



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

**SURRY COMMUNITY COLLEGE**

**DOBSON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**SURRY COMMUNITY COLLEGE**

**DOBSON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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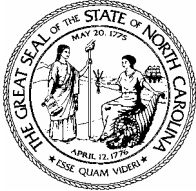
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement and compliance audit of Surry Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

*Leslie W. Merritt, Jr.*

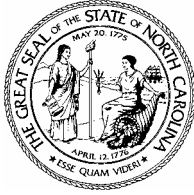
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

May 4, 2006

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Surry Community College  
Dobson, North Carolina

We have audited the accompanying financial statements of Surry Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Surry Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Surry Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Surry Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Surry Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 16, 2006

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

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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, 2005. 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 in the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities. For the purpose of this discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

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

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

**Condensed Statement of Net Assets**

	<u>2005</u>	<u>2004</u>	<u>Change</u>
<b>Assets</b>			
Capital Assets, Net	\$ 19,394,831.08	\$ 15,938,613.87	\$ 3,456,217.21
Other Assets	3,532,611.18	3,916,284.68	(383,673.50)
Total Assets	<u>22,927,442.26</u>	<u>19,854,898.55</u>	<u>3,072,543.71</u>
<b>Liabilities</b>			
Long-Term Liabilities	471,093.58	508,211.87	(37,118.29)
Other Liabilities	608,821.71	729,548.25	(120,726.54)
Total Liabilities	<u>1,079,915.29</u>	<u>1,237,760.12</u>	<u>(157,844.83)</u>
<b>Net Assets</b>			
Invested in Capital Assets	19,394,831.08	15,938,613.87	3,456,217.21
Restricted - Expendable	1,600,817.41	1,622,046.34	(21,228.93)
Unrestricted	851,878.48	1,056,478.22	(204,599.74)
Total Net Assets	<u>\$ 21,847,526.97</u>	<u>\$ 18,617,138.43</u>	<u>\$ 3,230,388.54</u>

For the year ended June 30, 2005, the College's net assets increased to \$21,847,526.97 from \$18,617,138.43 at June 30, 2004. This increase is due primarily to two major construction projects that were completed on the main campus of Surry Community College (Multi-Story Classroom Building – No. 1258 and Engineering Technologies Building – No. 1123). These two projects had 2004-2005 expenditures totaling \$3,811,366.14 that were added to capital assets for the fiscal year ended June 30, 2005, thereby, resulting in the main reason why the capital assets account and the invested in capital net assets account increased by \$3,456,217.21 for the 2005 fiscal year. Total net assets as of June 30, 2005, consist of invested in capital assets (89%), restricted (7%), and unrestricted (4%).

Long-term liabilities decreased by \$37,118.29 and consisted entirely of compensated absences. Other liabilities decreased by \$120,726.54 due primarily to the completion of the construction projects mentioned above.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2005	2004	Change
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 2,577,857.73	\$ 2,513,285.32	\$ 64,572.41
Grants and Contracts	2,686,489.45	2,860,834.65	(174,345.20)
Sales and Services, Net	1,596,678.18	1,461,407.87	135,270.31
Other Operating Revenues	131,655.15	74,423.94	57,231.21
<b>Total Operating Revenues</b>	<b>6,992,680.51</b>	<b>6,909,951.78</b>	<b>82,728.73</b>
Less Operating Expenses	23,260,200.27	23,361,350.38	(101,150.11)
<b>Operating Loss</b>	<b>(16,267,519.76)</b>	<b>(16,451,398.60)</b>	<b>183,878.84</b>
<b>Nonoperating Revenues</b>			
State Aid	12,050,535.35	11,014,356.34	1,036,179.01
County Appropriations	1,414,395.00	1,328,590.14	85,804.86
Noncapital Grants and Gifts	727,865.44	600,784.53	127,080.91
Other Nonoperating Revenues	26,974.92	19,701.69	7,273.23
<b>Total Nonoperating Revenues</b>	<b>14,219,770.71</b>	<b>12,963,432.70</b>	<b>1,256,338.01</b>
Loss Before Other Revenues	(2,047,749.05)	(3,487,965.90)	1,440,216.85
Capital Contributions	5,278,137.59	7,600,982.83	(2,322,845.24)
Increase in Net Assets	3,230,388.54	4,113,016.93	(882,628.39)
Net Assets, Beginning of Year	18,617,138.43	14,504,121.50	4,113,016.93
Net Assets, End of Year	<b>\$ 21,847,526.97</b>	<b>\$ 18,617,138.43</b>	<b>\$ 3,230,388.54</b>

Total revenues for June 30, 2005, decreased \$983,778.50 to \$26,490,588.81. This is a 4% decrease over the June 30, 2004, revenues of \$27,474,367.31. The largest decrease occurred in capital contributions and is related to a reduction in funds received for construction projects. This slight decrease is offset against revenue increases in sales and services of \$135,270.31, State aid of \$1,036,179.01, county appropriations of \$85,804.86, and noncapital grants and gifts of \$127,080.91. The sales and services increase of \$135,270.31 is mainly due to increased sales in the bookstore and food service areas. The College receives appropriations from the State and from both Surry and Yadkin counties. The State provides funds for the operational and administrative needs of the College, while Surry and Yadkin counties provide funds for the operation and maintenance of facilities in their respective counties. In the 2005 fiscal year, the State aid and county appropriations revenues increased by \$1,121,983.87 due to increased funding from these sources. The noncapital grants and

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

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gifts increase of \$127,080.91 is mainly due to a new BioNetwork grant of \$94,142.17 received in the 2005 fiscal year.

Total operating expenses decreased slightly from \$23,361,350.38 in 2004 to \$23,260,200.27 in 2005. The most significant decrease occurred in the supplies and materials expense account.

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, 2005, the College's remaining authorization was \$3,480,894.00, 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, 2005**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 903,474.56
Restricted Cash and Cash Equivalents	116,320.18
Receivables (Note 3)	524,597.15
Due from State of North Carolina Component Units	20,000.00
Inventories	258,466.34
Notes Receivable (Note 3)	253.38
	<hr/>
Total Current Assets	1,823,111.61

Noncurrent Assets:

Restricted Cash and Cash Equivalents	195,765.61
Restricted Due from Primary Government	1,513,733.96
Capital Assets - Nondepreciable (Note 4)	399,115.65
Capital Assets - Depreciable, Net (Note 4)	18,995,715.43
	<hr/>
Total Noncurrent Assets	21,104,330.65

Total Assets

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22,927,442.26

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	393,815.54
Deferred Revenue	176,211.79
Funds Held for Others	38,794.38
Long-Term Liabilities - Current Portion (Note 6)	14,603.90
	<hr/>
Total Current Liabilities	623,425.61

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	456,489.68
	<hr/>
Total Liabilities	1,079,915.29

**NET ASSETS**

Invested in Capital Assets	19,394,831.08
Restricted for:	
Expendable:	
Loans	18,944.00
Capital Projects	1,529,876.34
Other	51,997.07
Unrestricted	851,878.48
	<hr/>
Total Net Assets	\$ 21,847,526.97

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, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,577,857.73
Federal Grants and Contracts	2,686,489.45
Sales and Services, Net (Note 8)	1,596,678.18
Other Operating Revenues	<u>131,655.15</u>
Total Operating Revenues	<u>6,992,680.51</u>

**EXPENSES**

Operating Expenses:	
Personal Services	15,674,187.25
Supplies and Materials	3,209,966.46
Services	1,746,260.40
Scholarships and Fellowships	1,459,375.10
Utilities	380,205.35
Depreciation	<u>790,205.71</u>
Total Operating Expenses	<u>23,260,200.27</u>
Operating Loss	<u>(16,267,519.76)</u>

**NONOPERATING REVENUES**

State Aid	12,050,535.35
County Appropriations	1,414,395.00
Noncapital Grants	581,034.13
Noncapital Gifts	146,831.31
Investment Income	21,618.90
Other Nonoperating Revenues	<u>5,356.02</u>
Total Nonoperating Revenues	<u>14,219,770.71</u>
Loss Before Other Revenues	(2,047,749.05)
State Capital Aid	2,902,047.48
County Capital Appropriations	<u>2,376,090.11</u>
Increase in Net Assets	3,230,388.54

**NET ASSETS**

Net Assets, July 1, 2004	<u>18,617,138.43</u>
Net Assets, June 30, 2005	<u>\$ 21,847,526.97</u>

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, 2005***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 6,794,749.10
Payments to Employees and Fringe Benefits	(15,698,404.23)
Payments to Vendors and Suppliers	(4,994,890.57)
Payments for Scholarships and Fellowships	(1,438,674.32)
Collection of Loans to Students	4,452.90
Other Payments	(971.64)
	<hr/>
Net Cash Used by Operating Activities	(15,333,738.76)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	12,050,535.35
County Appropriations	1,414,395.00
Noncapital Grants Received	581,034.13
Noncapital Gifts Received	146,831.31
	<hr/>
Cash Provided by Noncapital Financing Activities	14,192,795.79

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

State Capital Aid Received	3,351,456.19
County Capital Appropriations	2,376,090.11
Acquisition and Construction of Capital Assets	(4,665,991.38)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,061,554.92

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	21,618.90
	<hr/>
Net Decrease in Cash and Cash Equivalents	(57,769.15)
Cash and Cash Equivalents, July 1, 2004	1,273,329.50
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 1,215,560.35

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

Operating Loss	\$ (16,267,519.76)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	790,205.71
Miscellaneous Nonoperating Income	5,356.02
Changes in Assets and Liabilities:	
Receivables	(99,708.51)
Inventories	(28,248.75)
Notes Receivable	4,452.90
Accounts Payable and Accrued Liabilities	282,691.70
Deferred Revenue	49,741.37
Funds Held for Others	(33,591.15)
Compensated Absences	(37,118.29)
	<hr/>
Net Cash Used by Operating Activities	\$ (15,333,738.76)

**Surry Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2005**

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

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 903,474.56
Restricted Cash and Cash Equivalents	116,320.18
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>195,765.61</u>
Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 1,215,560.35</u></u>

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

Capital Asset Write-Offs	\$ 29,666.84
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The accompanying notes to the financial statements are an integral part of this statement.

***Surry Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2005***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents:		
Cash in Bank	\$	73,490.21
Cash with State Treasurer		1,660,966.71
Investments:		
Money Market Funds		44,861.36
Mutual Funds		1,008,536.78
Corporate Common Stock		475,229.16
Investments in Real Estate		<u>398,000.00</u>
Total Assets		<u>3,661,084.22</u>

**LIABILITIES**

Current Liabilities:		
Accounts Payable		546.64
Notes Payable - Current		<u>8,234.68</u>
Total Current Liabilities		8,781.32
Notes Payable - Long Term		<u>246,571.10</u>
Total Liabilities		<u>255,352.42</u>

**NET ASSETS**

Unrestricted		340,462.00
Temporarily Restricted		502,805.65
Permanently Restricted		<u>2,562,464.15</u>
Total Net Assets	\$	<u><u>3,405,731.80</u></u>

See Note 1 in the Notes to the Financial Statements

**Surry Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2005**

**Exhibit B-2**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Donations	\$ 6,190.00	\$ 53,074.85	\$ 111,156.03	\$ 170,420.88
Investment Return	2,999.78	4,594.99		7,594.77
Endowment Income	4,914.76	149,812.29		154,727.05
Fundraising Income	72,880.00		1,200.00	74,080.00
Rental Income	20,090.00			20,090.00
Other Income	992.78			992.78
Transfers In			21,407.50	21,407.50
	<u>108,067.32</u>	<u>207,482.13</u>	<u>133,763.53</u>	<u>449,312.98</u>
Total Revenues, Gains, and Other Support				
<b>EXPENSES</b>				
Contributions to Surry Community College				
Scholarships Awarded	29,800.00	106,366.28		136,166.28
GED Scholarships	3,234.50			3,234.50
Fundraising Expense	10,949.23			10,949.23
Investment Loss	927.54	23,185.20		24,112.74
Management and General				
Foundation Meetings	5,587.57			5,587.57
Audit Costs	3,200.00			3,200.00
Supplies and Materials	199.75			199.75
Insurance	586.00			586.00
Bank Service Charge		120.00		120.00
Postage	687.71			687.71
Faculty and Staff Development	500.00			500.00
Travel	4.20			4.20
Printing	2.43			2.43
Advertising	595.95			595.95
Property Taxes	896.27			896.27
Director Expense	130.00			130.00
Other Expense	12,046.46	5,969.62		18,016.08
Maintenance and Repairs	4,193.42			4,193.42
Interest Paid	15,362.19			15,362.19
Transfers to Other Foundation Funds		21,407.50		21,407.50
	<u>88,903.22</u>	<u>157,048.60</u>	<u>133,763.53</u>	<u>245,951.82</u>
Total Expenses				
Change In Net Assets	19,164.10	50,433.53	133,763.53	203,361.16
Net Assets at Beginning of Year	<u>321,297.90</u>	<u>452,372.12</u>	<u>2,428,700.62</u>	<u>3,202,370.64</u>
Net Assets at End of Year	<u>\$ 340,462.00</u>	<u>\$ 502,805.65</u>	<u>\$ 2,562,464.15</u>	<u>\$ 3,405,731.80</u>

See Note 1 in the Notes to the Financial Statements



**SURRY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** – Surry Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Surry Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of no more than twelve (12) members and three (3) officers who are elected by the Surry Community College Foundation Board. 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 is 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Surry Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2005, the Foundation distributed \$139,400.78 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Surry Community College Foundation, Inc., Surry Community College, 630 South Main Street, Dobson, NC 27017.

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

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

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal and State 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, postage, and merchandise for resale, are valued at the lower of cost or 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 method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 5 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.
- 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$15,125.00, and deposits in private financial institutions with a carrying value of \$851,745.09 and a bank balance of \$1,000,309.30.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$348,690.26, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Amount
<b>Current Receivables:</b>	
Students	\$ 433,398.34
Accounts	74,936.01
Intergovernmental	16,262.80
<b>Total Current Receivables</b>	<b>\$ 524,597.15</b>
<b>Notes Receivable - Current:</b>	
Institutional Student Loan Programs	\$ 253.38

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 122,142.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 122,142.00
Construction in Progress	3,815,439.97	(7,706,019.11)	4,167,552.79		276,973.65
<b>Total Capital Assets, Nondepreciable</b>	<b>3,937,581.97</b>	<b>(7,706,019.11)</b>	<b>4,167,552.79</b>		<b>399,115.65</b>
Capital Assets, Depreciable:					
Buildings	16,350,539.68	7,706,019.11			24,056,558.79
Machinery and Equipment	2,649,324.93		78,870.13	29,666.84	2,698,528.22
General Infrastructure	422,099.73				422,099.73
<b>Total Capital Assets, Depreciable</b>	<b>19,421,964.34</b>	<b>7,706,019.11</b>	<b>78,870.13</b>	<b>29,666.84</b>	<b>27,177,186.74</b>
Less Accumulated Depreciation:					
Buildings	5,525,884.62		446,687.27		5,972,571.89
Machinery and Equipment	1,604,764.41		200,838.68	29,666.84	1,775,936.25
General Infrastructure	290,283.41		142,679.76		432,963.17
<b>Total Accumulated Depreciation</b>	<b>7,420,932.44</b>		<b>790,205.71</b>	<b>29,666.84</b>	<b>8,181,471.31</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>12,001,031.90</b>	<b>7,706,019.11</b>	<b>(711,335.58)</b>		<b>18,995,715.43</b>
<b>Capital Assets, Net</b>	<b>\$ 15,938,613.87</b>	<b>\$ 0.00</b>	<b>\$ 3,456,217.21</b>	<b>\$ 0.00</b>	<b>\$ 19,394,831.08</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 321,567.77
Accrued Payroll	70,196.17
Contract Retainage	2,051.60
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 393,815.54</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 508,211.87	\$ 331,778.28	\$ 368,896.57	\$ 471,093.58	\$ 14,603.90

### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	\$ 65,116.56
2007	65,116.56
2008	65,116.56
2009	65,116.56
2010	65,116.56
Total Minimum Lease Payments	\$ 325,582.80

Rental expense for all operating leases during the year was \$53,143.56.



## 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
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 3,139,765.73	\$ 561,908.00	\$ 2,577,857.73
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Dining	\$ 411,530.56	\$ 0.00	\$ 411,530.56
Bookstore	1,260,530.23	255,986.23	1,004,544.00
Other	180,603.62		180,603.62
<b>Total Sales and Services</b>	\$ 1,852,664.41	\$ 255,986.23	\$ 1,596,678.18

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,625,999.66	\$ 674,729.46	\$ 665,074.20	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,965,803.32
Academic Support	1,620,502.58	141,162.85	112,408.31				1,874,073.74
Student Services	738,044.27	39,177.62	106,301.36				883,523.25
Institutional Support	1,725,674.64	170,260.16	508,440.55				2,404,375.35
Operations and Maintenance of Plant	607,656.07	882,973.52	260,686.70		380,205.35		2,131,521.64
Student Financial Aid			1,519.19	1,459,375.10			1,460,894.29
Auxiliary Enterprises	356,310.03	1,301,662.85	91,830.09				1,749,802.97
Depreciation						790,205.71	790,205.71
<b>Total Operating Expenses</b>	\$ 15,674,187.25	\$ 3,209,966.46	\$ 1,746,260.40	\$ 1,459,375.10	\$ 380,205.35	\$ 790,205.71	\$ 23,260,200.27

### 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 Carolina General Assembly. Employer and member contribution

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$12,750,516.97, of which \$10,345,932.22 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$620,756.11 and \$224,506.73, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$224,506.73, \$21,266.00, and \$0.00, respectively.

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

- B. 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 G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2005, were \$2,198.70. The voluntary contributions by employees amounted to \$133,233.00 for the year ended June 30, 2005.

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 \$70,905.00 for the year ended June 30, 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was \$331,069.83. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$46,039.40. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. 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 fund 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. There were no employer contributions required for the current fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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

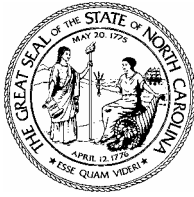
- A. Commitments** – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$740,616.10 at June 30, 2005.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 \$3,480,894.00 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)

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### NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



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

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Board of Trustees  
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, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 16, 2006. We did not audit the financial statements of the Surry Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Surry Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could

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

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adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

**Findings**

1. Capital Assets Reconciliation
2. Financial Statement Presentation

A material weakness is a reportable 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 caused by error or fraud 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 course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

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

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 16, 2006



## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

#### 1. CAPITAL ASSETS RECONCILIATION

The College did not reconcile the balances for capital assets as reflected in the subsidiary ledger with the general ledger control accounts at June 30, 2005. The balance for capital assets in the subsidiary ledger exceeded the balance in the general ledger by \$997,268.32 at June 30, 2005. With the assistance of College personnel, we researched the noted discrepancy subsequent to June 30, 2005, and determined that the general ledger was understated by \$205,415.44 and the subsidiary ledger was overstated by \$791,882.96, leaving an unidentified variance of \$30.08.

*Recommendation:* We recommend that the College begin reconciling the balances reflected in the general and subsidiary ledgers on an annual basis to ensure that complete and accurate financial data is recorded for the capital assets. All discrepancies should be documented on the reconciliation, appropriately resolved, and the applicable capital assets ledger updated accordingly.

*Auditee's Response:* The College agrees with the Findings and Recommendations of the State Auditor. The discrepancies noted by the State Auditor were corrected by the College immediately. The College has engaged the services of a knowledgeable College Information System consultant to give additional training to College staff on the capital asset component of the College Information System. The College will continue to reconcile the capital assets balances from the general ledger to the subsidiary ledger on a monthly basis as well as perform an annual review as recommended by the State Auditor.

#### 2. FINANCIAL STATEMENT PRESENTATION

The College's June 30, 2005, financial statements contained a material misstatement in the reporting of State Capital Aid revenue. The State Capital Aid revenue balance as reported by the College at June 30, 2005, was overstated by \$1,963,142.68. We have prepared a journal entry to correct for this overstatement for financial statement presentation.

*Recommendation:* We recommend that the College implement controls to ensure that the financial statements are reviewed and agree with the accounting records/supporting documentation and that material misstatements are detected and corrected in a timely manner to ensure accurate financial reporting at year end.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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*Auditee's Response:* The College agrees with the Findings and Recommendations of the State Auditor. The College recognizes that an error was made in the presentation of the financial statements. This error was the result of transitioning to the new College Information System. The College will implement controls to ensure that the financial statements are free of material misstatements. A College staff member with experience in financial statement preparation, but not directly involved in the preparation of the College's financial statements, will review the financial statements and reconcile them to supporting documentation.

## **ORDERING INFORMATION**

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