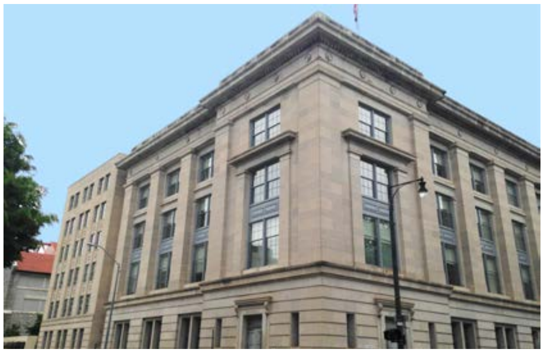
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ISOTHERMAL COMMUNITY COLLEGE

SPINDALE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2016, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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 (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, 2016, 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 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, 2016, 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 and other required supplementary information, as listed in the table of contents, 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 March 16, 2017 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 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016. The following financial statements, notes to the financial statements, and required supplementary information comprise the 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**.**

Last fiscal year, GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – *An Amendment of GASB Statement No. 27*, as well as GASB Statement No. 71 – Pension Transitions for Contributions Made Subsequent to the Measurement Date – *An Amendment of GASB Statement No. 68* were implemented which required the College to include its portion of cost-sharing for the Teachers' and State Employees' Retirement System (TSERS) defined benefit pension plan. As a result, the College must now report a net pension liability, deferred outflows of resources, and deferred inflows of resources as well as pension expense based on its proportional share of the aggregated net pension liability of all participating employers in the plan. Net pension liability, deferred outflows of resources and deferred inflows of resources are reported in the Statement of Net Position, and pension expense is included in salaries and benefits on the Statement of Revenues, Expenses, and Changes in Net Position, and as a reconciling item between operating loss and net cash used by operating activities in the Statement of Cash Flows.

Financial Highlights

The College serves the markets in Rutherford and Polk counties and beyond. The College has completed a successful re-affirmation process by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) which is critical to continued success. As the economy continues to make some recovery, enrollment continues to trend down slightly which negatively impacts operational revenues. The overall impact on funded enrollment for the 2015-2016 fiscal year, was 8.70% which results in a decrease in overall State Formula of 5.00%. The College continues a strong operation by managing personnel effectively and focusing efforts on areas where growth and demand are achievable. The College continues to invest in strategies to effectively market services and program availability for areas where there are emerging markets forecasting job growth and demand for a qualified workforce. The College is in the implementation phase of its Quality Enhancement Plan, focusing on support for student success which includes: mandatory orientation, advising, early intervention, required introductory study skills classes, and mentoring. This phase of the plan is ultimately designed to improve completion of both degree and credentialing programs and improve retention of students beginning programs of study. These efforts are supported by grant funds and are expected to create growth through sustained enrollment and improved services. The College continues with a strong financial base and continues to pursue efficiencies in operations, grant sources, and marketing strategies that will increase future enrollment.

Statement of Net Position

The Statement of Net Position presents a fiscal snapshot of the College as of June 30, 2016, 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 total liabilities and deferred inflows of resources (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 depreciation. A summarized comparison of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2016 and 2015 are as follows:

Condensed Statement of Net Position

	2016	2015 (As Restated)	Increase/ (Decrease)
Assets			
Current Assets	$ 5,261,278.58	$ 5,579,753.34	$ (318,474.76)
Noncurrent Assets			
Capital Assets, Net	19,722,470.16	20,365,143.44	(642,673.28)
Other Noncurrent Assets	14,272,087.31	14,790,670.30	(518,582.99)
Total Assets	39,255,836.05	40,735,567.08	(1,479,731.03)
Total Deferred Outflows of Resources	858,873.00	863,375.00	(4,502.00)
Liabilities			
Current Liabilities	1,036,694.60	898,507.53	138,187.07
Long-Term Liabilities	3,401,347.91	1,648,567.31	1,752,780.60
Total Liabilities	4,438,042.51	2,547,074.84	1,890,967.67
Total Deferred Inflows of Resources	657,245.00	3,005,055.00	(2,347,810.00)
Net Position			
Investment in Capital Assets	19,722,470.16	20,365,143.44	(642,673.28)
Restricted - Nonexpendable	1,766,213.01	1,784,481.39	(18,268.38)
Restricted - Expendable	14,738,284.53	15,584,905.03	(846,620.50)
Unrestricted	(1,207,546.16)	(1,687,717.62)	480,171.46
Total Net Position	$ 35,019,421.54	$ 36,046,812.24	$ (1,027,390.70)

Current assets, which decreased $318,474.76, consist primarily of cash, receivables expected to be collected within one year, investments expected to be spent within one year, prepaid items, and inventories expected to be used within one year. Within current assets, cash and cash equivalents decreased by $549,206.38 mostly due to cash being used to upgrade systems and equipment for the College's radio station and disappointing investment earnings. Receivables increased by $362,340.89 primarily due to a receivable from Rutherford County for capital projects offset by a decrease in bookstore inventory due to lower student demand and increased efficiency.

Other noncurrent assets consist of cash not expected to be used within one year, amounts due from the State of North Carolina for capital projects, and investments held in the Lee L. Powers Scholarship Account and the Mildred Furches Scholarship Group Account.

The decrease in other noncurrent assets is driven primarily by a $355,824.76 decrease in investment asset values. A further analysis of investment earnings will follow under the Statement of Revenues, Expenses, and Changes in Net Position section.

Capital assets decreased by $642,673.28, as additions of $437,864.74 are off-set by net disposals of $141,917.79 and an increase in accumulated depreciation of $938,620.23.

Deferred outflows of resources relate to TSERS contributions subsequent to the measurement date and appear as a result of the College's implementation of the new GASB 68 pension reporting standard in fiscal year 2015. The pension liability calculation lags financial reporting by one year; as a result of the lag, recognition of the cash contribution to the pension plan for the fiscal year is deferred.

Current liabilities are comprised of accounts payable, accrued compensation, unearned revenue, and current portions of long-term liabilities. The net increase of $138,187.07 is primarily driven by accounts payable and contract retainage associated with construction and repairs and maintenance projects which were accrued in the amount of $205,177.40.

Long-term liabilities include accrued leave not expected to be used within the next year, which increased by $49,717.60 due to pay increases. In addition, long-term liabilities include net pension liability which is the College's portion of the present value of projected benefit payments to be provided through the TSERS plan. This balance increased by $1,703,063.00 because actual investment earnings for the TSERS plan were significantly less than forecasted.

Deferred inflows of resources totaled $657,245.00 in the current year and represent the difference between actual and expected experience for pensions. The decrease in this amount from the prior fiscal year is a result of the investment earning on the plan noted above.

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, 2016 and 2015:

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

	2016	2015 (As Restated)	Increase/ (Decrease)
Operating Revenues:			
Student Tuition & Fees, Net	$ 857,983.49	$ 985,353.69	$ (127,370.20)
Sales and Service, Net	1,394,925.72	1,282,837.15	112,088.57
Other Operating Revenue		3,356.68	(3,356.68)
Total Operating Revenues	2,252,909.21	2,271,547.52	(18,638.31)
Operating Expenses:			
Salaries and Benefits	13,979,967.61	14,461,639.47	(481,671.86)
Supplies and Materials	3,594,211.78	2,251,508.72	1,342,703.06
Services	2,486,672.01	2,378,479.49	108,192.52
Scholarships and Fellowships	1,744,906.06	2,009,831.57	(264,925.51)
Utilities	579,182.71	601,597.56	(22,414.85)
Depreciation	938,620.23	943,875.48	(5,255.25)
Total Operating Expenses	23,323,560.40	22,646,932.29	676,628.11
Operating Loss	(21,070,651.19)	(20,375,384.77)	(695,266.42)
Nonoperating Revenues (Expenses):			
State Aid	10,019,654.66	10,724,271.17	(704,616.51)
County Appropriations	2,345,517.84	2,324,586.44	20,931.40
Noncapital Grants - Student Aid	3,906,254.99	4,315,273.45	(409,018.46)
Noncapital Grants	1,114,679.25	1,042,544.60	72,134.65
Noncapital Gifts	811,688.34	876,746.18	(65,057.84)
Investment Income (Loss)	(52,117.75)	255,442.41	(307,560.16)
Other Nonoperating Revenues (Expenses)	(30,175.03)	479,138.42	(509,313.45)
Net Nonoperating Revenues	18,115,502.30	20,018,002.67	(1,902,500.37)
Loss Before Other Revenues	(2,955,148.89)	(357,382.10)	(2,597,766.79)
Other Revenues			
State and County Capital Aid	1,555,372.75	880,919.20	674,453.55
Other Capital Contributions	372,385.44	44,183.73	328,201.71
Increase (Decrease) in Net Position	(1,027,390.70)	567,720.83	(1,595,111.53)
Net Position, Beginning, as Restated	36,046,812.24	35,479,091.41	567,720.83
Net Position, Ending	$ 35,019,421.54	$ 36,046,812.24	$ (1,027,390.70)
Reconciliation of Changes in Net Position			
Total Revenues	$ 22,378,462.48	$ 23,214,653.12	$ (836,190.64)
Less: Total Expenses	23,405,853.18	22,646,932.29	758,920.89
Changes in Net Position	$ (1,027,390.70)	$ 567,720.83	$ (1,595,111.53)

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

The College's enrollment decline continued in fiscal year 2016. Net tuition and fees revenue for our curriculum programs was down $115,411.09. This is driven by a 4% decline in full time equivalent student, from 1,788 to 1,717.

Although enrollment declined, the College had increased net sales and services revenue. Net bookstore revenue increased by $34,115.10. Also recorded under sales and services, underwriting revenue from WNCW-FM increased from $564,184.37 in FY2015 to $624,959.79 in FY 2016. In addition, revenue from the performing arts center increased by $71,035.50 from $223,606.81 in FY2015 to $294,642.31 in FY2016, driven by increased ticket sales.

Overall operating expenses increased $676,628.11. Salaries and benefits decreased $481,671.86 and 3.3%. This decrease is driven by a decreasing enrollment and budget constraints requiring less use of part time contracts and fulltime salaries. Supplies and materials increased $1,342,703.06 and 59.6%, driven by $1,714,493.51 of expenditures on roofing and other construction projects that are considered repairs and maintenance rather than a capitalized expense. Also, services increased $108,192.52 and 4.5% as the College entered into a series of advertising programs to increase student enrollment and to promote the performing arts center and public radio station. Scholarships and fellowships decreased by $264,925.51 and 13.2% due to a decrease in student Pell grants from $3,959,342.80 in FY15 to $3,541,882.67 in FY16. In addition, utilities and depreciation remained consistent with decreases of $22,414.85 and $5,255.25, respectively.

Nonoperating revenues consists of aid from the State of North Carolina, Rutherford and Polk counties, financial aid received from the federal and state government and private entities to disburse to students, and investment income. State aid decreased by $704,616.51 and 6.6% as our enrollment decline resulted in lower state funding. Also included in the nonoperating revenue section are noncapital grants, which decreased a combined $336,883.81 and 6.3% primarily because of the decline in Pell grants discussed above.

Investment income from the Lee L. Powers Memorial and other scholarship funds declined due to less favorable results than in prior years. The funds had a net investment gain of $255,442.41 in FY2015 versus a $52,117.75 loss in FY2016. This investment loss is summarized as follows: Interest, dividends, and capital gain dividends from Lee L. Powers fund, Mildred Furches Scholarship Group, and other scholarship funds, were $689,004.04; realized loss on sale of securities ($674,224.68) and unrealized loss or decrease in market value of securities held as of June 30, 2016 ($5,038.42). Investment management fees netted against investment gains were $61,858.69.

Other revenues are made up of capital aid received from the state in the amount of $289,854.94 for equipment purchases, and capital aid received from Rutherford and Polk counties of $1,265,517.81 for repair and renovation construction projects. The College also received $270,324.33 in capital grants and capital gifts valued at $102,061.11 for equipment transferred from Cleveland Community College.

Capital Assets

Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets are land, an art collection, and construction in progress. Depreciable assets are buildings, machinery and equipment, and general infrastructure. The College has $19,722,470.16 invested in capital assets at year-end which decreased $642,673.28 from the prior fiscal year. This includes a net increase of $4,707.70 for ongoing capital improvement projects in construction in progress, bringing the total in construction in progress to $109,892.50. In addition, $339,172.24 of equipment purchased was netted against a $986,553.22 decrease due to normal additions, deletions, and the recording of current depreciation expense.

Economic Forecast

The College has received the re-affirmation for the 10 year reaccreditation from SACSCOC. This process is very important to the viability of the College. The ongoing budgetary impact related to the reaccreditation process is related to the implementation of the Quality Enhancement Plan. The College is focused on pursuing and stabilizing enrollment for traditional first-time college students. In order to provide for investments in opportunities for existing and prospective students, the College is actively engaged in pursuing grant opportunities through agencies such as Golden Leaf, Appalachian Regional Commission (Federal Source), First in the World, Cannon Foundation, and others to ensure the availability of resources for program start-ups and expansions. The College continues to examine effective methods of marketing into the service area to inform targets about new and existing programs and opportunities for workforce training. These include new programs related to developing industries in both Rutherford and Polk counties. The College has experienced another 9.4% decrease in enrollment for curriculum programs resulting in an overall decrease in state funding of 5%. Projections for the 2016-2017 year indicate an additional 5% decrease in enrollment which could impact state allocations by as much as 3.5%. As the College moves forward, it will continue to evaluate enrollment by program and focus available resources to meet the needs of the service area. To manage the decreases in state funding, the College continues to monitor staffing levels through attrition and make assessments related to identifying efficiencies.

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 the economy changes and the unemployment rate stabilizes, the College will have to continue focusing efforts on maximizing efficiencies.

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 the 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.

FINANCIAL STATEMENTS

Isothermal Community College
Statement of Net Position
June 30, 2016

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,553,538.22
Restricted Cash and Cash Equivalents		2,371,283.28
Restricted Short-Term Investments		3,000.00
Receivables, Net (Note 5)		899,689.48
Inventories		421,730.36
Prepaid Items		12,037.24
Total Current Assets		5,261,278.58
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		272,120.11
Restricted Due from Primary Government		9,107.26
Restricted Investments		13,990,859.94
Capital Assets - Nondepreciable (Note 6)		1,500,775.67
Capital Assets - Depreciable, Net (Note 6)		18,221,694.49
Total Noncurrent Assets		33,994,557.47
Total Assets		39,255,836.05
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		858,873.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		755,078.55
Due to Primary Government		892.10
Unearned Revenue		106,099.72
Funds Held for Others		71,341.21
Long-Term Liabilities - Current Portion (Note 8)		103,283.02
Total Current Liabilities		1,036,694.60
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		3,401,347.91
Total Liabilities		4,438,042.51
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		657,245.00

NET POSITION	
Investment in Capital Assets	19,722,470.16
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,639,536.18
Other	126,676.83
Expendable:	
Scholarships and Fellowships	13,374,552.86
Loans	74,525.73
Restricted for Specific Programs	1,288,248.31
Other	957.63
Unrestricted	(1,207,546.16)
Total Net Position	$ 35,019,421.54

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

Isothermal Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	857,983.49
Sales and Services, Net (Note 10)		1,394,925.72
Total Operating Revenues		2,252,909.21
EXPENSES		
Operating Expenses:		
Salaries and Benefits		13,979,967.61
Supplies and Materials		3,594,211.78
Services		2,486,672.01
Scholarships and Fellowships		1,744,906.06
Utilities		579,182.71
Depreciation		938,620.23
Total Operating Expenses		23,323,560.40
Operating Loss		(21,070,651.19)
NONOPERATING REVENUES (EXPENSES)		
State Aid		10,019,654.66
County Appropriations		2,345,517.84
Noncapital Grants - Student Financial Aid		3,906,254.99
Noncapital Grants		1,114,679.25
Noncapital Gifts		811,688.34
Investment Loss (Net of Investment Expense of $61,858.69)		(52,117.75)
Other Nonoperating Expenses		(30,175.03)
Net Nonoperating Revenues		18,115,502.30
Loss Before Other Revenues		(2,955,148.89)
State Capital Aid		289,854.94
County Capital Aid		1,265,517.81
Capital Grants		270,324.33
Capital Gifts		102,061.11
Decrease in Net Position		(1,027,390.70)
NET POSITION		
Net Position, July 1, 2015 as Restated (Note 18)		36,046,812.24
Net Position, June 30, 2016	$	35,019,421.54

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

Isothermal Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,307,753.06
Payments to Employees and Fringe Benefits	(14,629,670.88)
Payments to Vendors and Suppliers	(6,338,755.33)
Payments for Scholarships and Fellowships	(1,741,034.59)
Other Receipts	1,714.96
Net Cash Used by Operating Activities	(20,399,992.78)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	10,019,654.66
County Appropriations	2,345,517.84
Noncapital Grants - Student Financial Aid	3,910,852.24
Noncapital Grants	1,054,420.59
Noncapital Gifts	812,282.70
Cash Provided by Noncapital Financing Activities	18,142,728.03
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	453,574.80
County Capital Aid	905,670.10
Capital Grants	270,324.33
Capital Gifts	1,254.04
Proceeds from Sale of Capital Assets	16,414.85
Acquisition and Construction of Capital Assets	(243,072.87)
Net Cash Provided by Capital and Related Financing Activities	1,404,165.25
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	8,223,750.46
Investment Income	690,151.78
Purchase of Investments and Related Fees	(8,609,047.49)
Net Cash Provided by Investing Activities	304,854.75
Net Decrease in Cash and Cash Equivalents	(548,244.75)
Cash and Cash Equivalents, July 1, 2015	4,745,186.36
Cash and Cash Equivalents, June 30, 2016	$ 4,196,941.61

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(21,070,651.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		938,620.23
Pension Expense		217,685.00
Miscellaneous Pension Adjustment		943.00
Nonoperating Other Income		1,343.11
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		50,482.08
Inventories		134,203.36
Prepaid Items		(2,594.09)
Accounts Payable and Accrued Liabilities		181,588.59
Due to Primary Government		360.84
Unearned Revenue		17,158.73
Funds Held for Others		(9,485.39)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(858,873.00)
Compensated Absences		(774.05)
Net Cash Used by Operating Activities	$	(20,399,992.78)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,553,538.22
Restricted Cash and Cash Equivalents		2,371,283.28
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		272,120.11
Total Cash and Cash Equivalents - June 30, 2016	$	4,196,941.61

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	100,807.07
Change in Fair Value of Investments		(5,038.42)
Increase in Receivables Related to Nonoperating Income		414,565.07
Loss on Disposal of Capital Assets		(31,518.14)

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, 2016 *Exhibit B-1*

ASSETS		
Cash and Investments	$	335,515
Marketable Securities		1,981,729
Total Assets	$	2,317,244
LIABILITIES AND NET ASSETS		
Total Liabilities	$	0
Net Assets:		
Unrestricted		133,837
Temporarily Restricted		2,183,407
Total Liabilities and Net Assets	$	2,317,244

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, 2016 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Contributions	$ 5,900	$ 78,560	$ 84,460
Other Revenue	24,437	14,526	38,963
Interest and Investment Earnings	4,200	63,517	67,717
In-Kind Contributions	24,782		24,782
Unrealized Loss on Investments	(3,992)	(34,192)	(38,184)
Realized Loss on Investments	(1,116)	(21,250)	(22,366)
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	211,364	(211,364)	
Total Revenue and Support	265,575	(110,203)	155,372
EXPENSES:			
Program Contributions:			
Performing Arts	76,218		76,218
Professional Development	5,447		5,447
Scholarships	65,115		65,115
Mentoring	27,802		27,802
College Support	41,782		41,782
In-Kind Expenses	24,782		24,782
Fundraising	15,941		15,941
Management and General	10,418		10,418
Total Expenses	267,505		267,505
Increase in Net Assets	(1,930)	(110,203)	(112,133)
Net Assets at Beginning of Year	150,767	2,278,610	2,429,377
Transfers	(15,000)	15,000	
Net Assets at End of Year	$ 133,837	$ 2,183,407	$ 2,317,244

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

NOTES TO THE FINANCIAL STATEMENTS

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, tax-exempt 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 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 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, 2016, the Foundation distributed $177,633.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College Controller's office at 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, cash on deposit with fiscal agents, 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** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. 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 value of investments is recognized as a component of investment income.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	18-62 years
Machinery & Equipment	5-40 years
General Infrastructure	10-75 years

The Andrew and Flora Major Art collection, acquired prior to July 1, 2015, 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, 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 net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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:

Investment in Capital Assets - This represents the College’s total investment in 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.

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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 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, public radio station, and performing arts center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current 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, 2016 was $2,110.00. The carrying amount of the College's deposits not with the State Treasurer was $2,666,099.68, and the bank balance was $2,858,761.98.

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, 2016, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments

College - 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,528,731.93, 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 or subject to any regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 website at http://www.osc.nc.gov/ 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.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2016, 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 value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 14,000.00	$ 0.00	$ 0.00	$ 0.00	$ 14,000.00
U.S. Agencies	119,353.90	119,353.90			
Debt Mutual Funds	6,553,641.38	466,006.67	1,439,078.87	1,310,273.35	3,338,282.49
Total Debt Securities	6,686,995.28	$ 585,360.57	$ 1,439,078.87	$ 1,310,273.35	$ 3,352,282.49
Other Securities					
Mutual Funds - Domestic	3,746,350.12				
Mutual Funds - Foreign	2,147,560.73				
Investment in Real Estate	3,000.00				
Domestic Stocks	1,238,729.42				
Foreign Stocks (denominated in US dollars)	171,224.39				
Total Investments	$ 13,993,859.94				

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, 2016, the College's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	$ 119,353.90	$ 0.00	$ 119,353.90	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Debt Mutual Funds	6,553,641.38	3,602,365.95	558,802.89	678,750.68	702,789.03	851,596.02	159,336.81
Totals	$ 6,672,995.28	$ 3,602,365.95	$ 678,156.79	$ 678,750.68	$ 702,789.03	$ 851,596.02	$ 159,336.81

Rating Agency: Standards & 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
U.S. Agencies	$ 119,353.90
Domestic Stocks	1,238,729.42
Foreign Stocks (denominated in US dollars)	171,224.39
Total	$ 1,529,307.71

Component Unit

Deposits – The Foundation had the following cash at June 30, 2016:

Cash with Bank	$	4,723.00
Cash on Deposit with State Treasurer		330,792.00
	$	335,515.00

Investments - Investments of the College's discretely presented 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. 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:

Money Market Fund	$	81,011.00
Common Stock		950,047.00
Fixed Income		950,671.00
	$	1,981,729.00

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	$	2,110.00
Carrying Amount of Deposits with Private Financial Institutions		2,666,099.68
Investments in the Short-Term Investment Fund		1,528,731.93
Other Investments		13,993,859.94
Total Deposits and Investments	$	18,190,801.55
Deposits		
Current:		
Cash and Cash Equivalents	$	1,553,538.22
Restricted Cash and Cash Equivalents		2,371,283.28
Noncurrent:		
Restricted Cash and Cash Equivalents		272,120.11
Total Deposits		4,196,941.61
Investments		
Current:		
Restricted Short-Term Investments		3,000.00
Noncurrent:		
Restricted Investments		13,990,859.94
Total Investments		13,993,859.94
Total Deposits and Investments	$	18,190,801.55

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 — Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 — Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 — Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2016:

	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 14,000.00	$ 14,000.00	$ 0.00	$ 0.00
U.S. Agencies	119,353.90	119,353.90		
Debt Mutual Funds	6,553,641.38	6,553,641.38		
Total Debt Securities	6,686,995.28	6,686,995.28		
Other Securities				
Short-Term Investment Fund	1,528,731.93		1,528,731.93	
Mutual Funds - Domestic	3,746,350.12	3,746,350.12		
Mutual Funds - Foreign	2,147,560.73	2,147,560.73		
Investment in Real Estate	3,000.00			3,000.00
Domestic Stocks	1,238,729.42	1,238,729.42		
Foreign Stocks (denominated in US dollars)	171,224.39	171,224.39		
Total Investments Measured at Fair Value	$ 15,522,591.87	$ 13,990,859.94	$ 1,528,731.93	$ 3,000.00

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Component Unit - FASB Accounting Standards Codification 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

Level II – Inputs to the valuation methodology include

- quoted prices for similar assets in active markets
- quoted prices for identical or similar assets in inactive markets
- inputs other than quoted prices that are observable for the assets
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

If an asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

Level III – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Fair Values Measured on a Recurring Basis

The fair value of each financial instrument in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments.

	Level 1
Money Market Fund	$ 81,011.00
Common Stock	950,047.00
Fixed Income	950,671.00
	$ 1,981,729.00

Investment accounts of money market funds, stocks and bonds that are recorded to fair value based on current quoted market prices provided by investment custodians or other models.

NOTE 4 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2016, net appreciation of $7,466.87 was available to be spent, of which $6,562.86 was classified in net position as restricted - expendable: scholarships and fellowships, and $904.01 was classified in net position as restricted - expendable: restricted for specific programs as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 528,427.53	$ 387,064.78	$ 141,362.75
Student Sponsors	35,533.04		35,533.04
Accounts	181,246.40	40,226.30	141,020.10
Intergovernmental	560,544.04		560,544.04
Radio Station Pledges	11,599.32	6,935.74	4,663.58
Investment Earnings	7,798.61		7,798.61
Other	8,767.36		8,767.36
Total Current Receivables	$ 1,333,916.30	$ 434,226.82	$ 899,689.48

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015 (As restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 1,328,578.17	$ 0.00	$ 0.00	$ 1,328,578.17
Art, Literature, and Artifacts	62,305.00			62,305.00
Construction in Progress	105,184.80	98,692.50	93,984.80	109,892.50
Total Capital Assets, Nondepreciable	1,496,067.97	98,692.50	93,984.80	1,500,775.67
Capital Assets, Depreciable:				
Buildings	28,157,048.30			28,157,048.30
Machinery and Equipment	6,065,402.29	339,172.24	206,851.03	6,197,723.50
General Infrastructure	805,692.82			805,692.82
Total Capital Assets, Depreciable	35,028,143.41	339,172.24	206,851.03	35,160,464.62
Less Accumulated Depreciation for:				
Buildings	13,405,662.45	626,127.22		14,031,789.67
Machinery and Equipment	2,372,960.25	288,465.57	158,918.04	2,502,507.78
General Infrastructure	380,445.24	24,027.44		404,472.68
Total Accumulated Depreciation	16,159,067.94	938,620.23	158,918.04	16,938,770.13
Total Capital Assets, Depreciable, Net	18,869,075.47	(599,447.99)	47,932.99	18,221,694.49
Capital Assets, Net	$ 20,365,143.44	$ (500,755.49)	$ 141,917.79	$ 19,722,470.16

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 155,834.95
Accrued Payroll	475,145.50
Contract Retainage	123,950.10
Intergovernmental Payables	148.00
Total Current Accounts Payable and Accrued Liabilities	$ 755,078.55

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	$ 823,509.00	$ 1,703,063.00	$ 0.00	$ 2,526,572.00	$ 0.00
Compensated Absences	978,832.98	500,127.87	500,901.92	978,058.93	103,283.02
Total Long-Term Liabilities	$ 1,802,341.98	$ 2,203,190.87	$ 500,901.92	$ 3,504,630.93	$ 103,283.02

Additional information regarding the net pension liability is included in Note 12.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for WNCW-FM Public Radio transmitter site leases. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 9,660.00
2018	9,998.00
2019	10,348.00
2020	10,710.00
2021	11,085.00
2022-2026	61,524.00
Total Minimum Lease Payments	$ 113,325.00

Rental expense for all operating leases during the year was $59,552.27.

NOTE 10 - 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
Operating Revenues:					
Student Tuition and Fees, Net	$ 2,793,412.30	$ 0.00	$ 1,878,841.56	$ 56,587.25	$ 857,983.49
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,247,331.99	$ 3,507.01	$ 812,189.22	$ 46,221.27	$ 385,414.49
Public Radio Station	635,532.81	12,711.45		(2,138.43)	624,959.79
Perfomring Arts Center	295,773.86	1,131.55			294,642.31
Vending Operations	10,475.97				10,475.97
Rent	24,400.00				24,400.00
Sales and Services of Education and Related Activities	55,033.16				55,033.16
Total Sales and Services, Net	$ 2,268,547.79	$ 17,350.01	$ 812,189.22	$ 44,082.84	$ 1,394,925.72

NOTE 11 - 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	$ 7,080,691.00	$ 264,746.68	$ 368,595.61	$ 0.00	$ 0.00	$ 0.00	$ 7,714,033.29
Public Service	786,848.63	86,001.82	622,225.28				1,495,075.73
Academic Support	1,996,934.04	128,526.55	100,210.99				2,225,671.58
Student Services	956,668.10	21,742.09	89,423.72				1,067,833.91
Institutional Support	2,052,128.55	177,352.39	659,249.94				2,888,730.88
Operations and Maintenance of Plant	902,044.52	1,878,069.83	423,024.61		578,065.39		3,781,204.35
Student Financial Aid				1,744,906.06			1,744,906.06
Auxiliary Enterprises	204,652.77	1,037,772.42	223,941.86		1,117.32		1,467,484.37
Depreciation						938,620.23	938,620.23
Total Operating Expenses	$ 13,979,967.61	$ 3,594,211.78	$ 2,486,672.01	$ 1,744,906.06	$ 579,182.71	$ 938,620.23	$ 23,323,560.40

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were $858,872.76, and employee contributions were $563,195.25 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of $2,526,572.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was 0.06856%, which was a decrease of 0.00168 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 7,604,283.72	$ 2,526,572.00	$ (1,782,452.36)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of $217,685.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 287,271.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		273,732.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		96,242.00
Contributions Subsequent to the Measurement Date	858,873.00	
Total	$ 858,873.00	$ 657,245.00

The amount of $858,873.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	$ (357,480.00)
2018	(357,480.00)
2019	(345,392.00)
2020	403,107.00
Total	$ (657,245.00)

NOTE 13 - 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 (TSERS). 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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $525,648.90, $518,025.12, and $505,886.49, 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 "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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $38,485.01, $38,686.76, and $41,220.38, 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 14 - 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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.

2. Public Officers' and Employees' Liability Insurance

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 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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 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.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the College

The College retained the following risks as of June 30, 2016: Professional Liability and Medical Malpractice and Employment Practices.

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 limits of $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 Director's and Officer's Liability Insurance with a limit of $3,000,000 and a $25,000 deductible.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $441,770.00 and on other purchases were $50,837.10 at June 30, 2016.

B. Pending Litigation and Claims - The College is a party to an Equal Employment Opportunity (EEOG) litigation. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 16 - 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 $2,538.61 for student scholarships and other aid and $8,000.34 for general support for the year ended June 30, 2016.

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

NOTE 18 - NET POSITION RESTATEMENT

As of July 1, 2015, net position as previously reported was restated as follows:

	Amount
July 1, 2015 Net Position as Previously Reported	$ 35,698,512.24
Restatement:	
Correct Capital Assets for Land Acquired in Prior Period	348,300.00
July 1, 2015 Net Position as Restated	$ 36,046,812.24

REQUIRED SUPPLEMENTARY INFORMATION

Isothermal Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years ***Exhibit C-1***

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.06856%	0.07024%	0.07080%
Proportionate Share of TSERS Collective Net Pension Liability	$ 2,526,572.00	$ 823,509.00	$ 4,298,281.00
Covered-Employee Payroll	$ 9,435,794.58	$ 9,368,268.38	$ 9,361,352.66
Net Pension Liability as a Percentage of Covered-Employee Payroll	26.78%	8.79%	45.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Isothermal Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 858,872.76	$ 863,375.20	$ 814,102.52	$ 779,800.68	$ 680,252.89
Contributions in Relation to the Contractually Determined Contribution	858,872.76	863,375.20	814,102.52	779,800.68	680,252.89
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 9,386,587.49	$ 9,435,794.58	$ 9,368,268.38	$ 9,361,352.66	$ 9,143,184.04
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 445,270.89	$ 308,643.75	$ 295,527.97	$ 263,751.23	$ 217,747.12
Contributions in Relation to the Contractually Determined Contribution	445,270.89	308,643.75	295,527.97	263,751.23	217,747.12
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 9,031,863.91	$ 8,645,483.25	$ 8,795,475.30	$ 8,647,581.40	$ 8,185,981.95
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Isothermal Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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

Board of Trustees
Isothermal Community College
Spindale, North Carolina

We have audited, 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 (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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 16, 2017. 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 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.

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 16, 2017

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The audit required 364 audit hours at an approximate cost of $37,492.