

STATE OF NORTH CAROLINA

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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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

We have completed a financial statement audit of Surry Community College for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

Leslie W. Merritt, Jr.

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

May 20, 2008

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INDEPENDENT AUDITOR'S REPORT

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, 2007, 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, are based on the report of 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2008, on our consideration of the College's internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

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

May 8, 2008

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

This section of Surry Community College's financial report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007. 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 standards issued by the Governmental Accounting Standards Board. 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 divided into current and 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.

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

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Assets			
Capital Assets, Net	\$ 21,250,405.13	\$ 21,003,949.06	\$ 246,456.07
Other Assets	<u>3,300,129.04</u>	<u>2,778,919.88</u>	<u>521,209.16</u>
Total Assets	<u>24,550,534.17</u>	<u>23,782,868.94</u>	<u>767,665.23</u>
Liabilities			
Long-Term Liabilities	558,282.05	515,583.79	42,698.26
Other Liabilities	<u>769,282.48</u>	<u>444,020.96</u>	<u>325,261.52</u>
Total Liabilities	<u>1,327,564.53</u>	<u>959,604.75</u>	<u>367,959.78</u>
Net Assets			
Invested in Capital Assets	21,250,405.13	21,003,949.06	246,456.07
Restricted - Expendable	265,431.72	495,401.49	(229,969.77)
Unrestricted	<u>1,707,132.79</u>	<u>1,323,913.64</u>	<u>383,219.15</u>
Total Net Assets	<u>\$ 23,222,969.64</u>	<u>\$ 22,823,264.19</u>	<u>\$ 399,705.45</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the year ended June 30, 2007, the College's total assets increased by \$767,665.23. The increase in capital assets of \$246,456.07 is due to beginning balance net asset restatements of \$554,054.00 to correct errors in establishing useful lives of capital assets, with an offset of \$307,597.93 pertaining to a net decrease in the year's capital assets activity mainly due to a reduction in construction projects from the prior year. The increase in other assets of \$521,209.16 is attributed to an increase in the cash balances of the College's bookstore in the amount of \$233,872.40 from rising enrollment. The College also received a \$100,000.00 gift, and the College was allowed to retain \$119,211.95 in summer school receipts for self supporting funds that were not retained in past years, thereby adding to the increase in the cash balances per the other assets category.

Long-term liabilities increased by \$42,698.26 and consisted entirely of compensated absences. Other liabilities increased by \$325,261.52 due to the College's year-end spending strategy for fiscal year 2007. In an effort to reconcile the financial statement accounts earlier in 2007, the College stopped paying invoices the first week in June. The College resumed expense check processing in July 2007, resulting in more accounts payable at June 30, 2007. Total net assets as of June 30, 2007, consist of invested in capital assets (92%), restricted (1%), and unrestricted (7%).

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

	2007	2006	Change
Operating Revenues			
Student Tuition and Fees, Net	\$ 2,082,549.33	\$ 2,322,817.75	\$ (240,268.42)
Grants and Contracts	2,516,791.11	2,551,444.11	(34,653.00)
State and Local Grants and Contracts	268,371.68		268,371.68
Sales and Services, Net	1,675,771.32	1,531,784.96	143,986.36
Other Operating Revenues	45,397.58	341,785.63	(296,388.05)
Total Operating Revenues	6,588,881.02	6,747,832.45	(158,951.43)
Less Operating Expenses	23,707,005.50	22,083,748.94	1,623,256.56
Operating Loss	(17,118,124.48)	(15,335,916.49)	(1,782,207.99)
Nonoperating Revenues			
State Aid	13,492,101.35	12,205,381.64	1,286,719.71
County Appropriations	1,995,500.00	1,912,500.00	83,000.00
Noncapital Grants and Gifts	830,215.50	526,321.27	303,894.23
Other Nonoperating Revenues	122,144.60	60,443.57	61,701.03
Total Nonoperating Revenues	16,439,961.45	14,704,646.48	1,735,314.97
Loss Before Other Revenues	(678,163.03)	(631,270.01)	(46,893.02)
Capital Contributions	523,814.48	1,607,007.23	(1,083,192.75)
Increase (Decrease) in Net Assets	(154,348.55)	975,737.22	(1,130,085.77)
Net Assets, Beginning of Year	22,823,264.19	21,847,526.97	975,737.22
Restatement of Net Assets (Note 13)	554,054.00		554,054.00
Net Assets, End of Year	\$ 23,222,969.64	\$ 22,823,264.19	\$ 399,705.45

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Total revenues for June 30, 2007, increased \$493,170.79 to \$23,552,656.95. This is a 2% increase over the June 30, 2006, revenues of \$23,059,486.16. The largest increase occurred in nonoperating revenues with State aid increasing by \$1,286,719.71. This increase in funding was a result of rising enrollment and State mandated salary increases. Noncapital grants and gifts increased by \$303,894.23 from June 30, 2006, to June 30, 2007. The majority of this increase is attributed to the \$100,000.00 gift mentioned earlier and new grants for the Early College High School of Design and the Virtual Learning Center. These increases are offset against revenue decreases in capital contributions resulting from a funding reduction in State capital aid of \$1,108,491.75 due to the completion of construction projects in the previous fiscal year. 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.

Total operating expenses increased from \$22,083,748.94 in fiscal year 2006 to \$23,707,005.50 in fiscal year 2007, resulting in a total increase of \$1,623,256.56. The most significant increases occurred in the personal services, supplies and materials, and services expense accounts, with 2007 increases of \$662,699.13, \$477,531.60, and \$359,958.98, respectively. The increase in the personal services expense account is attributed to the hiring of additional personnel for the College's expanding Allied Health programs, along with the State mandated salary increases mentioned above. The increase in the supplies and materials expense account is attributed to a \$275,000.00 increase in books purchased and sold during the year due to an increased student enrollment, as well as an increase in minor equipment purchases of approximately \$67,000.00. The increase in the services expense account is attributed to increased advertising costs of \$121,281.77 as part of management's 2006-2007 marketing plan to make the College more visible to its service area. Likewise, there was an increase of \$71,844.32 in contracted janitorial services versus hiring additional custodial staff as a cost-saving measure. Other increases in the services expense account are attributed to the College's expanding Allied Health programs.

The College was authorized in 2000 by the General Assembly of North Carolina to receive \$9,482,827.00 for capital improvements. As of June 30, 2007, the College's remaining authorization was \$3,671,744.00, 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, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,901,998.60
Restricted Cash and Cash Equivalents	228,121.05
Receivables (Note 3)	191,636.99
Due from State of North Carolina Component Units	16,000.00
Inventories	239,917.07
Notes Receivable (Note 3)	357.00
	<hr/>
Total Current Assets	2,578,030.71

Noncurrent Assets:

Restricted Cash and Cash Equivalents	76,736.09
Restricted Due from Primary Government	645,362.24
Capital Assets - Nondepreciable (Note 4)	183,348.34
Capital Assets - Depreciable, Net (Note 4)	21,067,056.79
	<hr/>
Total Noncurrent Assets	21,972,503.46

Total Assets

24,550,534.17

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	604,329.15
Unearned Revenue	90,587.37
Funds Held for Others	74,365.96
Long-Term Liabilities - Current Portion (Note 6)	16,190.18
	<hr/>

Total Current Liabilities

785,472.66

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	542,091.87
	<hr/>

Total Liabilities

1,327,564.53

NET ASSETS

Invested in Capital Assets 21,250,405.13

Restricted for:

Expendable:

Loans	2,293.80
Capital Projects	45,164.17
Technology Support	159,174.09
Other	58,799.66

Unrestricted

1,707,132.79

Total Net Assets

\$ 23,222,969.64

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,082,549.33
Federal Grants and Contracts	2,516,791.11
State and Local Grants and Contracts	268,371.68
Sales and Services, Net (Note 8)	1,675,771.32
Other Operating Revenues	45,397.58

Total Operating Revenues	6,588,881.02
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EXPENSES

Operating Expenses:

Personal Services	16,058,711.13
Supplies and Materials	2,996,068.92
Services	2,249,400.31
Scholarships and Fellowships	1,209,537.39
Utilities	475,573.71
Depreciation	717,714.04

Total Operating Expenses	23,707,005.50
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Operating Loss	(17,118,124.48)
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NONOPERATING REVENUES

State Aid	13,492,101.35
County Appropriations	1,995,500.00
Noncapital Grants	553,111.64
Noncapital Gifts	277,103.86
Investment Income	101,343.32
Other Nonoperating Revenues	20,801.28

Total Nonoperating Revenues	16,439,961.45
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Loss Before Other Revenues	(678,163.03)
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State Capital Aid	310,553.68
County Capital Aid	213,260.80

Decrease in Net Assets	(154,348.55)
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NET ASSETS

Net Assets, July 1, 2006, as Restated (Note 13)	23,377,318.19
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Net Assets, June 30, 2007	\$ 23,222,969.64
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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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,921,245.20
Payments to Employees and Fringe Benefits	(16,034,521.15)
Payments to Vendors and Suppliers	(5,262,474.73)
Payments for Scholarships and Fellowships	(1,209,537.39)
Loans Issued to Students	(357.00)
Other Receipts	23,271.09
	<hr/>
Net Cash Used by Operating Activities	(15,562,373.98)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,492,101.35
County Appropriations	1,995,500.00
Noncapital Grants Received	553,111.64
Noncapital Gifts Received	277,103.86
	<hr/>
Cash Provided by Noncapital Financing Activities	16,317,816.85

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	101,320.66
County Capital Aid	213,260.80
Acquisition and Construction of Capital Assets	(497,538.31)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(182,956.85)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	101,343.32
	<hr/>
Net Increase in Cash and Cash Equivalents	673,829.34
Cash and Cash Equivalents, July 1, 2006	1,533,026.40
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 2,206,855.74

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (17,118,124.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	717,714.04
Miscellaneous Nonoperating Income	20,801.28
Changes in Assets and Liabilities:	
Receivables	325,372.66
Inventories	36,837.54
Notes Receivable	(357.00)
Accounts Payable and Accrued Liabilities	403,222.39
Unearned Revenue	8,018.04
Funds Held for Others	1,443.29
Compensated Absences	42,698.26
	<hr/>
Net Cash Used by Operating Activities	\$ (15,562,373.98)

***Surry Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,901,998.60
Restricted Cash and Cash Equivalents	228,121.05
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>76,736.09</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 2,206,855.74</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 209,233.02
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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, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents:		
Cash in Bank	\$	284,674.30
Cash with State Treasurer		2,045,955.49
Investments:		
Money Market Funds		65,681.07
Mutual Funds		1,499,252.89
Corporate Common Stock		342,869.99
Investments in Real Estate		<u>457,500.00</u>
Total Assets		<u>4,695,933.74</u>

LIABILITIES

Current Liabilities:		
Accounts Payable		116.42
Notes Payable - Current		<u>10,868.59</u>
Total Current Liabilities		10,985.01
Notes Payable - Long Term		<u>284,017.94</u>
Total Liabilities		<u>295,002.95</u>

NET ASSETS

Unrestricted		408,601.72
Temporarily Restricted		1,128,771.29
Permanently Restricted		<u>2,863,557.78</u>
Total Net Assets	\$	<u><u>4,400,930.79</u></u>

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

Surry Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Donations	\$ 7,430.00	\$ 79,406.66	\$ 278,891.69	\$ 365,728.35
Investment Return	6,855.25	7,977.07		14,832.32
Endowment Income	14,354.60	365,643.39		379,997.99
Fundraising Income	71,125.00	850.00	750.00	72,725.00
Knights' Athletic Club		17,615.00		17,615.00
Rental Income	26,250.00			26,250.00
Other Income	501.00	1,305.69	23,282.52	25,089.21
Transfers In			22,757.19	22,757.19
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues, Gains, and Other Support	126,515.85	472,797.81	325,681.40	924,995.06
EXPENSES				
Contributions to Surry Community College				
Scholarships Awarded	29,024.75	91,507.77		120,532.52
GED Scholarships	4,925.50			4,925.50
Public Relations	10,000.00			10,000.00
Fundraising Expense	11,292.15			11,292.15
Knights' Athletic Club Distribution		17,615.00		17,615.00
Investment Loss	1,592.50	25,206.96		26,799.46
Management and General				
Foundation Meetings	2,711.35			2,711.35
Audit Costs	3,600.00			3,600.00
Supplies and Materials	326.80			326.80
Postage	1,054.43			1,054.43
Faculty and Staff Development	500.00			500.00
Travel		1,500.00		1,500.00
Printing	433.20			433.20
Insurance	1,840.00			1,840.00
Property Taxes	1,885.58			1,885.58
Maintenance and Repairs	10,902.55			10,902.55
Interest Paid	18,284.37			18,284.37
Other Expense	5,092.17	3,715.87		8,808.04
Transfers to Other Foundation Funds		22,757.19		22,757.19
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	103,465.35	162,302.79		265,768.14
Change In Net Assets	23,050.50	310,495.02	325,681.40	659,226.92
Net Assets at Beginning of Year	351,176.31	610,508.01	2,813,635.71	3,775,320.03
Prior Period Adjustment	34,374.91	207,768.26	(275,759.33)	(33,616.16)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets at End of Year	\$ 408,601.72	\$ 1,128,771.29	\$ 2,863,557.78	\$ 4,400,930.79

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, 2007

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 its component unit 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 are reported in separate financial statements because of its use of a different GAAP reporting model 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 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 are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Surry Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed \$153,073.02 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 fund. The short-term investment fund maintained by the State Treasurer has the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** – The College does not hold any investments. Note 2B includes investments held by the Surry Community College Foundation, Inc., because of its significance to the reporting entity.
- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. No provision for doubtful accounts is considered necessary.
- G. 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 using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 40 years for equipment.

- I. 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.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. Net Assets – The College’s net assets are classified as follows:

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$9,105.00, and deposits in private financial institutions with a carrying value of \$1,873,610.14 and a bank balance of \$1,832,791.54.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2007, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$324,140.60, 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 1.6 years as of June 30, 2007. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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.

- B. Component Unit Investments** – Investments of the College's component unit, Surry Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Investments are carried at fair value on the statement of financial position. Fair value of investments is based on quoted market price. The fair value of the Foundation's investments at June 30, 2007, was \$2,365,303.95 and includes \$457,500.00 which is invested in real estate.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	<u>Amount</u>
Current Receivables:	
Students	\$ 105,043.58
Accounts	<u>86,593.41</u>
Total Current Receivables	<u>\$ 191,636.99</u>
Current Notes Receivable:	
Institutional Student Loan Programs	<u>\$ 357.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 122,142.00	\$ 0.00	\$ 0.00	\$ 122,142.00
Construction in Progress	1,537,776.06	172,141.12	1,648,710.84	61,206.34
Total Capital Assets, Nondepreciable	1,659,918.06	172,141.12	1,648,710.84	183,348.34
Capital Assets, Depreciable:				
Buildings	24,778,111.89	1,648,710.84		26,426,822.73
Machinery and Equipment	2,574,587.02	237,974.99	318,695.72	2,493,866.29
General Infrastructure	598,017.17			598,017.17
Total Capital Assets, Depreciable	27,950,716.08	1,886,685.83	318,695.72	29,518,706.19
Less Accumulated Depreciation:				
Buildings	6,587,707.45	468,228.07		7,055,935.52
Machinery and Equipment	1,140,146.16	231,866.37	318,695.72	1,053,316.81
General Infrastructure	324,777.47	17,619.60		342,397.07
Total Accumulated Depreciation	8,052,631.08	717,714.04	318,695.72	8,451,649.40
Total Capital Assets, Depreciable, Net	19,898,085.00	1,168,971.79		21,067,056.79
Capital Assets, Net	\$ 21,558,003.06	\$ 1,341,112.91	\$ 1,648,710.84	\$ 21,250,405.13

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 545,725.05
Accrued Payroll	58,604.10
Total Accounts Payable and Accrued Liabilities	\$ 604,329.15

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 515,583.79	\$ 395,336.16	\$ 352,637.90	\$ 558,282.05	\$ 16,190.18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 41,507.64
2009	34,160.64
2010	<u>8,620.19</u>
Total Minimum Lease Payments	<u><u>\$ 84,288.47</u></u>

Rental expense for all operating leases during the year was \$38,395.45.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 2,601,474.02</u>	<u>\$ 518,924.69</u>	<u>\$ 2,082,549.33</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Dining	\$ 398,590.67	\$ 0.00	\$ 398,590.67
Health, Physical Education, and Recreation Services	55,527.10		55,527.10
Bookstore	1,349,991.65	302,040.66	1,047,950.99
Rent	126,504.00		126,504.00
Other	<u>47,198.56</u>		<u>47,198.56</u>
Total Sales and Services	<u>\$ 1,977,811.98</u>	<u>\$ 302,040.66</u>	<u>\$ 1,675,771.32</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 9,967,483.19	\$ 940,768.26	\$ 685,674.48	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,593,925.93
Academic Support	2,295,535.62	214,506.64	236,837.18				2,746,879.44
Student Services	926,078.53	33,836.17	77,437.79				1,037,352.49
Institutional Support	1,812,724.21	143,093.52	786,357.58				2,742,175.31
Operations and Maintenance of Plant	699,854.65	191,606.50	361,382.83		475,573.71		1,728,417.69
Student Financial Aid			1,789.06	1,209,537.39			1,211,326.45
Auxiliary Enterprises	357,034.93	1,472,257.83	99,921.39				1,929,214.15
Depreciation						717,714.04	717,714.04
Total Operating Expenses	<u>\$ 16,058,711.13</u>	<u>\$ 2,996,068.92</u>	<u>\$ 2,249,400.31</u>	<u>\$ 1,209,537.39</u>	<u>\$ 475,573.71</u>	<u>\$ 717,714.04</u>	<u>\$ 23,707,005.50</u>

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 rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$13,268,503.03, of which \$10,857,452.72 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$651,447.32 and \$288,808.24, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$288,808.24, \$236,971.67, and \$224,506.73, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2007, were \$3,597.55. The voluntary contributions by employees amounted to \$152,521.00 for the year ended June 30, 2007.

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 \$88,910.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$412,583.20. 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. Disability Income** – 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 year ended June 30, 2007, the College's total contribution to the DIPNC was \$56,458.75. 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$75,000 deductible. Losses from county and institutional fund paid employees are covered with 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. The employer contribution rate was .16% for the current fiscal year.

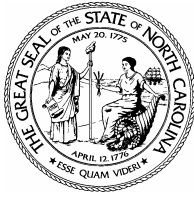
Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 22,823,264.19
Correct Errors in Establishing Useful Lives of Capital Assets	<u>554,054.00</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 23,377,318.19</u></u>

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STATE OF NORTH CAROLINA
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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**

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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 8, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record,

**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)**

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not 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*.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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

May 8, 2008

AUDIT FINDINGS AND RESPONSES

Matter Related to Financial Reporting

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

INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College allowed information system access rights inconsistent with adequate internal control to prevent error or detect fraud. We identified four employees who were granted full access to all screens in either one or both financial and human resources modules. Another employee was granted full access to the accounts payable and purchasing modules. Prudent internal control principles require that users be given only access to the specific computer resources needed for their job duties, and such duties be segregated among employees in a manner that deters error or fraud.

Recommendation: The College should evaluate, and to the extent necessary, reassign system access rights in order to better segregate duties to enhance internal control.

Response: We concur with the recommendation from the Office of the State Auditor that system access rights should be evaluated and reassigned to better segregate duties to enhance internal controls. Security classes for all Business Office personnel have been reviewed and implemented based on job function. We will continue to evaluate our security classes to ensure proper segregation of duties to the extent possible.

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