

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Surry Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Surry Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Surry Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Surry Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	8
B Statement of Revenues, Expenses, and Changes in Net Assets	9
C Statement of Cash Flows	10
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	26
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	27
DISTRIBUTION OF AUDIT REPORT	29



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Surry Community College
Dobson, North Carolina

We have audited the accompanying basic financial statements of Surry Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Surry Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

January 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Surry Community College's Financial Statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2003. This section should be read in conjunction with the College's basic financial statements and the related notes to the financial statements.

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College's financial activity is considered to be a single business-type activity and accordingly, is reported within a single column on the basic financial statements. The basic financial statements consist of three statements. These statements are featured below with brief descriptions of each.

The first statement, Statement of Net Assets includes all assets and liabilities. The Statement of Net Assets is presented in a classified format and is classified by current-unrestricted, current-restricted, or noncurrent. The second statement, Statement of Revenues, Expenses, and Changes in Net Assets, presents the revenue and expenses for the fiscal year. Revenue and expenses are classified as operating or nonoperating. The final statement, Statement of Cash Flows, presents the sources from which the College received cash and uses for which the cash was spent. The Cash Flow Statement is presented using the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative data for the current and prior year is presented in a condensed format as follows:

Condensed Statement of Net Assets

	2003	2002	Change
Assets			
Capital Assets, Net	\$ 13,064,455.00	\$ 10,754,692.51	\$ 2,309,762.49
Other Assets	2,418,193.08	3,561,713.02	(1,143,519.94)
Total Assets	15,482,648.08	14,316,405.53	1,166,242.55
Liabilities			
Long-Term Liabilities	417,997.26	390,801.47	27,195.79
Other Liabilities	560,529.32	371,578.71	188,950.61
Total Liabilities	978,526.58	762,380.18	216,146.40
Net Assets			
Invested in Capital Assets	13,064,455.00	10,754,692.51	2,309,762.49
Restricted - Expendable	410,368.41	2,519,606.94	(2,109,238.53)
Unrestricted	1,029,298.09	279,725.90	749,572.19
Total Net Assets	\$ 14,504,121.50	\$ 13,554,025.35	\$ 950,096.15

For the year ended June 30, 2003, the College's net assets increased to \$14.5 million from \$13.6 million at June 30, 2002. This increase is due primarily to the completion of the Yadkin Center. Total net assets as of June 30, 2003, consist of investment in capital assets (90%), restricted (3%) and unrestricted (7%).

Long-term liabilities increased by \$27,195.79 and consisted entirely of compensated absences. Other liabilities increased by \$188,950.61 due primarily to deferred revenue associated with summer tuition.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Operating Revenues	\$ 6,570,413.14	\$ 6,486,667.31	\$ 83,745.83
Operating Expenses	(20,580,713.33)	(19,128,567.64)	(1,452,145.69)
Nonoperating and Other Revenues	<u>14,960,396.34</u>	<u>13,226,131.13</u>	<u>1,734,265.21</u>
Net Assets			
Increase in Net Assets	950,096.15	584,230.80	365,865.35
Net Assets, July 1, 2002	<u>13,554,025.35</u>	<u>12,969,794.55</u>	<u>584,230.80</u>
Net Assets, June 30, 2003	<u>\$ 14,504,121.50</u>	<u>\$ 13,554,025.35</u>	<u>\$ 950,096.15</u>

Operating revenues increased by \$83,745.83 in fiscal year 2003. This increase can be attributed to an increase in the Federal Pell program as well as an increase in student tuition and fees resulting from increased enrollment. Sales and services revenue also increased due to higher bookstore sales associated with the increased enrollment.

Operating expenses increased by \$1,452,145.69 in fiscal year 2003. This increase was caused primarily by increases in personnel costs and an increase in scholarships. These increases were due to an increase in enrollment as mentioned above and higher faculty/staff salaries.

Nonoperating and Other Revenues increased by \$1,734,265.21 in fiscal year 2003. This increase can be attributed to an increase in capital and noncapital grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Cash Flows

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Operating Activities			
Received from Customers	\$ 6,418,649.23	\$ 6,325,707.33	\$ 92,941.90
Payments to Employees	(13,263,633.88)	(12,573,543.54)	(690,090.34)
Miscellaneous Activities	<u>(6,787,753.27)</u>	<u>(5,571,119.83)</u>	<u>(1,216,633.44)</u>
Net Cash Used by Operating Activities	<u>(13,632,737.92)</u>	<u>(11,818,956.04)</u>	<u>(1,813,781.88)</u>
Financing Activities			
State Aid Received	10,635,273.89	10,449,339.17	185,934.72
County Appropriations	1,203,506.84	1,277,712.40	(74,205.56)
Miscellaneous Activities	<u>1,191,378.30</u>	<u>171,694.73</u>	<u>1,019,683.57</u>
Net Cash Provided by Noncapital Financing	<u>13,030,159.03</u>	<u>11,898,746.30</u>	<u>1,131,412.73</u>
Cash Flows From Capital Activities			
State Capital Aid Received	1,710,777.19	720,326.51	990,450.68
County Capital Appropriations	321,802.16	534,031.04	(212,228.88)
Capital Grants Received	801,805.97		801,805.97
Capital Gifts Received	62,800.00		62,800.00
Acquisition and Construction of Capital Assets	<u>(2,717,226.87)</u>	<u>(1,104,485.44)</u>	<u>(1,612,741.43)</u>
Net Cash Provided by Capital Activities	<u>179,958.45</u>	<u>149,872.11</u>	<u>30,086.34</u>
Cash Flows From Investing Activities			
Interest on Investments	<u>29,975.03</u>	<u>41,463.81</u>	<u>(11,488.78)</u>
Net Cash Provided by Investing Activities	<u>29,975.03</u>	<u>41,463.81</u>	<u>(11,488.78)</u>
Net Increase/(Decrease) in Cash	(392,645.41)	271,126.18	(663,771.59)
Cash - July 1, 2002	<u>1,670,640.77</u>	<u>1,399,514.59</u>	<u>271,126.18</u>
Cash - June 30, 2003	<u>\$ 1,277,995.36</u>	<u>\$ 1,670,640.77</u>	<u>\$ (392,645.41)</u>

The majority of operating activities are payments from students for tuition and payments to employees for wages and fringe benefits. Current expense appropriation from the State of North Carolina accounts for 82% of total cash from financing activities. The only cash provided from investing activities is interest earned on checking and Short-Term Investment Fund (STIF) accounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College was authorized in 2000 by the General Assembly of North Carolina to receive \$9,482,827.00 over a six-year period for capital improvements. As of June 30, 2003, the College's remaining authorization was \$8,583,008.00, which will significantly impact future construction projects. There are currently no other known facts, decisions or conditions, which will have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and changes in net assets) of Surry Community College.

Surry Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 962,896.17
Restricted Cash and Cash Equivalents	248,610.19
Receivables (Note 3)	654,838.90
Due from State of North Carolina Component Units	53,000.00
Inventories	215,083.06
Notes Receivable (Note 3)	6,022.81
Total Current Assets	2,140,451.13

Noncurrent Assets:

Restricted Cash and Cash Equivalents	66,489.00
Restricted Due from Primary Government	211,252.95
Capital Assets - Nondepreciable, Net (Note 4)	585,612.23
Capital Assets - Depreciable, Net (Note 4)	12,478,842.77
Total Noncurrent Assets	13,342,196.95
Total Assets	15,482,648.08

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	363,344.86
Deferred Revenue	136,633.28
Funds Held for Others	60,551.18
Total Current Liabilities	560,529.32

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	417,997.26
Total Noncurrent Liabilities	417,997.26
Total Liabilities	978,526.58

NET ASSETS

Invested in Capital Assets	13,064,455.00
Restricted For:	
Expendable:	
Loans	18,965.95
Capital Projects	216,952.64
Other	174,449.82
Unrestricted	1,029,298.09
Total Net Assets	\$ 14,504,121.50

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

Surry Community College		
Statement of Revenues, Expenses, and Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,358,407.28
Federal Grants and Contracts		2,524,978.92
Sales and Services, Net (Note 8)		1,598,935.12
Other Operating Revenues		88,091.82
Total Operating Revenues		6,570,413.14
EXPENSES		
Operating Expenses:		
Personal Services		13,304,954.24
Supplies and Materials		3,382,933.96
Services		1,183,084.59
Scholarships and Fellowships		1,809,592.93
Utilities		349,027.82
Depreciation		551,119.79
Total Operating Expenses		20,580,713.33
Operating Loss		(14,010,300.19)
NONOPERATING REVENUES		
State Aid		10,635,273.89
County Appropriations		1,203,506.84
Noncapital Grants		1,124,355.14
Noncapital Gifts		120,023.16
Investment Income, Net		29,975.03
Net Nonoperating Revenues		13,113,134.06
Loss Before Other Revenues, Expenses, Gains, and Losses		(897,166.13)
State Capital Aid		660,854.15
County Capital Appropriations		321,802.16
Capital Grants		801,805.97
Capital Gifts		62,800.00
Increase in Net Assets		950,096.15
NET ASSETS		
Net Assets, July 1, 2002		13,554,025.35
Net Assets, June 30, 2003	\$	14,504,121.50
The accompanying notes to the financial statements are an integral part of this statement.		

Surry Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,418,649.23
Payments to Employees and Fringe Benefits		(13,263,633.88)
Payments to Vendors and Suppliers		(5,029,729.34)
Payments for Scholarships and Fellowships		(1,822,947.11)
Collection of Loans to Students		3,000.36
Other Receipts		61,922.82
Net Cash Used by Operating Activities		(13,632,737.92)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		10,635,273.89
County Appropriations		1,203,506.84
Noncapital Grants Received		1,071,355.14
Noncapital Gifts and Endowments Received		120,023.16
Net Cash Provided by Noncapital Financing Activities		13,030,159.03
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,710,777.19
County Capital Appropriations		321,802.16
Capital Grants Received		801,805.97
Capital Gifts Received		62,800.00
Acquisition and Construction of Capital Assets		(2,717,226.87)
Net Cash Provided by Capital and Related Financing Activities		179,958.45
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		29,975.03
Net Cash Provided by Investing Activities		29,975.03
Net Decrease in Cash and Cash Equivalents		(392,645.41)
Cash and Cash Equivalents, July 1, 2002		1,670,640.77
Cash and Cash Equivalents, June 30, 2003	\$	1,277,995.36
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(14,010,300.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		551,119.79
Changes in Assets and Liabilities:		
Receivables, Net		(299,167.78)
Inventories		50,118.91
Notes Receivable, Net		3,000.36
Accounts Payable and Accrued Liabilities		(150,677.31)
Deferred Revenue		136,633.28
Funds Held for Others		59,339.23
Compensated Absences		27,195.79
Net Cash Used by Operating Activities	\$	(13,632,737.92)

<i>Surry Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 962,896.17
	Restricted Cash and Cash Equivalents	248,610.19
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	66,489.00
	Total Cash and Cash Equivalents - June 30, 2003	\$ 1,277,995.36
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Assets Acquired through Assumption of a Liability	\$ 143,655.41
	Increase in Receivables Related to Nonoperating Income	53,000.00
The accompanying notes to the financial statements are an integral part of this statement.		

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SURRY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Surry Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. No provision for doubtful accounts is considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies, fuel oil held for consumption, and merchandise for resale are stated at the lower of cost of market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. 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 July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

Invested in Capital Assets – This represents the College's total investment in capital assets.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

- L. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

N. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$26,925.00. The carrying amount of cash on deposit was \$1,251,070.36 and the bank balance was \$1,697,896.63.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
	<hr/>	<hr/>
Cash on Deposit with State Treasurer	\$ 540,272.96	\$ 540,272.96
Cash on Deposit with Private Financial Institutions	710,797.40	1,157,623.67
	<hr/>	<hr/>
	\$ 1,251,070.36	\$ 1,697,896.63
	<hr/>	<hr/>

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$306,058.20 of the bank balance was covered by federal depository insurance, and \$851,565.47 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	\$ 362,334.84
Accounts	68,386.78
Other	224,117.28
Total Current Receivables	\$ 654,838.90
 Notes Receivable - Current:	
Institutional Student Loan Programs	\$ 6,022.81

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 122,142.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 122,142.00
Construction in Progress	930,076.87	(2,995,826.19)	2,529,219.55		463,470.23
Total Capital Assets, Nondepreciable	1,052,218.87	(2,995,826.19)	2,529,219.55		585,612.23
Capital Assets, Depreciable:					
Buildings	13,354,713.49	2,995,826.19			16,350,539.68
Machinery and Equipment	2,227,454.18		331,662.73	7,338.45	2,551,778.46
General Infrastructure	422,099.73				422,099.73
Total Capital Assets, Depreciable	16,004,267.40	2,995,826.19	331,662.73	7,338.45	19,324,417.87
Less Accumulated Depreciation:					
Buildings	4,760,669.00		354,521.94		5,115,190.94
Machinery and Equipment	1,307,395.19		168,320.93	7,338.45	1,468,377.67
General Infrastructure	233,729.57		28,276.92		262,006.49
Total Accumulated Depreciation	6,301,793.76		551,119.79	7,338.45	6,845,575.10
Total Capital Assets, Depreciable, Net	9,702,473.64	2,995,826.19	(219,457.06)		12,478,842.77
Capital Assets, Net	\$ 10,754,692.51	\$ 0.00	\$ 2,309,762.49	\$ 0.00	\$ 13,064,455.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 147,271.26
Accrued Payroll	44,848.60
Contract Retainage	171,225.00
Total Accounts Payable and Accrued Liabilities	\$ 363,344.86

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
Compensated Absences	\$ 390,801.47	\$ 27,195.79	\$ 0.00	\$ 417,997.26

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	\$ 41,536.67
2005	32,991.19
2006	16,993.74
2007	951.85
Total Minimum Lease Payments	\$ 92,473.45

Rental expense for all operating leases during the year was \$36,544.02.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,901,518.28	\$ 543,111.00	\$ 2,358,407.28
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Dining	\$ 376,810.36	\$ 0.00	\$ 376,810.36
Bookstore	1,299,420.57	273,202.94	1,026,217.63
Parking	6,748.75		6,748.75
Other	204,404.63	15,246.25	189,158.38
Total Sales and Services	\$ 1,887,384.31	\$ 288,449.19	\$ 1,598,935.12

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,276,771.78	\$ 738,568.06	\$ 378,643.32	\$ 6,327.40	\$ 0.00	\$ 0.00	\$ 9,400,310.56
Academic Support	1,771,985.53	261,784.14	124,664.40		23,364.36		2,181,798.43
Student Services	761,473.29	64,650.62	119,637.12				945,761.03
Institutional Support	1,615,192.30	111,578.72	364,272.51	58,781.77	3,923.20		2,153,748.50
Operations and Maintenance of Plant	568,428.62	950,025.14	153,946.22		321,740.26		1,994,140.24
Student Financial Aid			1,687.50	1,744,483.76			1,746,171.26
Auxiliary Enterprises	311,102.72	1,256,327.28	40,233.52				1,607,663.52
Depreciation						551,119.79	551,119.79
Total Operating Expenses	\$ 13,304,954.24	\$ 3,382,933.96	\$ 1,183,084.59	\$ 1,809,592.93	\$ 349,027.82	\$ 551,119.79	\$ 20,580,713.33

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$11,505,744.24, of which \$9,135,916.09 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$548,154.97. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$173,433.09, and \$456,622.46, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2003 were \$1,919.90. The voluntary contributions by employees amounted to \$159,172.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$52,755.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$214,694.03. 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*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$47,506.76. 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 12 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from County and Institutional Funds paid employees are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 \$373,754.58 at June 30, 2003.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$8,583,008.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - SURRY COMMUNITY COLLEGE FOUNDATION, INC.

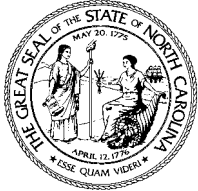
The Surry Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$134,720.50 for the year ended June 30, 2003.

Surry Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Yadkin Center - No. 947	Feb 2001	\$ 541,702.00	\$ 2,540,000.00	\$ 3,081,702.00	\$ 2,995,826.19	97.21%	Mar 2004
Parking Lot H Building - No. 1186	May 2001	91,883.00	96,468.00	188,351.00	188,351.00	100.00%	Nov 2001
Engineering Technologies Building - No. 1123	Sep 2002	1,953,282.00		1,953,282.00	119,225.00	6.10%	Sep 2004
Multi-Story Classroom Building - No. 1258	Aug 2002	1,475,522.00	4,309,045.00	5,784,567.00	300,875.50	5.20%	Dec 2004
A & T Buildings Renovations - No. 1277	Nov 2002	551,767.00		551,767.00	43,369.73	7.86%	Apr 2004
<i>Projects Pending Approval by the State Board</i>							
V Building Renovations	Sep 2004	520,000.00		520,000.00			
E Building Modifications	Aug 2004	88,350.00		88,350.00			
C Building Renovations	Nov 2004	400,001.00		400,001.00			
Learning Resources Center Renovation	Feb 2005	89,998.00		89,998.00			
Gymnasium Renovation	Jul 2004	178,158.00		178,158.00			
Cultural and Educational Center	Jan 2006	3,592,164.00		3,592,164.00			
Total All Projects		\$ 9,482,827.00	\$ 6,945,513.00	\$ 16,428,340.00	\$ 3,647,647.42		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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

Board of Trustees
Surry Community College
Dobson, North Carolina

We have audited the financial statements of Surry Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 30, 2004.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

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

course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 30, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. G. Frank Sells	President, Surry Community College
Dr. G. Carson Tilley	Executive Vice President and Chief Financial Officer Surry Community College
Mr. Robert F. Comer	Chairman, Board of Trustees Surry Community College

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Mr. James D. Johnson	Director, Fiscal Research Division
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February 18, 2004

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