



# STATE OF NORTH CAROLINA

**ISOTHERMAL COMMUNITY COLLEGE**

**SPINDALE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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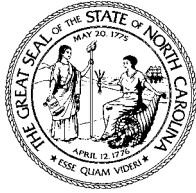
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, Isothermal Community College

We have completed a financial statement audit of Isothermal Community College for the year ended June 30, 2010, 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 the 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.

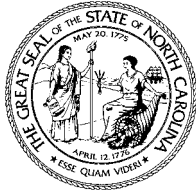
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Isothermal Community College Foundation, Inc., 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 that entity, 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, 2010, 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.

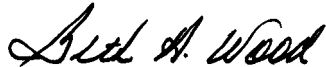
As discussed in Note 17 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

May 24, 2011

## **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, 2010 and 2009. 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. Fiscal Year Ended June 30, 2010 was a year of tremendous growth in all areas of the College. In addition to continuing enrollment growth due to plant closings and continued high unemployment in Rutherford and Polk counties, the College realized significant increases in local high school students participating in dual enrollment and earn and learn online programs and recent high school graduates choosing to attend Isothermal to complete two year transfer programs prior to attending a four year college or university. Due to the increased enrollment, funding from the state remained stable. In addition, the College's investments in the Lee L. Powers scholarship fund recovered some of the previous year's decline. Also the receipt of a new endowed scholarship and other programs such as federal Pell grants increased and is providing multiple opportunities for students to access financial assistance programs. The forecast is that enrollment remains strong further allowing Isothermal Community College to sustain steady growth in services provided to the service areas.

### **Statement of Net Assets**

The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2010, and includes all assets and liabilities of the College. The difference between total assets and total liabilities (net assets) is an indicator of whether the overall financial condition has improved or worsened. This statement also provides information on assets available to continue operations, liabilities due to outside parties and the net assets available for expenditure by the College. Assets and liabilities are generally measured using current values, with the exception of capital assets which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's assets, liabilities, and net assets at June 30, 2010 and 2009 are as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	2010	2009	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 5,262,099.53	\$ 4,219,885.14	\$ 1,042,214.39
Noncurrent Assets	11,543,641.07	9,858,783.11	1,684,857.96
Capital Assets, Net	20,186,304.90	20,680,841.72	(494,536.82)
<b>Total Assets</b>	36,992,045.50	34,759,509.97	2,232,535.53
<b>Liabilities</b>			
Current Liabilities	869,876.87	670,801.34	199,075.53
Noncurrent Liabilities	823,875.86	842,505.76	(18,629.90)
<b>Total Liabilities</b>	1,693,752.73	1,513,307.10	180,445.63
<b>Net Assets</b>			
Invested in Capital Assets	20,186,304.90	20,680,841.52	(494,536.62)
Restricted - Nonexpendable	1,663,578.70	126,676.83	1,536,901.87
Restricted - Expendable	12,324,250.63	11,703,178.75	621,071.88
Unrestricted	1,124,158.54	735,505.77	388,652.77
<b>Total Net Assets</b>	\$ 35,298,292.77	\$ 33,246,202.87	\$ 2,052,089.90

Current assets consist primarily of cash, receivables expected to be collected within one year, investments expected to be spent within one year, and inventories expected to be used within one year. Current cash (unrestricted and restricted) increased \$1,423,380.45 primarily due to cash with the fiscal agent from the Lee L. Powers scholarship fund.

Noncurrent assets consist of cash not expected to be used within one year, which are amounts due from the State for capital projects, and noncurrent investments held in the Lee L. Powers scholarship account and the new Mildred Furches scholarship group account. Assets held in the Lee L. Powers Scholarship Fund increased by \$239,242.01 as we recouped some of last year's investment losses. In addition, assets received and held as the new Mildred Furches scholarship group totaled \$1,536,901.87.

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. The College has \$20,186,304.90 invested in capital assets at year-end. Capital Assets decreased by \$494,536.82. The decrease in capital assets for the year is due to \$79,500.00 of architectural planning for the planned Allied Health and Sciences Building in construction in progress, \$14,559.13 addition to the construction trade shed, and \$328,223.41 of equipment purchased netted against a \$916,819.36 decrease due to deletions and the recording of current depreciation expense.

Current liabilities primarily consist of accounts payable and accrued liabilities and unearned revenue. The increase of \$199,075.53 in current liabilities is due to enrollment growth resulting in an increase of \$82,648.30 in accrued compensation, an increase in accounts



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

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payable of \$41,716.16, and an increase of \$71,365.58 in deferred revenue due to growth in our curriculum summer semester. Noncurrent liabilities had no significant changes.

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. Total net assets increased \$2,052,089.90 primarily due to an additional endowment of \$1,536,901.87 from the Mildred Furches estate.

### **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 non-operating, 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, 2010 and 2009:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2010	2009	Increase (Decrease)
<b>Operating Revenues:</b>			
Student Tuition & Fees, Net	\$ 1,961,447.30	\$ 1,734,370.37	\$ 227,076.93
State/Local Grants/Contracts	3,019.54	262,191.08	(259,171.54)
Nongovernment Grants/Contracts	6,559.36		6,559.36
Sales & Services, Net	1,561,866.44	1,349,550.47	212,315.97
Other Operating Revenue	24,814.48	35,359.65	(10,545.17)
<b>Total Operating Revenues</b>	<b>3,557,707.12</b>	<b>3,381,471.57</b>	<b>176,235.55</b>
<b>Operating Expenses:</b>			
Salaries and Benefits	13,480,836.38	13,299,593.00	181,243.38
Supplies and Materials	2,518,521.22	1,950,480.85	568,040.37
Services	2,078,042.30	2,147,018.15	(68,975.85)
Scholarships and Fellowships	4,948,778.96	2,835,521.69	2,113,257.27
Utilities	593,438.38	576,094.81	17,343.57
Depreciation	884,527.40	924,234.18	(39,706.78)
<b>Total Operating Expenses</b>	<b>24,504,144.64</b>	<b>21,732,942.68</b>	<b>2,771,201.96</b>
<b>Operating Loss</b>	<b>(20,946,437.52)</b>	<b>(18,351,471.11)</b>	<b>(2,594,966.41)</b>
<b>Nonoperating Revenues (Expenses):</b>			
State Aid & County Appropriations	10,743,575.29	11,112,999.02	(369,423.73)
Noncapital Grants & Gifts	9,112,052.93	5,923,062.74	3,188,990.19
Investment Income	952,141.64	(845,707.17)	1,797,848.81
Other Nonoperating Revenues (Expenses)	(20,954.28)	23,716.87	(44,671.15)
<b>Total Nonoperating Revenues</b>	<b>20,786,815.58</b>	<b>16,214,071.46</b>	<b>4,572,744.12</b>
<b>Loss Before Other Revenues</b>	<b>(159,621.94)</b>	<b>(2,137,399.65)</b>	<b>1,977,777.71</b>
<b>Other Revenues:</b>			
Capital Contributions	674,809.97	659,136.19	15,673.78
Additions to Endowments	1,536,901.87		1,536,901.87
<b>Increase (Decrease) in Net Assets</b>	<b>2,052,089.90</b>	<b>(1,478,263.46)</b>	<b>3,530,353.36</b>
<b>Net Assets, Beginning</b>	<b>33,246,202.87</b>	<b>34,724,466.33</b>	<b>(1,478,263.46)</b>
<b>Net Assets, Ending</b>	<b>\$ 35,298,292.77</b>	<b>\$ 33,246,202.87</b>	<b>\$ 2,052,089.90</b>

The major components of operating revenues are tuition and fees collected from students, various state grants and contracts, and sales/revenues generated from auxiliary operations such as our campus bookstore and our public radio station (Sales & Services, Net).

Student tuition and fees, net increase of \$227,076.93 is made up of several components. Gross tuition and fees, before scholarship discounting, for our curriculum programs had a significant increase of \$953,097.27, or 48.71%. This was due to a combination of increased enrollment and tuition rate increases. Our enrollment for the year was up 21.31% from 2,252 in 2009 to 2,732 in 2010. Tuition rates increased 19.05% from \$42.00 per credit hour in 2009 to \$50.00 per credit hour in 2010. In addition to increases in gross tuition, scholarship discounts increased over 50% from \$1,030,364.63 in 2009 to \$1,560,247.93 in 2010. The

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

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increase in scholarship discounts is a result of more students receiving financial aid. This leaves a net increase in curriculum tuition and fees of \$423,213.97. In addition to increases in curriculum tuition, tuition received in our noncredit or occupational education (OE) programs increased by \$60,615.00, or 76.94%, due to an enrollment increase of 36.19% and increases in the OE tuition rates set by the state. These increases were off-set by a decrease in tuition and fees collected for our noncredit self-supporting courses of \$260,206.10, as the weak economy impacted discretionary spending by local residents.

The decrease in state and local grants is a result of grants such as the Public Radio grant for \$194,270.21 not being funded after 2009 and other grants such as GATE (Growing America through Entrepreneurship) and CRC (Career Readiness Certification) being funded through state aid for 2010.

Sales and services increased primarily because the campus bookstore had a net revenue increase of \$198,972.93, from \$604,023.59 in 2009 to \$802,996.52 in 2010, as a result of enrollment growth.

Overall operating expenses increased \$2,771,201.96 primarily attributable to a \$2,113,257.27 increase in scholarships and fellowships. Federal student financial aid programs exhibited the greatest growth with the Pell grant program gross awards increasing from \$3,206,011.00 to \$6,014,203.00. This is due to increased student enrollment, the increase in the semester award from \$2,365 to \$2,675, and because the US Department of Education allowed students to access multiple award years in a single year beginning in summer 2010. The Academic Competitiveness Grant increased \$95,794.00 and state student financial aid programs increased \$53,335.00. In addition, salaries and benefits increased \$181,243.38 or 1.36% as additional instructors were hired for increased classes to accommodate increased enrollment. Supplies and materials also increased \$568,040.37 or 29.12% due to increased demand and because 2009 was abnormally low due to a spending restriction in place that limited purchases.

Total nonoperating revenues increased \$4,572,744.12. Nonoperating revenues consist of state aid, county appropriations from Rutherford and Polk counties, federal and state student financial aid grants, and private entities to disburse to students. State aid decreased by \$353,616.22 or 3.89% as expenses were carefully managed due to uncertainty about whether or not the College would be required to revert additional funds to the state. Noncapital grants and gifts include revenues received from third parties, such as the U.S. Department of Education, that are passed on to students as financial aid. This amount, specifically the Pell grant included here, increased dramatically as discussed above. WNCW membership and gift revenues increased \$136,405.76. Investment income increased \$1,797,848.81 primarily due to partial recoupment of losses suffered in 2009 by the Lee L. Powers Memorial Scholarship Fund. The \$952,141.64 investment gain is summarized as follows: interest and dividends from Lee L. Powers fund, Mildred Furches scholarship group, and other scholarship funds posted a \$322,565.59 gain; realized loss on sale of securities of \$85,013.04; and an unrealized gain or increase in market value of securities held as of June 30, 2010 of \$714,589.09.

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

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Other revenues consist of state capital aid in the amount of \$613,447.34 and county capital appropriations received from Rutherford and Polk counties of \$49,158.00. State capital aid is used to purchase equipment. County capital aid is used to purchase equipment and for ordinary capital repairs and renovations. The addition to endowments represents a bequest received from the estate of Mildred Furches to establish a series of student scholarship programs.

Isothermal Community College's net assets increased by \$2,052,089.90 during this very challenging year.

### **Economic Forecast**

Management believes that the College will continue to be challenged with increasing enrollment and restricted state funding. It is anticipated that there will continue to be a great need for re-training of displaced workers and specialized training programs that serve to prepare a workforce for future industry that may locate in the service area or surrounding region. However, a focus is developing on markets related to general education requirements that high school graduates need for transfer programs. The College is continuing to evaluate future programs and will continue to add programs that are needed in the community, such as programs focusing on sustainable technologies.

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, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,692,585.42
Restricted Cash and Cash Equivalents	2,615,795.97
Restricted Short-Term Investments	3,000.00
Receivables, Net (Note 4)	553,316.30
Due from State of North Carolina Component Units	30,000.00
Inventories	357,783.36
Prepaid Items	8,312.43
Notes Receivable	1,306.05
	<hr/>
Total Current Assets	5,262,099.53

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,700,221.53
Restricted Due from Primary Government	10,500.07
Restricted Investments	9,832,919.47
Capital Assets - Nondepreciable (Note 5)	737,784.87
Capital Assets - Depreciable, Net (Note 5)	19,448,520.03
	<hr/>
Total Noncurrent Assets	31,729,945.97

Total Assets	<hr/> <hr/> 36,992,045.50
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	515,097.24
Due to Primary Government	1,439.25
Unearned Revenue	219,545.07
Funds Held for Others	58,046.95
Long-Term Liabilities - Current Portion (Note 7)	75,748.36
	<hr/>
Total Current Liabilities	869,876.87

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	823,875.86
	<hr/>
Total Noncurrent Liabilities	823,875.86

Total Liabilities	<hr/> <hr/> 1,693,752.73
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***Isothermal Community College***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***  
***Page 2***

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**NET ASSETS**

Invested in Capital Assets	20,186,304.90
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,536,901.87
Other	126,676.83
Expendable:	
Scholarships and Fellowships	11,025,956.08
Loans	72,159.15
Capital Projects	37,177.54
Restricted for Specific Programs	1,188,957.86
Unrestricted	<u>1,124,158.54</u>
Total Net Assets	<u><u>\$ 35,298,292.77</u></u>

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, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,961,447.30
State and Local Grants and Contracts	3,019.54
Nongovernmental Grants and Contracts	6,559.36
Sales and Services, Net (Note 9)	1,561,866.44
Other Operating Revenues	24,814.48

Total Operating Revenues	3,557,707.12
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	13,480,836.38
Supplies and Materials	2,518,521.22
Services	2,078,042.30
Scholarships and Fellowships	4,948,778.96
Utilities	593,438.38
Depreciation	884,527.40

Total Operating Expenses	24,504,144.64
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Operating Loss	(20,946,437.52)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,729,182.02
County Appropriations	2,014,393.27
Noncapital Grants - Student Financial Aid	7,017,097.43
Noncapital Grants	1,516,700.33
Noncapital Gifts	578,255.17
Investment Income	952,141.64
Other Nonoperating Expenses	(20,954.28)

Net Nonoperating Revenues	20,786,815.58
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Loss Before Other Revenues	(159,621.94)
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State Capital Aid	613,447.34
County Capital Aid	49,158.00
Capital Grants	5,091.72
Capital Gifts	7,112.91
Additions to Endowments	1,536,901.87

Increase in Net Assets	2,052,089.90
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**NET ASSETS**

Net Assets, July 1, 2009	33,246,202.87
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Net Assets, June 30, 2010	\$ 35,298,292.77
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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, 2010***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,550,519.83
Payments to Employees and Fringe Benefits	(13,418,530.84)
Payments to Vendors and Suppliers	(5,200,295.70)
Payments for Scholarships and Fellowships	(4,975,071.85)
Loans Issued to Students	(1,156.00)
Collection of Loans to Students	2,225.26
Other Receipts	15,311.68
	<hr/>
Net Cash Used by Operating Activities	(20,026,997.62)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,729,182.02
County Appropriations	2,014,393.27
Noncapital Grants - Student Financial Aid	7,029,892.63
Noncapital Grants Received	1,677,275.49
Noncapital Gifts and Endowments Received	2,052,790.73
	<hr/>
Cash Provided by Noncapital Financing Activities	21,503,534.14

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

State Capital Aid Received	692,947.34
County Capital Aid	58,607.24
Capital Grants Received	5,091.72
Proceeds from Sale of Capital Assets	29.10
Acquisition and Construction of Capital Assets	(417,383.63)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	339,291.77

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	860,538.42
Investment Income	323,508.91
Purchase of Investments and related fees	(51,379.22)
	<hr/>
Net Cash Provided by Investing Activities	1,132,668.11

Net Increase in Cash and Cash Equivalents	2,948,496.40
Cash and Cash Equivalents, July 1, 2009	3,060,106.52
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 6,008,602.92



***Isothermal Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2010***

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

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

Operating Loss	\$ (20,946,437.52)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	884,527.40
Provision for Uncollectible Loans and Write-Offs	(612.05)
Miscellaneous Nonoperating Income	11,308.58
Changes in Assets and Liabilities:	
Receivables, Net	(104,845.76)
Inventories	(38,319.75)
Prepaid Items	5,455.28
Notes Receivable	1,069.26
Accounts Payable and Accrued Liabilities	104,775.77
Due to Primary Government	1,055.25
Unearned Revenue	71,365.58
Funds Held for Others	4,003.10
Compensated Absences	(20,342.76)
	<u>(20,342.76)</u>
Net Cash Used by Operating Activities	<u><u>\$ (20,026,997.62)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,692,585.42
Restricted Cash and Cash Equivalents	2,615,795.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,700,221.53</u>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 6,008,602.92</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 1,500.00
Assets Acquired through a gift	69,477.43
Change in Fair Value of Investments	765,968.31
Increase in receivables related to nonoperating income	1.79

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, 2010***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	1,739,596
Marketable Securities		<u>779,734</u>
Total Assets		<u>2,519,330</u>

**NET ASSETS**

Unrestricted		526,512
Temporarily Restricted		<u>1,992,818</u>
Total Net Assets	\$	<u><u>2,519,330</u></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, 2010***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue and Support:</b>			
Contributions	\$ 0	\$ 117,966	\$ 117,966
Interest and Investment Earnings	11,096	39,098	50,194
Unrealized Gain (Loss) on Investments	13,591	32,761	46,352
Realized Gain (Loss) on Investments	866	2,087	2,953
Net Assets Released From Restrictions:			
Satisfaction of Program Restrictions	118,723	(118,723)	
	<u>144,276</u>	<u>73,189</u>	<u>217,465</u>
Total Revenue and Support			
<b>Expenses:</b>			
Program Contributions:			
Performing Arts	30,000		30,000
Endowed Chairs	166		166
Scholarships	16,417		16,417
Mentoring	36,116		36,116
College Support	27,328		27,328
Fundraising	8,741		8,741
Management and General	11,936		11,936
	<u>130,704</u>		<u>130,704</u>
Total Expenses			
Change in Net Assets	13,571	73,189	86,761
Net Assets at Beginning of Year	512,941	1,919,628	2,432,569
Net Assets at End of Year	<u>\$ 526,512</u>	<u>\$ 1,992,818</u>	<u>\$ 2,519,330</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, 2010**

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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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data are 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 is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 28 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 the Governmental Accounting Standards Board

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed \$80,950.22 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts 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 increase (decrease) in the fair value of investments is recognized as a component of investment income.

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 method. Merchandise for resale is valued at the last invoice cost using the retail inventory 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 50 years for buildings, and 5 to 25 years for equipment.

The Andrew and Flora Major 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 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- 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. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$2,080.00, and deposits in private financial institutions with a carrying value of \$4,488,257.00, and a bank balance of \$4,955,223.55.

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.

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, 2010, 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,518,265.92, which represents the College's equity position in the State Treasurer's Short-Term Investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Investments of the College's component unit, the Isothermal Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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, 2010, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Investments				
	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 678,553.70	\$ 8,500.00	\$ 670,053.70	\$ 0.00	\$ 0.00
U.S. Agencies	1,709,920.14		1,579,510.65	130,409.49	
Mortgage Pass Throughs	641,259.80				641,259.80
Domestic Corporate Bonds	2,126,042.40		1,784,470.26	335,454.21	6,117.93
Mutual Bond Funds - International	439,843.15	153,162.18	179,049.89	94,435.79	13,195.29
		<u>\$ 161,662.18</u>	<u>\$ 4,213,084.50</u>	<u>\$ 560,299.49</u>	<u>\$ 660,573.02</u>
Other Securities					
Mutual Funds	1,506,061.74				
Mutual Funds - International	784,438.43				
Domestic Stocks	1,857,721.42				
Foreign Stocks	61,700.70				
Investments in Real Estate	3,000.00				
Asset-Backed Securities	27,378.00				
Total Investments	<u>\$ 9,835,919.47</u>				

In addition to the interest rate risk disclosed above, the College's investments include investments with fair values highly sensitive to interest rate changes.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2010, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 1,709,920.14	\$ 1,468,212.23	\$ 0.00	\$ 241,707.91	\$ 0.00
Mortgage Pass Throughs	641,259.80	641,259.80			
Domestic Corporate Bonds	2,126,042.40	144,363.33	148,434.07	737,100.00	1,096,145.00
Mutual Bond Funds - International	439,843.15				439,843.15

Rating Agency: Standard and 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:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Held by Counterparty's Trust Dept or Agent not in College's Name
U.S. Treasuries	\$ 646,553.70
U.S. Agencies	1,709,920.14
Mortgage Pass Throughs	641,259.80
Asset-Backed Securities	27,378.00
Domestic Corporate Bonds	2,126,042.40
Mutual Bond Funds - International	439,843.15
Mutual Funds	1,506,061.74
Mutual Funds - International	784,438.43
Domestic Stocks	1,857,721.42
Foreign Stocks	61,700.70
Total	\$ 9,800,919.47

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. 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.

*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, 2010, is as follows:

Cash on Hand	\$ 2,080.00
Carrying Amount of Deposits with Private Financial Institutions	4,488,257.00
Investments in the Short Term Investment Fund	1,518,265.92
Other Investments	9,835,919.47
Total Deposits and Investments	\$ 15,844,522.39
Current:	
Cash and Cash Equivalents	\$ 1,692,585.42
Restricted Cash and Cash Equivalents	2,615,795.97
Restricted Short-Term Investments	3,000.00
Noncurrent:	
Restricted Cash and Cash Equivalents	1,700,221.53
Restricted Investments	9,832,919.47
Total	\$ 15,844,522.39

**Component Units** - Investments of the College's discretely presented component unit, The Isothermal Community College Foundation, Inc. are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type at Fair market Value as of June 30, 2010:

	<u>Market Value</u>
Money Market Funds	\$ 46,568
Common Stock	341,126
Bonds	<u>392,040</u>
Total	<u>\$ 779,734</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. The College has cash with fiscal agent and other cash held with a private financial institution which is reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. Endowment assets are also held in U.S. government guaranteed securities and are reported with restricted investments - 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, net of related investment management fees. 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, 2010, net appreciation of \$2,096.54 was available to be spent and was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 385,505.68	\$ 36,328.29	\$ 349,177.39
Accounts	111,089.40	37,049.74	74,039.66
Intergovernmental	84,945.28		84,945.28
Pledges	37,006.19	14,802.48	22,203.71
Investment Earnings	22,950.26		22,950.26
<b>Total Current Receivables</b>	<b><u>\$ 641,496.81</u></b>	<b><u>\$ 88,180.51</u></b>	<b><u>\$ 553,316.30</u></b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 595,979.87	\$ 0.00	\$ 0.00	\$ 595,979.87
Art, Literature, and Artifacts	62,305.00			62,305.00
Construction in Progress		79,500.00		79,500.00
<b>Total Capital Assets, Nondepreciable</b>	<b><u>658,284.87</u></b>	<b><u>79,500.00</u></b>		<b><u>737,784.87</u></b>
Capital Assets, Depreciable:				
Buildings	27,098,673.92	14,559.13		27,113,233.05
Machinery and Equipment	3,712,408.89	328,223.41	212,921.22	3,827,711.08
General Infrastructure	612,116.71			612,116.71
<b>Total Capital Assets, Depreciable</b>	<b><u>31,423,199.52</u></b>	<b><u>342,782.54</u></b>	<b><u>212,921.22</u></b>	<b><u>31,553,060.84</u></b>
Less Accumulated Depreciation for:				
Buildings	9,391,314.59	651,301.02		10,042,615.61
Machinery and Equipment	1,689,895.07	203,470.26	180,629.26	1,712,736.07
General Infrastructure	319,433.01	29,756.12		349,189.13
<b>Total Accumulated Depreciation</b>	<b><u>11,400,642.67</u></b>	<b><u>884,527.40</u></b>	<b><u>180,629.26</u></b>	<b><u>12,104,540.81</u></b>
<b>Total Capital Assets, Depreciable, Net</b>	<b><u>20,022,556.85</u></b>	<b><u>(541,744.86)</u></b>	<b><u>32,291.96</u></b>	<b><u>19,448,520.03</u></b>
<b>Capital Assets, Net</b>	<b><u>\$ 20,680,841.72</u></b>	<b><u>\$ (462,244.86)</u></b>	<b><u>\$ 32,291.96</u></b>	<b><u>\$ 20,186,304.90</u></b>

The capital asset schedule above includes land and building valued at cost of \$4,188,116.31, 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, 2010, were as follows:

	Amount
Accounts Payable	\$ 88,095.64
Accrued Payroll	404,998.17
Intergovernmental Payables	21,881.81
Other	121.62
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 515,097.24</b>

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 919,966.98	\$ 393,844.48	\$ 414,187.24	\$ 899,624.22	\$ 75,748.36

### NOTE 8 - LEASE OBLIGATIONS

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Amount
Minimum Rentals	\$ 41,125.45
Contingent Rentals	16,290.00
Total Rental Expense	\$ 57,415.45

## 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	Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 3,518,850.12</u>	<u>\$ 0.00</u>	<u>\$ 1,560,247.93</u>	<u>\$ 2,845.11</u>	<u>\$ 1,961,447.30</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Vending Commission	\$ 29,723.04	\$ 0.00	\$ 0.00	\$ 0.00	\$ 29,723.04
Bookstore	1,596,201.84	2,697.06	768,059.11	(22,449.15)	802,996.52
Public Radio	390,033.31			(2,899.74)	387,133.57
Performing Arts Center	235,071.94				235,071.94
Rental Income	58,790.00				58,790.00
Sales and Services of Education and Related Activities	<u>48,151.37</u>				<u>48,151.37</u>
<b>Total Sales and Services</b>	<u>\$ 2,357,971.50</u>	<u>\$ 2,697.06</u>	<u>\$ 768,059.11</u>	<u>\$ (25,348.89)</u>	<u>\$ 1,561,866.44</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,706,657.99	\$ 551,617.60	\$ 539,068.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,797,343.93
Public Service	604,301.84	25,846.65	341,328.05				971,476.54
Academic Support	1,627,831.45	252,955.91	103,344.98				1,984,132.34
Student Services	830,582.02	27,179.89	129,757.65				987,519.56
Institutional Support	1,780,320.38	213,375.72	447,655.15				2,441,351.25
Operations and Maintenance of Plant	789,597.78	113,174.48	314,247.73		592,597.38		1,809,617.37
Student Financial Aid				4,948,778.96			4,948,778.96
Auxiliary Enterprises	141,544.92	1,334,370.97	202,640.40		841.00		1,679,397.29
Depreciation						884,527.40	884,527.40
<b>Total Operating Expenses</b>	<u>\$ 13,480,836.38</u>	<u>\$ 2,518,521.22</u>	<u>\$ 2,078,042.30</u>	<u>\$ 4,948,778.96</u>	<u>\$ 593,438.38</u>	<u>\$ 884,527.40</u>	<u>\$ 24,504,144.64</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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,144,348.84, of which \$8,645,483.25 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$308,643.75 and \$518,729.00, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$308,643.75, \$295,527.97, and \$263,751.23, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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College. The voluntary contributions by employees amounted to \$16,380.00 for the year ended June 30, 2010.

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 \$184,863.00 for the year ended June 30, 2010.

### 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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. The required contribution rates for the years ended

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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June 30, 2009, and 2008, was 4.1% for both years. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$389,046.75, \$360,614.49, and \$354,550.84, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rates for the years ended June 30, 2009, and 2008, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$44,956.51, \$45,736.47, and \$44,967.42, 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, including participation in State-administered insurance programs,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 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.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. This coverage includes Employer's Liability Insurance with a \$100,000 per occurrence limit; Professional Liability Insurance with limits of \$1,000,000 per occurrence covering students and instructors in Nursing, EMT and Cosmetology programs, and Directors and Officers Liability Insurance with a limit of \$3,000,000 and a \$25,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. The College had no outstanding commitments on construction contracts; however, outstanding commitments on other purchases were \$144,127.87 at June 30, 2010.

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

**Material Violations of Finance - Related Legal or Contractual Provisions -**  
At June 30, 2010, Isothermal Community College had funds invested with Branch Banking and Trust in investments such as domestic and international mutual bond funds, money market mutual funds, domestic corporate bonds, and domestic and foreign stocks in the amount of \$9,835,919.47 that may not qualify as allowable investment options under *North Carolina General Statute 159-30(c)* and other statutes referenced therein.

General Counsel for the North Carolina Community College System Office requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion from the Department of Justice indicates that these investments are not allowable, the College will divest from these investments as soon as it is economically prudent to do so.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - RELATED PARTIES

**Foundation** - The Isothermal Community College Polk County 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 support from the Foundation. This support approximated \$1,535.40 for the year ended June 30, 2010.

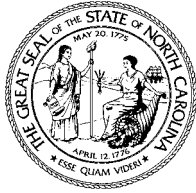
### NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.





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

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

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 24, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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 College's response to the finding identified in our audit is 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.

This report is intended solely for the information and use of management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, 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 24, 2011

## **AUDIT FINDINGS AND RESPONSES**

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

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal control.

#### DEFICIENCIES IN SEGREGATION OF DUTIES AND INFORMATION SYSTEMS ACCESS

The College did not maintain adequate internal control over access to its computer systems and data. As a result, errors or fraud could occur and not be detected in a timely manner. Subsequent to our audit period, access rights have been changed to address some of the deficiencies noted.

Access rights granted for three of 12 business office employees and a Polk campus employee were broad and inconsistent with appropriate segregation of duties. The controller and accounts receivable technician can create vendors and print general expense checks. The main campus cashier and the Polk campus cashier can receipt and create miscellaneous credits and invoices in the students' accounts. In addition, it was noted that the main campus cashiers share the same cash drawer during the daily receipting process.

We also noted two employees outside of the Business Office area with unlimited access to the student module of the accounting system, which included the ability to receipt money, update the registration rate table, adjust students' accounts, and other functions. Subsequent to our audit period, these access rights have been removed.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. When employees have more access to system functions and information than is needed for their jobs, there is a greater risk of error or fraud. Significant aspects of this finding were also reported in a prior year finding.

*Recommendation:* Management should evaluate and reassign job duties and system access rights to better segregate duties and enhance internal control.

*College Response:* Isothermal Community College recognizes that our current practices of maintaining control over access to our computer systems and data contain weaknesses. Therefore, we will use the EAGLE Internal Control Program that is administered by the North Carolina Office of State Controller to address this issue. Our EAGLE program will involve an initial detailed evaluation of access rights for all current financial system users along with annual monitoring of these access rights going forward. Our IT Server Administrator will also begin a bi-annual review of security assignments to assist with the EAGLE program review. In addition, Isothermal will evaluate the effectiveness and efficiency of cashiering and cash drawer practices to provide reasonable assurance that organizational objectives concerning risk mitigation are met.

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## ORDERING INFORMATION

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