160.51)</b>
<b>Nonoperating Revenue:</b>			
State Aid	9,600,123.85	9,430,021.71	170,102.14
County Appropriations	1,782,646.00	1,731,859.33	50,786.67
Noncapital Grants	2,163,438.37	1,320,507.70	842,930.67
Noncapital Gifts	464,253.64	434,157.35	30,096.29
Investment Income	(336,820.47)	2,354,918.10	(2,691,738.57)
Other Nonoperating	(50,801.40)	1,535.29	(52,336.69)
<b>Total Nonoperating Revenue</b>	<b>13,622,839.99</b>	<b>15,272,999.48</b>	<b>(1,650,159.49)</b>
<b>Gain (loss) before Other Revenues</b>	<b>(1,312,396.50)</b>	<b>644,923.50</b>	<b>(1,957,320.00)</b>
<b>Other Revenues</b>			
Capital Contributions	1,205,814.07	3,101,915.97	(1,896,101.90)
<b>Increase (Decrease) in Net Assets</b>	<b>(106,582.43)</b>	<b>3,746,839.47</b>	<b>(3,853,421.90)</b>
<b>Net Assets, Beginning As Restated</b>	<b>34,831,048.76</b>	<b>30,928,063.05</b>	<b>3,902,985.71</b>
<b>Net Assets, Ending</b>	<b>\$ 34,724,466.33</b>	<b>\$ 34,674,902.52</b>	<b>\$ 49,563.81</b>

The major components of operating revenues are tuition and fees collected from students, Federal Financial Aid received from the U.S. Department of Education to disburse to students (Federal Grants and Contracts), various state grants and contracts, and sales/revenues generated from auxiliary operations such as our campus bookstore and our public radio station (Sales & Service, net).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Tuition and fees are directly correlated to our enrollment, defined by our FTE, or Full Time Equivalent figures. Even though tuition rates increased 6% from 2007 to 2008, we still experienced a decrease of \$105,934.90 in tuition and fees due to several factors: a 23 student, 1.1% decrease in FTE, and increases in both tuition waived and scholarship discounts, which negatively impact tuition and other revenues. Tuition waivers, or students who are not required to pay tuition, increased by over \$100,000 due to greater enrollment of populations of students who are legally exempted by the North Carolina General Assembly from paying tuition, such as Rutherford Early College High School students and other High School Dual-Enrolled students. Also, the amount of tuition that was subject to scholarship discounting increased by \$73,421.90. Scholarship discounts act as contra-revenue accounts, decreasing the amount of net tuition and fees shown above. A large portion of this scholarship discount increase is due to growth of \$92,206.28 in the Lee L. Powers Scholarship program, from \$127,728.27 to \$219,934.57 as more students take advantage of the program.

The increase of \$92,305.57 in Federal Grants and Contracts during a period of reduced enrollment reflects an increased maximum award per student (from \$4,050 to \$4,310) from the U. S. Department of Education for Federal Financial Aid (Pell Grants), even though the total number of Pell grants awarded to Isothermal students fell from 905 awards in 2007 to 862 awards in 2008. The \$256,658.85 increase in State/local grants and contracts is due primarily to the increase in State student aid awards disbursed to students through new programs such as the North Carolina Educational Lottery Scholarship, and expanded existing scholarship programs.

Sales and Service Revenue increased as auxiliary enterprises grew their revenues. This included a net growth of \$72,470.82 in Performing Arts Center revenue and \$101,582.98 in underwriting revenue for WNCW-FM Public Radio. Net revenue for the campus bookstore is down \$63,190.53 as students take advantage of savings realized when buying textbooks and supplies online. Rental income received from entities using our facilities, primarily four year universities offering courses to local residents on-campus, also increased \$52,250.00.

Overall Operating Expenses increased by over 3% which reflect increases in salary and benefit cost of \$743,391.50, or 6% attributed primarily to legislative wage increases; Supplies and Materials increased \$352,370.60, or 16% as funds were needed to equip the newly constructed building; and an increase in Scholarship and fellowship expense of \$291,581.69, or 20%, as more financial aid packages, such as the Lee L Powers and the NC Educational Lottery Scholarship were made available to students. These increases were partially off-set by a \$757,568.84, or 26% decrease in Services due to two unusual service expenses which were included in the 2007 total: Fees of \$445,416.00 in real estate broker and other fees paid on the sale of Powers Scholarship land, and the receipt of a \$243,280.00 performance funding allotment from the State which the College used \$148,455.00 to make some needed facility repairs and upgrades.

Nonoperating revenue consists primarily of aid from the State of North Carolina and included here are appropriations received from Rutherford and Polk Counties. Other non-operating revenue includes noncapital grants, which increased \$842,930.67 primarily due to the receipt

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

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of the \$800,000.00 Golden Leaf Workforce Investment Grant and capital gifts donated to the College increased \$104,639.01 primarily from the donation of a Steinway Grand Piano valued at \$100,000 received from the Isothermal Community College Foundation.

Note that the Lee L. Powers Memorial Scholarship investment losses addressed above are presented with Investment Income. Although Isothermal's Investment Policy Statement is a fairly conservative and well diversified mix of fixed, equity and alternative investments, we are not immune from declines within financial markets. The net \$336,820.47 investment loss on Powers and other funds is summarized as follows: Interest and dividends \$530,101.12 gain, realized gain on sale of securities \$132,794.55, and unrealized loss or decline in market value of securities held as of June 30, 2008 \$999,716.14.

Other Revenues are made up entirely of capital aid received from the State in the amount of \$401,939.91 and capital appropriation received from Rutherford and Polk Counties of \$699,235.15. The State capital aid consists of funds received by the College and used to purchase equipment, but also 2000 bond funds and other special allotments that are appropriated to the College for building projects. The County capital aid consists of funds received by the College and used to purchase equipment and contributions towards construction of the Willard L. Lewis Life Long Learning Center.

Note that Isothermal Community College's net assets increased by \$49,563.81 which brings ending net assets to \$34,724,466.33 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 completed construction of a new classroom/office building that was started in October 2006. The Willard L. Lewis Life Long Learning Center, which was completed in late 2007, was occupied in January of 2008. The 2000 Higher Education Bond Issue provided Isothermal Community College with \$3,342,044.00 of funding to construct a new academic building and renovate older facilities and update or replace campus infrastructure. Rutherford County also contributed \$1,750,000.00 towards the Willard L. Lewis Life Long Learning Center.

The College has \$20,246,858.10 invested in capital assets at year-end. There was a net increase of \$915,919.88 in capital assets for the year due to \$1,032,268.86 million in construction in progress, a \$273,624.76 decrease due to normal additions, deletions and the recording of current depreciation expense. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets are land, 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, even through a period of economic hardship. Management also feels that the Lee L. Powers Memorial Scholarship

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

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will encourage residents of Rutherford County to pursue higher education at Isothermal at 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 continues to be 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.

### **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, Vice President of Administrative Services for Isothermal Community College at (828)286-3636.

***Isothermal Community College***  
***Statement of Net Assets***  
***June 30, 2008***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,084,295.43
Restricted Cash and Cash Equivalents	2,004,029.68
Short-Term Investments	495,192.66
Receivables, Net (Note 4)	574,707.91
Due from State of North Carolina Component Units	160,000.00
Inventories	325,456.25
Prepaid Items	9,034.20
Notes Receivable, Net (Note 4)	2,662.26

Total Current Assets	4,655,378.39
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	155,741.68
Restricted Due from Primary Government	152,989.16
Restricted Investments	10,858,986.79
Capital Assets - Nondepreciable (Note 5)	517,733.75
Capital Assets - Depreciable, Net (Note 5)	19,909,124.35

Total Noncurrent Assets	31,594,575.73
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Total Assets	36,249,954.12
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	441,527.74
Due to Primary Government	1,501.68
Unearned Revenue	118,399.77
Funds Held for Others	42,521.73
Long-Term Liabilities - Current Portion (Note 7)	77,593.40

Total Current Liabilities	681,544.32
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	843,943.47
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Total Liabilities	1,525,487.79
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**NET ASSETS**

Invested in Capital Assets	20,426,858.10
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Restricted for:

Nonexpendable:

Faculty and Staff Awards	25,000.00
Vocational and Technical Awards	101,676.83

Expendable:

Scholarships and Fellowships	11,827,110.25
Loans	69,321.34
Capital Projects	200,076.21
Restricted for Specific Programs	1,266,932.33
Other	221,449.17

Unrestricted	586,042.10
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Total Net Assets	\$ 34,724,466.33
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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, 2008***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,705,207.20
Federal Grants and Contracts	2,265,425.82
State and Local Grants and Contracts	655,614.15
Nongovernmental Grants and Contracts	624.16
Sales and Services, Net (Note 9)	1,487,776.87
Other Operating Revenues	51,942.51
	<hr/>
Total Operating Revenues	6,166,590.71
	<hr/>

**EXPENSES**

Operating Expenses:

Personal Services	13,143,199.32
Supplies and Materials	2,565,256.34
Services	2,184,132.34
Scholarships and Fellowships	1,771,993.46
Utilities	594,323.28
Depreciation	842,922.46
	<hr/>
Total Operating Expenses	21,101,827.20
	<hr/>

Operating Loss (14,935,236.49)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	9,600,123.85
County Appropriations	1,782,646.00
Noncapital Grants	2,163,438.37
Noncapital Gifts	464,253.64
Investment Loss	(336,820.47)
Other Nonoperating Expenses	(50,801.40)
	<hr/>

Net Nonoperating Revenues 13,622,839.99

Loss Before Other Revenues (1,312,396.50)

State Capital Aid	401,939.91
County Capital Aid	699,235.15
Capital Gifts	104,639.01
	<hr/>

Decrease in Net Assets (106,582.43)

**NET ASSETS**

Net Assets, July 1, 2007 as Restated (Note 17)	<hr/> 34,831,048.76
Net Assets, June 30, 2008	<hr/> <hr/> \$ 34,724,466.33

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, 2008***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,990,149.68
Payments to Employees and Fringe Benefits	(12,929,484.26)
Payments to Vendors and Suppliers	(5,369,763.86)
Payments for Scholarships and Fellowships	(1,771,993.46)
Loans Issued to Students	(5,382.62)
Collection of Loans to Students	6,266.93
Other Receipts	26,601.20
	<hr/>
Net Cash Used by Operating Activities	(14,053,606.39)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	9,600,123.85
County Appropriations	1,782,646.00
Noncapital Grants Received	2,024,635.07
Noncapital Gifts	470,135.31
	<hr/>
Cash Provided by Noncapital Financing Activities	13,877,540.23

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,753,340.75
County Capital Aid	699,235.15
Proceeds from Sale of Capital Assets	40,000.00
Acquisition and Construction of Capital Assets	(2,018,011.85)
Principal Paid on Capital Lease	(1,129.52)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	473,434.53

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	7,402,804.38
Investment Income	503,931.15
Purchase of Investments and Related Fees	(7,480,503.92)
	<hr/>
Net Cash Provided by Investing Activities	426,231.61

Net Increase in Cash and Cash Equivalents	723,599.98
Cash and Cash Equivalents, July 1, 2007	2,520,466.81
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 3,244,066.79



***Isothermal Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2008***

***Exhibit A-3***  
***Page 2***

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

Operating Loss	\$ (14,935,236.49)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	842,922.46
Provision for Uncollectible Loans and Write-Offs	(398.31)
Miscellaneous Nonoperating Income	4,585.12
Changes in Assets and Liabilities:	
Receivables, Net	(168,075.85)
Inventories	(42,548.73)
Prepaid Items	11,444.59
Notes Receivable, Net	884.31
Accounts Payable and Accrued Liabilities	141,956.06
Due to Primary Government	(230.52)
Unearned Revenue	14,063.82
Funds Held for Others	(412.92)
Compensated Absences	77,440.07
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (14,053,606.39)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,084,295.43
Restricted Cash and Cash Equivalents	2,004,029.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	155,741.68
	<hr/>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 3,244,066.79</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 39,136.00
Assets Acquired through a Gift	104,639.01
Change in Fair Value of Investments	(999,716.14)
Increase in Receivables Related to Nonoperating Income	186,169.97
Capital Asset Write-Offs	8,310.35

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, 2008***

***Exhibit B-1***

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Investments	\$ 318,416	\$ 1,377,367	\$ 1,695,783
Marketable Securities	209,075	560,145	769,220
Due From Other Funds		75,000	75,000
Real Estate Investment	316,551		316,551
	<u>844,042</u>	<u>2,012,512</u>	<u>2,856,554</u>
Total Assets	<u>\$ 844,042</u>	<u>\$ 2,012,512</u>	<u>\$ 2,856,554</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 75,000	\$ 0	\$ 75,000
<b>NET ASSETS</b>			
Unrestricted	769,042		769,042
Temporarily Restricted		2,012,512	2,012,512
	<u>769,042</u>	<u>2,012,512</u>	<u>2,781,554</u>
Total Net Assets	<u>769,042</u>	<u>2,012,512</u>	<u>2,781,554</u>
Total Liabilities and Net Assets	<u>\$ 844,042</u>	<u>\$ 2,012,512</u>	<u>\$ 2,856,554</u>

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

***Isothermal Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2008***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenues and Gains:			
Contributions	\$	\$ 164,686	\$ 164,686
Other Revenue		250	250
Interest and Investment Earnings	38,098	82,495	120,593
Unrealized Loss on Investments	(11,300)	(30,167)	(41,467)
Realized Gain (Loss) on Investments	(270)	25,510	25,240
Total Revenues and Gains	<u>26,528</u>	<u>242,774</u>	<u>269,302</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>43,387</u>	<u>(43,387)</u>	
Total Revenues, Gains, and Other Support	<u>69,915</u>	<u>199,387</u>	<u>269,302</u>
Expenses:			
Performing Arts	30,000		30,000
Endowed Chairs	2,802		2,802
Scholarships	4,447		4,447
Mentoring	29,219		29,219
College Support	121,468		121,468
Fundraising	8,979		8,979
Management and General	8,306		8,306
Total Expenses	<u>205,221</u>		<u>205,221</u>
Change in Net Assets	<u>(135,306)</u>	<u>199,387</u>	<u>64,081</u>
Net Assets at Beginning of the Year	<u>904,348</u>	<u>1,813,125</u>	<u>2,717,473</u>
Net Assets at End of Year	<u>\$ 769,042</u>	<u>\$ 2,012,512</u>	<u>\$ 2,781,554</u>

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

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**ISOTHERMAL COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), 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 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 its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** - 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 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 members 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 features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2008, the Foundation distributed \$155,915.00 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 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, 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 account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease in the fair value of investments is recognized as a component of investment loss.

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 last invoice cost, or average 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 75 years for general infrastructure, 10 to 75 years for buildings, and 3 to 25 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.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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** - This represents the College's total investment in 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)

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**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 investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 \$2,155.00, and deposits in private financial institutions with a carrying value of \$1,800,417.16, and a bank balance of \$2,168,637.94.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - In addition to donated securities and 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,441,494.63, 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 2.9 years as of June 30, 2008. 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 by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 unit, 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the College's investments. 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.

### *Investments*

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
U.S. Treasuries	875,911.35		510,490.35	365,421.00
U.S. Agencies	2,411,086.15		231,768.75	2,179,317.40
Mutual Bond Funds-Domestic	1,768,073.50		1,768,073.50	
Mutual Bond Funds-International	433,986.69			433,986.69
Money Market Mutual Funds	443,192.66	443,192.66		
		<u>\$ 443,192.66</u>	<u>\$ 2,510,332.60</u>	<u>\$ 2,978,725.09</u>
Other Securities				
Mutual Funds	1,368,956.03			
Hedge Funds	276,255.15			
Domestic Stocks	2,779,580.49			
International Mutual Funds	868,081.43			
Foreign Stocks	77,056.00			
Investments in Real Estate	52,000.00			
Total Investments	<u>\$ 11,354,179.45</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 securities in the fixed income portfolio may be rated below investment grade. As of June 30, 2008 the College's investments were rated as follows:

	Fair Value	AAA <sub>m</sub>	AAA	AA+	AA	A+	A	A1
U.S. Agencies	\$ 2,411,086.15	\$ 0.00	\$ 2,186,578.90	\$ 0.00	\$ 224,507.25	\$ 0.00	\$ 0.00	\$ 0.00
Mutual Bond Funds - Domestic	1,768,073.50					1,073,673.50	694,400.00	
Mutual Bond Funds - International	433,986.71			222,485.89	211,500.82			
Money Market Mutual Funds	443,192.66	53,158.88						390,033.78

Rating Agency: Standard & Poor's

*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	\$ 875,911.35
US Agencies	2,411,086.15
Mutual Bond Funds - Domestic	1,768,073.50
Mutual Bond Funds - International	433,986.69
Money Market Mutual Funds	443,192.66
Mutual Funds	1,368,956.03
Hedge Funds	276,255.15
Domestic Stocks	2,779,580.49
International Mutual Funds	868,081.43
Foreign Stocks	77,056.00
Real Estate	52,000.00
<b>Total</b>	<b>\$ 11,354,179.45</b>

*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)

*Foreign Currency Risk:* Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	\$	2,155.00
Carrying Amount of Deposits with Private Financial Institutions		1,800,417.16
Investments in the Short Term Investment Fund		1,441,494.63
Other Investments		<u>11,354,179.45</u>
Total Deposits and Investments	\$	<u>14,598,246.24</u>
Current:		
Cash and Cash Equivalents	\$	1,084,295.43
Restricted Cash and Cash Equivalents		2,004,029.68
Restricted Short-Term Investments		495,192.66
Noncurrent:		
Restricted Cash and Cash Equivalents		155,741.68
Restricted Investments		<u>10,858,986.79</u>
Total	\$	<u>14,598,246.24</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, 2008, net appreciation of \$6,508.50 was available to be spent, of which \$6,508.50 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 195,573.47	\$ 83,551.03	\$ 112,022.44
Accounts	149,692.53	14,580.21	135,112.32
Intergovernmental	265,273.58		265,273.58
Pledges	36,129.60		36,129.60
Investment Earnings	26,169.97		26,169.97
<b>Total Current Receivables</b>	<b>\$ 672,839.15</b>	<b>\$ 98,131.24</b>	<b>\$ 574,707.91</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 3,463.95	\$ 801.69	\$ 2,662.26

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 415,828.75	\$ 0.00	\$ 0.00	\$ 415,828.75
Art, Literature, and Artifacts	62,305.00			62,305.00
Construction in Progress	3,155,311.45	1,032,268.86	4,147,980.31	39,600.00
<b>Total Capital Assets, Nondepreciable</b>	<b>3,633,445.20</b>	<b>1,032,268.86</b>	<b>4,147,980.31</b>	<b>517,733.75</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	22,112,923.31	4,147,980.31		26,260,903.62
Machinery and Equipment	3,329,203.55	520,804.22	177,674.49	3,672,333.28
General Infrastructure	460,132.71	143,880.00		604,012.71
<b>Total Capital Assets, Depreciable</b>	<b>25,902,259.57</b>	<b>4,812,664.53</b>	<b>177,674.49</b>	<b>30,537,249.61</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	8,296,244.47	490,523.41		8,786,767.88
Machinery and Equipment	1,307,826.70	325,844.65	82,287.97	1,551,383.38
General Infrastructure	263,419.60	26,554.40		289,974.00
<b>Total Accumulated Depreciation</b>	<b>9,867,490.77</b>	<b>842,922.46</b>	<b>82,287.97</b>	<b>10,628,125.26</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>16,034,768.80</b>	<b>3,969,742.07</b>	<b>95,386.52</b>	<b>19,909,124.35</b>
<b>Capital Assets, Net</b>	<b>\$ 19,668,214.00</b>	<b>\$ 5,002,010.93</b>	<b>\$ 4,243,366.83</b>	<b>\$ 20,426,858.10</b>

The capital asset schedule above includes land and buildings valued at cost of \$4,147,980.31, for which the College does not currently hold the title. In 2006, the Rutherford County Commissioners approved a special financing agreement to provide funds to the College to construct a building which in part houses the Rutherford County Schools Early College High School. In order for the County to obtain the private financing needed to provide the resources

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to the College, the College transferred title of the land and building to the County to use as collateral until the debt has been paid off, at which time the title reverts back to the College. Until that time, the College is leasing the property from the County for a one time fee of \$10.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 137,082.54
Accrued Payroll	294,625.72
Intergovernmental Payables	9,819.48
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 441,527.74</b>

### NOTE 7 - LONG-TERM LIABILITIES

**Changes in Long-Term Liabilities** – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Capital Leases Payable	\$ 1,129.52	\$ 0.00	\$ 1,129.52	\$ 0.00	\$ 0.00
Compensated Absences	844,096.80	450,192.50	372,752.43	921,536.87	77,593.40
<b>Total Long-Term Liabilities</b>	<b>\$ 845,226.32</b>	<b>\$ 450,192.50</b>	<b>\$ 373,881.95</b>	<b>\$ 921,536.87</b>	<b>\$ 77,593.40</b>

### NOTE 8 - LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	<b>\$ 2,671.20</b>

Rental expense for all operating leases during the year was \$60,620.55.



## 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 Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 2,439,679.04</u>	<u>\$ 0.00</u>	<u>\$ 731,547.34</u>	<u>\$ 2,924.50</u>	<u>\$ 1,705,207.20</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,000,458.14	\$ 2,423.86	\$ 413,401.50	\$ (16,219.40)	\$ 600,852.18
Public Radio	437,234.69	14,450.00		(3,081.20)	425,865.89
Performing Arts Center	317,862.99	1,640.00			316,222.99
Rental Income	88,440.00				88,440.00
Sales and Services of Education and Related Activities	<u>56,395.81</u>				<u>56,395.81</u>
<b>Total Sales and Services</b>	<u>\$ 1,900,391.63</u>	<u>\$ 18,513.86</u>	<u>\$ 413,401.50</u>	<u>\$ (19,300.60)</u>	<u>\$ 1,487,776.87</u>

### 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	\$ 7,382,106.92	\$ 949,359.41	\$ 724,259.03	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,055,725.36
Public Service	635,779.29	59,805.94	445,902.91		418.83		1,141,906.97
Academic Support	1,693,765.11	210,981.62	79,203.45				1,983,950.18
Student Services	744,041.57	40,508.02	152,971.50				937,521.09
Institutional Support	1,665,920.15	312,354.81	434,000.51				2,412,275.47
Operations and Maintenance of Plant	821,784.38	156,041.03	102,882.12		593,041.45		1,673,748.98
Student Financial Aid	44,919.06			1,771,993.46			1,816,912.52
Auxiliary Enterprises	154,882.84	836,205.51	244,912.82		863.00		1,236,864.17
Depreciation						<u>842,922.46</u>	<u>842,922.46</u>
<b>Total Operating Expenses</b>	<u>\$ 13,143,199.32</u>	<u>\$ 2,565,256.34</u>	<u>\$ 2,184,132.34</u>	<u>\$ 1,771,993.46</u>	<u>\$ 594,323.28</u>	<u>\$ 842,922.46</u>	<u>\$ 21,101,827.20</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)

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Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members

For the current fiscal year, the College had a total payroll of \$10,902,921.52, of which \$8,647,581.40 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$263,751.23 and \$518,855.67, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$263,751.23, \$217,747.12, and \$175,456.68, 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$192,691.00 for the year ended June 30, 2008.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$26,562.40 for the year ended June 30, 2008.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$354,550.84, \$311,067.32, and \$284,929.64, respectively. The College assumes no liability for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$44,967.42, \$42,567.11, and \$38,990.37, respectively. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Tort claims of up to \$1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the deductible. In addition, losses from all other employees are covered by a contract with a private insurance company with coverage of \$50,000 per occurrence with a \$250 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$1,000.00 and on other purchases were \$315,190.47 at June 30, 2008.

### NOTE 15 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Significant Violations of Finance-Related Legal or Contractual Provisions** - At year-end the College held certain investments with a total reported value of \$4,486,959.76 that are not authorized to be purchased by the College. These investments included international mutual bond funds, hedge funds, domestic and international stocks, and investments in real estate. *North Carolina General Statute 115D-58.6* and other statutes referenced therein restrict the types of investments that can be made by community colleges. The College plans to sell the investments whenever it can be done prudently to avoid investment losses.

### NOTE 16 - RELATED PARTIES

**Foundation** - The Isothermal Community College Polk Campus 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 the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$8,361.57 for the year ended June 30, 2008.

### NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

### NOTE 18 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 34,674,902.52
Restatement:	
Correction of Error in Estimating Useful Lives of Capital Assets	<u>156,146.24</u>
July 1, 2007 Net Assets as Restated	<u>\$ 34,831,048.76</u>

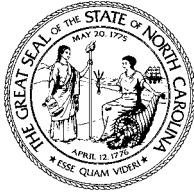
### NOTE 19 - SUBSEQUENT EVENTS

**A. Fair Value of Investments** – The fair market value of the College’s investments decreased 12 percent during the six month period ended December 31, 2008. The market values for the investment pool were \$11,249,020.57 at June 30, 2008 and declined to \$9,644,839.35, which includes a \$250,000.00 withdrawal. This change is primarily due to unrealized losses on investments as a result of the current economic and financial market conditions. College management along with their investment management advisors will continue to monitor investments for the purpose of managing investment risks and to maximize investment returns.

**B. Donation of Property** – The College received approval from the State Board of Community Colleges to accept a donation of 9.33 acres, including a house, from the Foundation. The value of this donation is \$315,000.

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Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
Office of the 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**

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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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 18, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 17 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONTINUED)**

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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1, 2 and 3 in the Audit Findings and Responses section of this report to be significant deficiencies internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

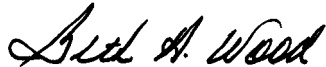
As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

**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)**

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This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.



Beth A. Wood, CPA  
State Auditor

May 18, 2009

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## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

#### 1. UNAUTHORIZED INVESTMENTS AND DEFICIENCIES IN INTERNAL CONTROL OVER INVESTMENTS

The College has made investments that are not authorized by law. *North Carolina General Statute* 115D-58.6 and other statutes referenced therein restrict the types of investments that can be made by community colleges. Also, the College has not implemented effective internal control over accounting and reporting for investment transactions. As a result, there is an increased risk of error or fraud occurring without detection.

In order to enhance investment return, the College has invested certain endowment funds in investments such as stock-based mutual funds, hedge funds, international bond funds, and real estate, which are not allowable under the general statutes. Furthermore, the College has not properly segregated duties for the preparation and approval of the reconciliation of investments held to the accounting records. Finally, the College's statement of cash flows contained offsetting overstatements: proceeds from sales and maturities of investments and purchases of investments and related fees were each overstated by \$7.6 million.

*Recommendation:* The College should establish a plan to prudently divest its funds from the unauthorized investments. Furthermore, the College should enhance its internal control procedures to prevent such investments in the future and to ensure that investments are properly accounted for and reported.

*College's Response:* In order to maximize returns and diversify holdings, Isothermal invested corpus of the Lee L. Powers Scholarship Fund in asset classes disallowed by North Carolina General Statutes. We intend to rectify this error with assistance from our local attorney, Board of Trustees Finance Committee and advice from other entities within the State system with similar funds invested and will formulate a plan to prudently divest from these unauthorized investment vehicles.

After a thorough internal investigation of our internal control practices and procedures, and after discussing these with representatives from the State Auditor's Office, we believe our current practices of accounting for and reporting investment transactions are adequate. What is lacking is the documentation supporting these practices. Isothermal agrees that documentation of our internal control procedures is an integral part of an effective internal control system. Therefore, Isothermal will continue with our internal

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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control practices, but will begin formally documenting that these controls are in place and have been adhered to.

### 2. DEFICIENCIES IN INTERNAL CONTROL OVER JOURNAL ENTRIES

The College did not implement effective internal control over journal entries to the accounting records. As a result, there is an increased risk of error or fraud occurring without detection.

Journal entries prepared and entered into the accounting system by the College's controller were not reviewed or approved by another member of management. Effective internal control over all transactions can be overridden by erroneous or fraudulent journal entries. Consequently, it is imperative that the preparation and approval of journal entries be assigned to different staff members.

Further, although the College was able to locate supporting documentation for all but one of the journal entries we examined, the documentation was not filed with, or referenced in, the journal entries. This increases the risk that unsupported journal entries will be made or that such documentation cannot be located for future reference.

*Recommendation:* The College should enhance its internal control over journal entries to include segregating the duties of preparing and reviewing journal entries and procedures to ensure that journal entries are adequately supported and such support can be readily located.

*College's Response:* Isothermal acknowledges that our internal control practices over journal entries contained inherent weaknesses. We have completed implementation of audit recommendations, and now all journal entries have supporting documentation attached and are approved by the next level of management.

### 3. SYSTEM ACCESS CONTROLS DO NOT SUPPORT APPROPRIATE SEGREGATION OF DUTIES

The College assigned business office employees access rights to the accounting system that did not support appropriate segregation of duties. These employees had the ability to initiate transactions and process them to completion, which increases the risk of error or fraud occurring without detection.

Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis. Specifically, we noted the following segregation of duties deficiencies:

- The cashier was able to receipt monies, void transactions, prepare the bank deposit, and take the deposit to the bank.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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- Four business office employees had access rights to initiate and process payroll and purchasing transactions. These personnel also had access to examine and modify bank reconciliation screens.
- Employees in the bookstore were observed sharing passwords, which circumvents access controls and approval functions.

*Recommendation:* The College should review access rights and job functions to ensure that duties are properly segregated. The College should discourage the sharing of user names and passwords to maintain accountability.

*College's Response:* Isothermal has completed a thorough evaluation of job duties and system access rights, and changes were made to both. We believe our current structure does not allow any non-managerial individual to access all aspects of any process, including the payroll and purchasing processes. In addition, Management has counseled employees on the importance of maintaining the integrity of all system access, including the importance of not sharing passwords.

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## ORDERING INFORMATION

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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