

# STATE OF NORTH CAROLINA

**ISOTHERMAL COMMUNITY COLLEGE**

**SPINDALE, NORTH CAROLINA**

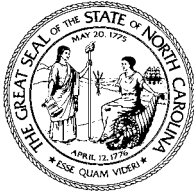
**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



**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 Pat McCrory, 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, 2014, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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.

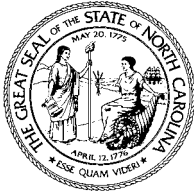
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Isothermal Community College  
Spindale, North Carolina

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Isothermal Community College Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Isothermal Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the report of the 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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 internal control over financial reporting or on

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2014

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## **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 (College) for the year ended June 30, 2014. 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 Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. These financial statements are prepared under the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) principles.

### **Financial Highlights**

The College serves the markets in Rutherford and Polk counties and beyond. The College has continued to perform well amid a local and statewide downturn in enrollment. The slight improvements in the economy and completion of some federal assistance programs have created a decline in student enrollment and a negative impact on revenues, yet the College has been able to manage the reductions without adverse effects on services. The College is currently engaged in developing strategic partnerships with North Carolina universities providing additional opportunities for students to engage in educational pathways designed to serve existing industry and prepare them for future industries being sought for location to the service area. Efforts continue to focus on successfully completing the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) reaccreditation process, which concludes with off-site and on-site reviews during 2015, and reaffirmation in 2016. A positive investment market continues to make resources available to current and prospective students through institutional scholarships; however, the College must continue to pursue traditional student populations as well as nontraditional student populations. The College's net position has increased and although enrollment is trending downward, the financial strength of the College remains solid. The College will continue to face challenges related to the physical infrastructure due to aging building and systems and the scarcity of capital resources.

### **Statement of Net Position**

The Statement of Net Position presents a fiscal snapshot of the College as of June 30, 2014, and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the College. The statement also includes the difference between total assets and deferred outflows of resources less deferred inflows or resources and total liabilities (net position) which 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 position available for expenditure by the College. Items on the Statement of Net Position 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2014 and 2013 are as follows:

### Condensed Statement of Net Position

	2014	2013	Increase/ (Decrease)
Assets			
Current Assets	\$ 5,380,003.50	\$ 5,666,538.71	\$ (286,535.21)
Other Noncurrent Assets	14,772,272.60	13,810,151.64	962,120.96
Capital Assets, Net	<u>20,227,093.34</u>	<u>20,799,225.61</u>	<u>(572,132.27)</u>
Total Assets	<u>40,379,369.44</u>	<u>40,275,915.96</u>	<u>103,453.48</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Liabilities			
Current Liabilities	985,742.70	976,719.06	9,023.64
Long-Term Liabilities	<u>778,477.33</u>	<u>822,830.65</u>	<u>(44,353.32)</u>
Total Liabilities	<u>1,764,220.03</u>	<u>1,799,549.71</u>	<u>(35,329.68)</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net Position			
Investment in Capital Assets	20,227,093.34	20,799,225.61	(572,132.27)
Restricted - Nonexpendable	1,760,754.80	1,677,785.18	82,969.62
Restricted - Expendable	15,523,571.84	14,890,864.06	632,707.78
Unrestricted	<u>1,103,729.43</u>	<u>1,108,491.40</u>	<u>(4,761.97)</u>
Total Net Position	<u>\$ 38,615,149.41</u>	<u>\$ 38,476,366.25</u>	<u>\$ 138,783.16</u>

Current assets, which decreased \$286,535.21, 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. Within current assets, unrestricted cash and cash equivalents decreased by \$228,380.80 mostly due to reimbursement amounts not received as of June 30. Current receivables increased due to the reimbursement amounts, but were offset due to the collection of other receivables during the year.

Noncurrent assets consist of amounts due from the state of North Carolina for capital projects and noncurrent investments held in the Lee L. Powers Scholarship Account and the Mildred Furches Scholarship Group Account. Amounts due from the state of North Carolina for capital projects decreased \$497,608.79 as projects funded by the state that were in-process at June 30, 2013 were completed and reimbursed by the State during the fiscal year with the balances due from the State dropping from \$694,202.09 at June 30, 2013 to \$196,593.30 at June 30, 2014. Assets held in the Lee L. Powers Scholarship Fund and the Furches/Hewitt Scholarship Funds (restricted investments and noncurrent restricted cash and cash equivalents) increased by \$1,459,729.75 primarily due to investment income. A further analysis of investment earnings will follow under the Statement of Revenues, Expenses, and Changes of Net Position section.

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

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Capital assets decreased by \$572,132.27, as additions of \$705,007.39 are off-set by net disposals of \$258,796.90 and an increase in accumulated depreciation of \$1,018,342.76.

Current liabilities are comprised of accounts payable, accrued compensation, amounts due to the state of North Carolina, unearned revenue, funds held for others, and current portions of long-term liabilities. The net increase of \$9,023.64 is comprised primarily of a decrease of \$18,598.73 in contracts payable associated with capital improvement projects and a decrease in accounts payable of \$17,336.52 as utility expenses for Rutherfordton center were accrued in fiscal year 2013 before we formalized utility billing arrangements with Rutherford County Schools; offset by a \$41,116.69 increase in the current portion of accrued compensated absences leave as the liquidation percentage used to calculate the current portion based on leave taken in fiscal year 2013 increased from 10.61% in fiscal year 2013 to 15.13% in fiscal year 2014 pushing a greater total of leave balances to current. The increase in the current portion of accrued vacation leave is offset by the decrease of \$44,353.32 in noncurrent liabilities, which is made up solely of compensated absences which are vacation and bonus days earned by current employees that are either taken as paid time off or paid out at termination of employment.

Net position represents the residual interest in the College's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. For reporting purposes, they are divided into four categories: investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position.

### **Statement of Revenues, Expenses, and Changes in Net Position**

Changes in assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. 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 Position for the College as of June 30, 2014 and 2013:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2014	2013	Increase/ (Decrease)
Operating Revenue:			
Student Tuition and Fees	\$ 959,469.35	\$ 1,301,882.32	\$ (342,412.97)
Sales and Service, Net	1,230,692.59	1,273,832.59	(43,140.00)
Other Operating Revenue	1,725.20	3,696.45	(1,971.25)
<b>Total Operating Revenue</b>	<b>2,191,887.14</b>	<b>2,579,411.36</b>	<b>(387,524.22)</b>
Operating Expenses:			
Salaries and Benefits	15,241,798.53	15,164,433.11	77,365.42
Supplies and Materials	2,884,596.47	2,483,541.04	401,055.43
Services	2,478,127.71	2,471,109.59	7,018.12
Scholarships and Fellowships	2,542,370.97	3,284,271.45	(741,900.48)
Utilities	657,270.38	660,829.26	(3,558.88)
Depreciation	1,018,342.76	751,442.63	266,900.13
<b>Total Operating Expenses</b>	<b>24,822,506.82</b>	<b>24,815,627.08</b>	<b>6,879.74</b>
<b>Operating Loss</b>	<b>(22,630,619.68)</b>	<b>(22,236,215.72)</b>	<b>(394,403.96)</b>
Nonoperating Revenue:			
State Aid	10,892,670.43	10,230,276.92	662,393.51
County Appropriations	2,098,865.71	2,014,181.33	84,684.38
Noncapital Grants	6,850,719.87	7,495,173.63	(644,453.76)
Noncapital Gifts	792,597.05	1,083,912.46	(291,315.41)
Investment Income (Net of Investment Expense)	1,441,764.14	1,032,236.85	409,527.29
Other Nonoperating	124,771.18	6,539.36	118,231.82
<b>Total Nonoperating Revenue</b>	<b>22,201,388.38</b>	<b>21,862,320.55</b>	<b>339,067.83</b>
<b>Loss before Other Revenues</b>	<b>(429,231.30)</b>	<b>(373,895.17)</b>	<b>(55,336.13)</b>
Other Revenues			
Capital Appropriations	568,014.46	1,791,501.55	(1,223,487.09)
Capital Gift		401,709.57	(401,709.57)
<b>Increase in Net Position</b>	<b>138,783.16</b>	<b>1,819,315.95</b>	<b>(1,680,532.79)</b>
<b>Net Position, Beginning</b>	<b>38,476,366.25</b>	<b>36,657,050.30</b>	<b>1,819,315.95</b>
<b>Net Position, Ending</b>	<b>\$ 38,615,149.41</b>	<b>\$ 38,476,366.25</b>	<b>\$ 138,783.16</b>
<b>Reconciliation of Changes in Net Position</b>			
Total Revenues	\$ 24,961,289.98	\$ 26,233,233.46	\$ (1,271,943.48)
Less: Total Expenses	24,822,506.82	24,815,627.08	6,879.74
<b>Change in Net Position</b>	<b>\$ 138,783.16</b>	<b>\$ 1,417,606.38</b>	<b>\$ (1,278,823.22)</b>

The major components of operating revenues are tuition and fees collected from students and revenues generated from auxiliary operations such as our campus bookstore and our public radio station (sales and services).

Fiscal year 2014 was a time of declining enrollment. Gross tuition and fees revenue for our curriculum programs before scholarship discounting was down \$477,161.84 even though tuition rates increased by \$2.50 per credit hour, from \$69.00 to \$71.50. Our enrollment for the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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year was down 10.8% from FTE of 2,312 in year ended 6/30/13 to 2,062 in year ended 6/30/14; mitigating the effect of the decrease in gross tuition, scholarship discounts, which are a contra-revenue item that reduces the amount of tuition and fees shown, decreased 10.6%, from \$2,422,578.79 in FYE 6/30/13 to 2,166,586.49 in FYE 6/30/14. When combined with a decrease of \$96.57 in allowance for uncollectibles, this leaves a net decrease in curriculum tuition and fees of \$221,072.97. In addition to decreases in curriculum tuition, tuition and fees received in our non-credit or occupational education (OE) programs decreased by \$121,340.00 and 33.9% primarily due to the restructuring of our truck driving program.

Although gross revenue from the campus bookstore, recorded under sales and services, decreased by \$59,864.48 due to the decrease in students, net revenue decreased by \$94,924.15 after scholarship discounts and the allowance for doubtful accounts were deducted. Also recorded under sales and service, underwriting revenue from WNCW-FM increased from \$518,112.24 in FY2013 to \$583,280.45 in FY2014.

Overall operating expenses increased \$6,879.74. Salaries and benefits increased \$77,365.42 and .5%; \$52,324.21 of this increase is due to the change in the way unemployment insurance is paid and \$71,373.33 is from the increased employer retirement and medical insurance costs while salaries paid decreased by \$41,541.58. Supplies and materials increased \$401,055.43 and 16.1%, and services increased \$7,018.12 and .2%. Net scholarships and fellowships decreased by \$741,900.48 and 22.5% due to a decrease in student Pell grants from \$5,914,495.00 in FY13 to \$4,896,954.56 in FY14; while total gross scholarships decreased by \$963,175.32 scholarship discounts decreased \$221,274.84. In addition, utilities remained very flat with a decrease \$3,558.88 as we maximized energy efficiency. Depreciation increased by \$266,900.13 and 35.5% as capital assets currently in service were evaluated in fiscal year 2013, and their lives were extended causing a decrease in depreciation expense of \$260,034.47.

Nonoperating revenue consists of aid from the state of North Carolina, Rutherford and Polk counties, and financial aid received from the federal and state government and private entities to disburse to students; state aid increased by \$662,393.51 and 6.4% as the full effect of the fiscal year 2014 enrollment decline will be felt in fiscal year 2015 and beyond due to the state funding formula. Also included in the nonoperating revenue section are noncapital grants – student aid, which decreased \$644,453.76 and 8.5% primarily because of the \$1,017,540.44 decline in Pell grants discussed above. Noncapital gifts decreased \$291,315.41 because a \$302,454.83 bequest from the Norma Jean Huey Hewitt Estate that was received in fiscal year 2013.

The Lee L. Powers Memorial and other scholarship funds, recorded under investment income, had a profitable year. The \$1,441,764.14 net investment gain is summarized as follows: interest, dividends, and capital gain dividends from Lee L. Powers fund, Mildred Furches Scholarship Group, and other scholarship funds, were \$419,346.72; realized gain on sale of securities \$756,552.42; unrealized gain or increase in market value of securities held as of June 30, 2013 \$339,983.68; and investment fees were \$74,118.68. Other nonoperating revenue of \$124,771.18 is made up primarily of \$125,000.00 received for the sale of a WNCW translator.

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

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Other revenues are made up of capital aid received from the State in the amount of \$392,134.08 and capital appropriation received from Rutherford and Polk counties of \$175,880.38. The state capital aid consists of funds received by the College to purchase equipment. The county capital aid consists of \$32,045.45 received from Rutherford County used to purchase equipment \$93,774 received from Rutherford County for campus renovation and repair projects. Also included is \$50,060.93 received from the Golden Leaf Consortium Grant for upgrading our Applied Sciences Machine Shop.

### **Capital Assets**

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 \$20,227,093.34 invested in capital assets at year-end; there was a net decrease of \$572,132.27 in capital assets for the year. This includes a net decrease of \$229,491.08 for ongoing capital improvement projects in construction in progress, leaving a balance of \$600 for Firefighter's Training Facility; \$174,676.11 for a parking lot/entrance drive upgrade, \$150,560.93 for improvements to the machine shop, \$32,808.19 for additional leasehold improvements at the Rutherford Learning Center and \$346,362.16 of equipment purchased netted against a \$1,062,605.18 decrease due to normal additions, deletions and the recording of current depreciation expense.

### **Economic Forecast**

The College is in full preparation mode for the 10 year reaccreditation from SACSCOC. This process will continue to require all staff and faculty to focus on compiling documentation used as responses to the established standards provided by the commission. In addition, the College is developing a Quality Enhancement Plan (QEP) which is an identified opportunity to improve services for the College community. A portion of the QEP's focus is related to educational planning and advising services with an aim of allowing students to "Start Strong and Finish Stronger." This effort will require resources from the institution but will not interfere with the quality of instruction or supporting services. As the accreditation effort continues, the College is focused on pursuing and stabilizing enrollment for traditional first time college students. We also believe there are many opportunities to market educational opportunities to adult learners seeking to improve skills and to meet projected demands of developing job markets within our service area. This will require strategic marketing efforts and investments in service enhancements that meet the mission of the College. Projections for the 2014-2015 year indicate a leveling in enrollment but the College could continue to see reductions in state allotments of around 2.5%. This estimated reduction is based on continual adjustments in the state budget formula calculation and shifting our current model toward performance based revenue. Despite the potential for revenue reductions, the College is positioned very strong financially. The College is continuing to evaluate future programs, and will continue to add programs that are needed in the community, such as programs which focus on engineering technology, sustainable technologies, and college transfer.

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

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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.

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)395-1293.

***Isothermal Community College***  
***Statement of Net Position***  
***June 30, 2014***

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,299,457.29
Restricted Cash and Cash Equivalents	2,952,666.52
Restricted Short-Term Investments	3,000.00
Receivables, Net (Note 4)	537,054.52
Inventories	580,183.37
Prepaid Items	7,641.80
	<hr/>
Total Current Assets	5,380,003.50

Noncurrent Assets:

Restricted Cash and Cash Equivalents	3,700,022.09
Restricted Due from Primary Government	196,593.30
Restricted Investments	10,875,657.21
Capital Assets - Nondepreciable (Note 5)	1,029,889.35
Capital Assets - Depreciable, Net (Note 5)	19,197,203.99
	<hr/>
Total Noncurrent Assets	34,999,365.94

Total Assets	<hr/> <hr/> 40,379,369.44
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources	<hr/> 0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	606,680.05
Due to Primary Government	894.93
Unearned Revenue	168,307.09
Funds Held for Others	71,079.41
Long-Term Liabilities - Current Portion (Note 7)	138,781.22
	<hr/>
Total Current Liabilities	985,742.70

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 778,477.33
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Total Liabilities	<hr/> <hr/> 1,764,220.03
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**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<hr/> 0.00
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***Isothermal Community College  
Statement of Net Position  
June 30, 2014***

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

**NET POSITION**

Investment in Capital Assets	20,227,093.34
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,634,077.97
Other	126,676.83
Expendable:	
Scholarships and Fellowships	14,084,242.87
Loans	74,042.22
Capital Projects	34,251.96
Specific Programs	1,331,034.79
Unrestricted	<u>1,103,729.43</u>
Total Net Position	<u>\$ 38,615,149.41</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 Position  
For the Fiscal Year Ended June 30, 2014***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 959,469.35
Sales and Services, Net (Note 9)	1,230,692.59
Other Operating Revenues	<u>1,725.20</u>
Total Operating Revenues	<u>2,191,887.14</u>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	15,241,798.53
Supplies and Materials	2,884,596.47
Services	2,478,127.71
Scholarships and Fellowships	2,542,370.97
Utilities	657,270.38
Depreciation	<u>1,018,342.76</u>
Total Operating Expenses	<u>24,822,506.82</u>
Operating Loss	<u>(22,630,619.68)</u>

**NONOPERATING REVENUES**

State Aid	10,892,670.43
County Appropriations	2,098,865.71
Noncapital Grants - Student Financial Aid	5,330,134.13
Noncapital Grants	1,520,585.74
Noncapital Gifts	792,597.05
Investment Income (Net of Investment Expense of \$74,118.68)	1,441,764.14
Other Nonoperating Revenues	<u>124,771.18</u>
Net Nonoperating Revenues	<u>22,201,388.38</u>
Loss Before Other Revenues	(429,231.30)
State Capital Aid	392,134.08
County Capital Aid	<u>175,880.38</u>
Increase in Net Position	138,783.16

**NET POSITION**

Net Position, July 1, 2013	<u>38,476,366.25</u>
Net Position, June 30, 2014	<u>\$ 38,615,149.41</u>

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, 2014***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,283,153.79
Payments to Employees and Fringe Benefits	(15,236,325.04)
Payments to Vendors and Suppliers	(5,962,492.12)
Payments for Scholarships and Fellowships	(2,542,153.45)
Other Receipts	138,781.51
	<hr/>
Net Cash Used by Operating Activities	(21,319,035.31)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	10,892,670.43
County Appropriations	2,098,865.71
Noncapital Grants - Student Financial Aid	5,348,311.41
Noncapital Grants	1,328,210.11
Noncapital Gifts	792,731.92
	<hr/>
Net Cash Provided by Noncapital Financing Activities	20,460,789.58

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

State Capital Aid Received	889,742.87
County Capital Aid	175,880.38
Proceeds from Sale of Capital Assets	501.44
Acquisition and Construction of Capital Assets	(549,515.04)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	516,609.65

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	9,616,659.82
Investment Income	433,368.51
Purchase of Investments and Related Fees	(6,662,713.30)
	<hr/>
Net Cash Provided by Investing Activities	3,387,315.03

Net Increase in Cash and Cash Equivalents	3,045,678.95
Cash and Cash Equivalents, July 1, 2013	4,906,466.95
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 7,952,145.90
	<hr/> <hr/>

***Isothermal Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2014***

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

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

Operating Loss	\$ (22,630,619.68)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,018,342.76
Nonoperating Other Income	208,975.56
Changes in Assets and Liabilities:	
Receivables, Net	90,344.50
Inventories	14,597.61
Prepaid Items	909.13
Accounts Payable and Accrued Liabilities	(23,328.67)
Due to Primary Government	(6,965.51)
Unearned Revenue	(2,447.83)
Funds Held for Others	14,393.45
Compensated Absences	(3,236.63)
Net Cash Used by Operating Activities	<u><u>\$ (21,319,035.31)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,299,457.29
Restricted Cash and Cash Equivalents	2,952,666.52
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>3,700,022.09</u>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 7,952,145.90</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 52,690.00
Change in Fair Value of Investments	339,983.68
Increase in Receivables Related to Nonoperating Income	179,052.59
Loss on Disposal of Capital Assets	(28,204.38)

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, 2014***

***Exhibit B-1***

**ASSETS**

Cash and Investments	\$	839,980
Marketable Securities		1,536,105
Other Assets		5,310
		<hr/>
Total Assets	\$	<u>2,381,395</u>

**LIABILITIES AND NET ASSETS**

Liabilities	\$	0.00
Net Assets:		
Unrestricted		167,935
Temporarily Restricted		2,213,460
		<hr/>
Total Liabilities and Net Assets	\$	<u>2,381,395</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, 2014***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUE AND SUPPORT:</b>			
Contributions	\$ 5,020	\$ 70,781	\$ 75,801
Other Revenue		17,893	17,893
Interest and Investment Earnings	3,908	46,079	49,987
Unrealized Gain on Investments	5,976	66,973	72,949
Realized Gain on Investments	4,646	53,057	57,703
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	149,956	(149,956)	
Total Revenue and Support	<u>169,506</u>	<u>104,827</u>	<u>274,333</u>
<b>EXPENSES</b>			
Program Contributions:			
Performing Arts	50,000		50,000
Professional Development	3,405		3,405
Scholarships	44,405		44,405
Mentoring	25,287		25,287
College Support	16,512		16,512
Fundraising	5,152		5,152
Management and General	11,730		11,730
Total Expenses	<u>156,491</u>		<u>156,491</u>
Change in Net Assets	13,015	104,827	117,842
Net Assets at Beginning of Year	154,920	2,108,633	2,263,553
Net Assets at End of Year	<u>\$ 167,935</u>	<u>\$ 2,213,460</u>	<u>\$ 2,381,395</u>

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

**ISOTHERMAL COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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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 (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. See below for further discussion of the College's component unit.

**Discretely Presented Component Unit** – Isothermal Community College Foundation, Inc. (Foundation) is a legally separate nonprofit 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 38 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 nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2014, the Foundation distributed \$106,026.38 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 P.O. Box 804, Spindale, NC 28160 or calling (828) 395-1296.

- 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 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.

- 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, include 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, money market accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 19 to 40 years for buildings, and 2 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 available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets,



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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resources whose use is limited by external parties or statute, and endowment and other restricted investments.

- 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.

- L. Net Position** - The College's net position is classified as follows:

**Net Investment in Capital Assets** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2014 was \$2,215.00. The carrying amount of the College's deposits not with the State Treasurer was \$6,384,601.92, and the bank balance was \$6,667,287.06.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2014, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,565,328.98, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF 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 STIF) 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.nc.gov/> and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

Investments of the College’s component unit, the Foundation, 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, 2014, 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.

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	\$ 377,914.50	\$ 363,914.50	\$ 0.00	\$ 0.00	\$ 14,000.00
U.S. Agencies	260,950.60		260,950.60		
Debt Mutual Funds - Domestic	2,597,765.86	60,774.75	701,759.88	844,923.83	990,307.40
Debt Mutual Funds - International	489,953.52		68,593.49	112,689.31	308,670.72
<b>Total Debt Securities</b>	3,726,584.48	\$ 424,689.25	\$ 1,031,303.97	\$ 957,613.14	\$ 1,312,978.12
Other Securities					
Mutual Funds - Domestic	2,059,430.64				
Mutual Funds - International	1,334,868.65				
Real Estate Investment Trust	400,024.29				
Investment in Real Estate	3,000.00				
Domestic Stocks	2,835,911.80				
Foreign Stocks (denominated in US dollars)	518,837.35				
<b>Total Investments</b>	\$ 10,878,657.21				

## 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 does not have a formal policy that addresses credit risk. As of June 30, 2014, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 260,950.60	\$ 0.00	\$ 260,950.60	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Debt Mutual Funds - Domestic	2,597,765.86	1,314,937.00	158,243.50	293,902.48	377,997.18	422,182.80	30,502.90
Debt Mutual Funds - International	489,953.52	63,693.96	176,383.27	58,794.42	166,584.20	24,497.68	
<b>Totals</b>	<b>\$ 3,348,669.98</b>	<b>\$ 1,378,630.96</b>	<b>\$ 595,577.37</b>	<b>\$ 352,696.90</b>	<b>\$ 544,581.38</b>	<b>\$ 446,680.48</b>	<b>\$ 30,502.90</b>

Rating Agency: Standard & Poors, Moody'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
Real Estate Investment Trust	\$ 400,024.29
Domestic Stocks	2,835,911.80
Foreign Stocks (Denominated in US dollars)	518,837.35
<b>Total</b>	<b>\$ 3,754,773.44</b>

### Component Unit:

**Deposits** - The Foundation had the following cash and investments at June 30, 2014:

Cash with Bank	\$ 4,890
Cash on Deposit with State Treasurer	835,090
<b>Total</b>	<b>\$ 839,980</b>

**Investments** - Investments of the College's discretely presented 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

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

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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 as of June 30, 2014:

Money Market Mutual Funds	\$	119,972
Common Stock		839,848
Bonds		576,285
<b>Total</b>	<b>\$</b>	<b>1,536,105</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	2,215.00
Carrying Amount of Deposits with Private Financial Institutions		6,384,601.92
Investments in the Short-Term Investment Fund		1,565,328.98
Other Investments		10,878,657.21
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>18,830,803.11</b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	1,299,457.29
Restricted Cash and Cash Equivalents		2,952,666.52
Noncurrent:		
Restricted Cash and Cash Equivalents		3,700,022.09
<b>Total Deposits</b>		<b>7,952,145.90</b>
Investments		
Current:		
Restricted Short-Term Investments		3,000.00
Noncurrent:		
Restricted Investments		10,875,657.21
<b>Total Investments</b>		<b>10,878,657.21</b>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>18,830,803.11</b>

**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. The College has cash with fiscal agent and other cash held with a private financial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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, 2014, net appreciation of \$85,070.49 was available to be spent, of which \$84,511.10 was classified in net position as restricted - expendable for scholarships and fellowships and \$559.39 was classified in net position as restricted - expendable for other as it is restricted for specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 518,780.27	\$ 376,507.04	\$ 142,273.23
Student Sponsors	7,836.87		7,836.87
Accounts	204,655.96	42,603.08	162,052.88
Intergovernmental	215,740.06		215,740.06
Radio Station Pledges	14,175.38	8,448.00	5,727.38
Investment Earnings	3,424.10		3,424.10
<b>Total Current Receivables</b>	<b>\$ 964,612.64</b>	<b>\$ 427,558.12</b>	<b>\$ 537,054.52</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 966,984.35	\$ 0.00	\$ 0.00	\$ 966,984.35
Art, Literature, and Artifacts	62,305.00			62,305.00
Construction in Progress	230,091.08	600.00	230,091.08	600.00
<b>Total Capital Assets, Nondepreciable</b>	<b>1,259,380.43</b>	<b>600.00</b>	<b>230,091.08</b>	<b>1,029,889.35</b>
Capital Assets, Depreciable:				
Buildings	27,973,679.18	183,369.12		28,157,048.30
Machinery and Equipment	5,577,023.20	346,362.16	270,626.39	5,652,758.97
General Infrastructure	631,016.71	174,676.11		805,692.82
<b>Total Capital Assets, Depreciable</b>	<b>34,181,719.09</b>	<b>704,407.39</b>	<b>270,626.39</b>	<b>34,615,500.09</b>
Less Accumulated Depreciation for:				
Buildings	12,061,624.81	669,831.34		12,731,456.15
Machinery and Equipment	2,242,881.80	316,489.17	241,920.57	2,317,450.40
General Infrastructure	337,367.30	32,022.25		369,389.55
<b>Total Accumulated Depreciation</b>	<b>14,641,873.91</b>	<b>1,018,342.76</b>	<b>241,920.57</b>	<b>15,418,296.10</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>19,539,845.18</b>	<b>(313,935.37)</b>	<b>28,705.82</b>	<b>19,197,203.99</b>
<b>Capital Assets, Net</b>	<b>\$ 20,799,225.61</b>	<b>\$ (313,335.37)</b>	<b>\$ 258,796.90</b>	<b>\$ 20,227,093.34</b>

The capital asset schedule above includes land and a building valued at cost of \$4,188,116.31 for which the College does not currently hold 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 private financing needed to provide the resources 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, 2014, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 113,370.53
Accrued Payroll	486,755.78
Intergovernmental Payables	6,553.74
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 606,680.05</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 920,495.18	\$ 456,558.21	\$ 459,794.84	\$ 917,258.55	\$ 138,781.22

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for WNCW Public Radio transmitter site lease. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	\$ 34,811.70
2016	36,552.29
<b>Total Minimum Lease Payments</b>	<b>\$ 71,363.99</b>

Rental expense for all operating leases during the year was \$53,321.04.

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 3,216,256.97</u>	<u>\$ 0.00</u>	<u>\$ 2,166,586.49</u>	<u>\$ 90,201.13</u>	<u>\$ 959,469.35</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,397,390.43	\$ 3,157.39	\$ 1,020,668.14	\$ 47,839.06	\$ 325,725.84
Public Radio	583,280.45			6,492.85	576,787.60
Performing Arts Center	200,148.91				200,148.91
Rental Income	44,250.00				44,250.00
Sales and Services of Education and Related Activities	<u>83,780.24</u>				<u>83,780.24</u>
<b>Total Sales and Services</b>	<u>\$ 2,308,850.03</u>	<u>\$ 3,157.39</u>	<u>\$ 1,020,668.14</u>	<u>\$ 54,331.91</u>	<u>\$ 1,230,692.59</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 8,261,248.03	\$ 350,728.51	\$ 514,623.88	\$ 0.00	\$ 19,858.49	\$ 0.00	\$ 9,146,458.91
Public Service	668,567.30	41,510.69	665,680.93				1,375,758.92
Academic Support	1,902,914.26	256,851.14	122,283.37				2,282,048.77
Student Services	1,057,316.29	19,644.93	120,219.23				1,197,180.45
Institutional Support	2,252,437.86	204,544.96	696,463.93				3,153,446.75
Operations and Maintenance of Plant	891,677.54	817,859.71	200,080.34		636,533.89		2,546,151.48
Student Financial Aid				2,542,370.97			2,542,370.97
Auxiliary Enterprises	207,637.25	1,193,456.53	158,776.03		878.00		1,560,747.81
Depreciation						1,018,342.76	1,018,342.76
<b>Total Operating Expenses</b>	<b>\$ 15,241,798.53</b>	<b>\$ 2,884,596.47</b>	<b>\$ 2,478,127.71</b>	<b>\$ 2,542,370.97</b>	<b>\$ 657,270.38</b>	<b>\$ 1,018,342.76</b>	<b>\$ 24,822,506.82</b>

### NOTE 11 - PENSION PLAN

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,962,632.25, of which \$9,368,268.38 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$814,102.52 and \$562,096.10, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$814,102.52, \$779,800.68, and \$680,252.89, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The TSERS 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

### 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, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$505,886.49, \$496,151.69, and \$457,159.20, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$41,220.38, \$41,189.95, and \$47,544.56, 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, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 Allied Health 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 discretely presented component unit of the State of North 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

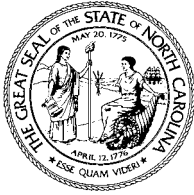
Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### **NOTE 14 - COMMITMENTS**

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$20,675.67 and on other purchases were \$8,030.07 at June 30, 2014.

### **NOTE 15 - RELATED PARTY**

The Isothermal Community College Polk County Campus Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as a fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net position, or operational transactions of the Foundation, except for support from the Foundation. This support approximated \$1,015.00 for the year ended June 30, 2014.

**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Isothermal Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 15, 2014. Our report includes a reference to other auditors who audited the financial statements of Isothermal Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of Isothermal Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Isothermal Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable



**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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possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

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For additional information contact:  
Bill Holmes  
Director of External Affairs