



STATE OF NORTH CAROLINA

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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 certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

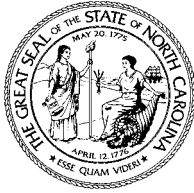
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 the Foundation, are 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 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.

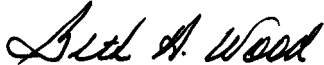
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Surry Community College and its discretely presented component unit as of June 30, 2010, and the respective changes 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.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

May 25, 2011

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, 2010. 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 of the College's assets and liabilities, with the difference between these two reported as net assets. 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 revenues earned and expenses incurred during the fiscal year. Revenues 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

	2010	2009	Change
Assets			
Current Assets	\$ 4,944,039.96	\$ 4,656,916.41	\$ 287,123.55
Capital Assets, Net	23,926,194.06	21,364,045.96	2,562,148.10
Other Assets	1,628,289.97	4,078,852.52	(2,450,562.55)
Total Assets	30,498,523.99	30,099,814.89	398,709.10
Liabilities			
Long-Term Liabilities	661,960.69	649,515.71	12,444.98
Other Liabilities	1,142,920.24	853,064.90	289,855.34
Total Liabilities	1,804,880.93	1,502,580.61	302,300.32
Net Assets			
Invested in Capital Assets	23,926,194.06	21,364,045.96	2,562,148.10
Restricted	2,006,329.80	3,508,271.98	(1,501,942.18)
Unrestricted	2,761,119.20	3,724,916.34	(963,797.14)
Total Net Assets	\$ 28,693,643.06	\$ 28,597,234.28	\$ 96,408.78

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the year ended June 30, 2010, the College's total assets had a net increase of \$398,709.10, which was mainly attributed to a capital assets increase of \$2,562,148.10 and other assets decrease of \$2,450,562.55. The increase in capital assets was primarily due to an increase in construction in progress expenses of \$3,206,945.44 related to the North Carolina Center for Viticulture and Enology. This increase was offset by a reduction in construction monies due from the State at June 30, 2010 in which the receivable was \$1,259,374.32 at year-end compared to \$4,008,417.98 in the prior year, a decrease of \$2,749,043.66. This year-end receivable, restricted due from primary government, was also primarily related to the North Carolina Center for Viticulture and Enology capital project.

Long-term liabilities decreased by \$12,444.98 and consisted entirely of compensated absences. Other liabilities increased by \$289,855.34 and were mainly the result of accounts payable related to the construction project mentioned earlier.

The College's net assets increased to \$28,693,643.06 from \$28,597,234.28 at June 30, 2009. Total net assets as of June 30, 2010, consist of invested in capital assets (83%), restricted (7%), and unrestricted (10%).

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

	2010	2009	Change
Operating Revenues			
Student Tuition and Fees, Net	\$ 2,962,117.55	\$ 2,346,131.16	\$ 615,986.39
Sales and Services, Net	1,869,224.22	1,877,203.34	(7,979.12)
Other Operating Revenues	17,663.51	75,512.42	(57,848.91)
Total Operating Revenues	4,849,005.28	4,298,846.92	550,158.36
Operating Expenses			
Salaries and Benefits	17,383,463.92	17,590,092.04	(206,628.12)
Supplies and Materials	4,665,429.74	3,427,014.01	1,238,415.73
Services	1,980,703.87	1,862,297.61	118,406.26
Scholarships and Fellowships	3,984,992.80	2,826,721.42	1,158,271.38
Utilities	469,581.47	485,792.53	(16,211.06)
Depreciation	742,531.83	766,186.52	(23,654.69)
Total Operating Expenses	29,226,703.63	26,958,104.13	2,268,599.50
Operating Loss	(24,377,698.35)	(22,659,257.21)	(1,718,441.14)
Nonoperating Revenues			
State Aid	12,800,759.35	14,314,151.72	(1,513,392.37)
County Appropriations	2,298,303.00	2,216,308.00	81,995.00
Noncapital Grants	7,878,040.40	6,886,786.58	991,253.82
Other Nonoperating Revenues	245,718.86	226,760.08	18,958.78
Total Nonoperating Revenues	23,222,821.61	23,644,006.38	(421,184.77)
Income (Loss) Before Other Revenues	(1,154,876.74)	984,749.17	(2,139,625.91)
Capital Contributions	1,251,285.52	2,363,614.00	(1,112,328.48)
Increase in Net Assets	96,408.78	3,348,363.17	(3,251,954.39)
Net Assets, Beginning of Year	28,597,234.28	25,248,871.11	3,348,363.17
Net Assets, End of Year	\$ 28,693,643.06	\$ 28,597,234.28	\$ 96,408.78

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Total revenues for June 30, 2010, decreased \$983,354.89 to \$29,323,112.41. This is a 3% decrease over the June 30, 2009, revenues of \$30,306,467.30. The largest decreases occurred in state aid and capital contributions. The decreases in state aid of \$1,513,392.37 and state capital aid of \$801,828.48, which is part of the capital contributions change, are attributed to poor economic conditions within the State. The remaining decrease in capital contributions of approximately \$300,000.00 is attributed to a decrease in capital gifts for the 2010 fiscal year. These revenue reductions were offset against increases in student tuition and fees and noncapital grants, which increased \$615,986.39 and \$991,253.82, respectively. These increases were the result of increased tuition rates and increased Pell funding.

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 \$26,958,104.13 in 2009 to \$29,226,703.63 in 2010. The most significant increases occurred in scholarships and fellowships expense and supplies and materials expense. Scholarships and fellowships increased \$1,158,271.38 due to more students qualifying to receive Pell funds and an increase in the maximum Pell award amount for the 2009-2010 fiscal year compared to the prior year. Supplies and materials increased \$1,238,415.73. The increase in supplies and materials was primarily related to the purchase of furniture, minor equipment and computer network upgrades that did not meet the threshold for capitalization. These supply and material purchases were made primarily to furnish the North Carolina Center for Viticulture and Enology, as well as new classroom facilities and the library.

The economic position of Surry Community College is closely tied to that of the State of North Carolina. State and county funding comprised 56% of the total revenues during the fiscal year ended June 30, 2010. There continues to be reports that the State and local economy remains sluggish and may not be rebounding as expected. This economic condition could result in less funding for the College in future years from the State and local governments. The future impact on the College is uncertain.

Surry Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,995,937.41
Restricted Cash and Cash Equivalents	523,937.91
Receivables, Net (Note 3)	349,148.80
Due from State of North Carolina Component Units	800,000.00
Due from Community College Component Unit	3,733.00
Inventories	271,282.84
Total Current Assets	<u>4,944,039.96</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	368,915.65
Restricted Due from Primary Government	1,259,374.32
Capital Assets - Nondepreciable (Note 4)	3,997,509.30
Capital Assets - Depreciable, Net (Note 4)	<u>19,928,684.76</u>
Total Noncurrent Assets	<u>25,554,484.03</u>
Total Assets	<u>30,498,523.99</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	813,398.57
Unearned Revenue	260,750.40
Funds Held for Others	68,771.27
Long-Term Liabilities - Current Portion (Note 6)	<u>15,026.51</u>
Total Current Liabilities	<u>1,157,946.75</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>646,934.18</u>
Total Liabilities	<u>1,804,880.93</u>

NET ASSETS

Invested in Capital Assets	23,926,194.06
Restricted for:	
Expendable:	
Loans	2,293.80
Capital Projects	1,134,600.51
Centers for Learning, Education and Retraining	647,659.55
Technology Support	198,854.07
Other	22,921.87
Unrestricted	<u>2,761,119.20</u>
Total Net Assets	<u>\$ 28,693,643.06</u>

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,962,117.55
Sales and Services, Net (Note 8)	1,869,224.22
Other Operating Revenues	<u>17,663.51</u>

Total Operating Revenues	<u>4,849,005.28</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	17,383,463.92
Supplies and Materials	4,665,429.74
Services	1,980,703.87
Scholarships and Fellowships	3,984,992.80
Utilities	469,581.47
Depreciation	<u>742,531.83</u>

Total Operating Expenses	<u>29,226,703.63</u>
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Operating Loss	<u>(24,377,698.35)</u>
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NONOPERATING REVENUES

State Aid	12,800,759.35
County Appropriations	2,298,303.00
Noncapital Grants - Federal Student Financial Aid	5,395,146.59
Noncapital Grants	2,482,893.81
Noncapital Gifts	196,445.47
Investment Income	27,724.67
Other Nonoperating Revenues	<u>21,548.72</u>

Total Nonoperating Revenues	<u>23,222,821.61</u>
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Loss Before Other Revenues	<u>(1,154,876.74)</u>
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State Capital Aid	1,181,285.52
County Capital Aid	<u>70,000.00</u>

Increase in Net Assets	96,408.78
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NET ASSETS

Net Assets, July 1, 2009	<u>28,597,234.28</u>
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Net Assets, June 30, 2010	<u><u>\$ 28,693,643.06</u></u>
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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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,804,921.08
Payments to Employees and Fringe Benefits	(17,366,671.51)
Payments to Vendors and Suppliers	(7,072,087.23)
Payments for Scholarships and Fellowships	(3,984,992.80)
Other Receipts	162,367.31
	<hr/>
Net Cash Used by Operating Activities	(23,456,463.15)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,800,759.35
County Appropriations	2,298,303.00
Noncapital Grants - Federal Student Financial Aid	5,388,414.11
Noncapital Grants Received	2,482,893.81
Federal Family Education Loan Receipts	1,425,633.25
Federal Family Education Loan Disbursements	(1,400,768.26)
Noncapital Gifts	192,712.47
	<hr/>
Net Cash Provided by Noncapital Financing Activities	23,187,947.73

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

State Capital Aid Received	3,930,329.18
County Capital Aid	70,000.00
Acquisition and Construction of Capital Assets	(3,253,498.25)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	746,830.93

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	27,724.67
	<hr/>
Net Increase in Cash and Cash Equivalents	506,040.18
Cash and Cash Equivalents, July 1, 2009	3,382,750.79
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Cash and Cash Equivalents, June 30, 2010	\$ 3,888,790.97

Surry Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (24,377,698.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	742,531.83
Miscellaneous Nonoperating Income	164,147.33
Changes in Assets and Liabilities:	
Receivables, Net	(49,396.71)
Inventories	(19,702.29)
Accounts Payable and Accrued Liabilities	67,677.57
Unearned Revenue	5,312.51
Funds Held for Others	(1,780.02)
Compensated Absences	12,444.98
Net Cash Used by Operating Activities	<u><u>\$ (23,456,463.15)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,995,937.41
Restricted Cash and Cash Equivalents	523,937.91
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>368,915.65</u>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 3,888,790.97</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 345,358.00
Increase in Receivables Related to Nonoperating Income	6,732.48
Capital Asset Write-Offs	149,061.30

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, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents:	
Cash in Bank	\$ 123,505.94
Cash with State Treasurer	2,549,337.50
Investments:	
Money Market Funds	150,523.85
Corporate Common Stock	204,717.95
Investment Manager Accounts:	
Mutual Funds and Money Market	1,593,502.11
Investments in Real Estate	<u>212,500.00</u>
Total Assets	<u><u>\$ 4,834,087.35</u></u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 136.98
Notes Payable - Current	<u>51,851.42</u>
Total Current Liabilities	51,988.40

NET ASSETS

Unrestricted	218,519.20
Temporarily Restricted	545,400.59
Permanently Restricted	<u>4,018,179.16</u>
Total Net Assets	<u>4,782,098.95</u>
Total Liabilities and Net Assets	<u><u>\$ 4,834,087.35</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, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Donations	\$ 3,580.00	\$ 60,116.39	\$ 148,318.57	\$ 212,014.96
Fundraising Income	72,236.93	250.00	750.00	73,236.93
Interest Income	1,049.35	3,589.06		4,638.41
Dividend Income	2.10	120.00		122.10
Investment Income	13,294.18	318,414.90	5,293.52	337,002.60
Endowment Income	536.69	35,763.89		36,300.58
Rental Income	8,370.00			8,370.00
Other Income	69.22	47.00		116.22
Transfers In		1,810.67	23,084.44	24,895.11
Total Revenues, Gains, and Other Support	99,138.47	420,111.91	177,446.53	696,696.91
EXPENSES				
Contributions to Surry Community College				
Scholarships Awarded	34,196.00	101,467.88	0.00	135,663.88
GED Scholarships	5,981.75			5,981.75
Public Relations, Meetings, and Miscellaneous	17,500.00			17,500.00
Fundraising Expense	13,374.91			13,374.91
Investment Loss	4,859.44	111,880.24	1,893.06	118,632.74
Rental Property Expenses:				
Maintenance and Repairs	8,500.00			8,500.00
Property Taxes	958.89			958.89
Insurance	731.50			731.50
Interest Paid	3,532.99			3,532.99
Miscellaneous Rental Expense	1,162.78			1,162.78
Management and General:				
Audit Costs	4,800.00			4,800.00
Supplies and Materials/Printing	737.79			737.79
Postage	622.91			622.91
Faculty and Staff Development	1,000.00			1,000.00
Institutional Grant Program	3,986.22			3,986.22
Other Expenses	1,462.96	2,084.94		3,547.90
Transfers to Other Foundation Funds		23,084.44	1,810.67	24,895.11
Total Expenses	103,408.14	238,517.50	3,703.73	345,629.37
Change In Net Assets	(4,269.67)	181,594.41	173,742.80	351,067.54
Net Assets at Beginning of the Year as Previously Reported	222,788.87	398,806.18	3,809,436.36	4,431,031.41
Prior Period Adjustments		(35,000.00)	35,000.00	
Net Assets at End of Year	\$ 218,519.20	\$ 545,400.59	\$ 4,018,179.16	\$ 4,782,098.95

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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 College's financial statements. The discretely presented component unit's financial data is 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. (Foundation) 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 12 members and three officers. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private 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 the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the Foundation distributed \$159,145.63 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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 general characteristics of a demand deposit account in that participants

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- 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 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 30 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(LIFO) method. 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

College - 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 \$9,395.00, and deposits in private financial institutions with a carrying value of \$3,520,098.43 and a bank balance of \$3,655,537.77.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$359,297.54 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, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Unit - Investments of the College's discretely presented component unit, Surry Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The fair value of the Foundation's investments at June 30, 2010, was \$2,161,243.91 and includes \$212,500.00 that was invested in real estate.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 316,536.44	\$ 82,604.10	\$ 233,932.34
Accounts	89,925.89		89,925.89
Other	25,290.57		25,290.57
	<u>431,752.90</u>	<u>82,604.10</u>	<u>349,148.80</u>
Total Current Receivables	<u>\$ 431,752.90</u>	<u>\$ 82,604.10</u>	<u>\$ 349,148.80</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 173,142.00	\$ 0.00	\$ 0.00	\$ 173,142.00
Construction in Progress	617,401.86	3,206,965.44		3,824,367.30
Total Capital Assets, Nondepreciable	<u>790,543.86</u>	<u>3,206,965.44</u>		<u>3,997,509.30</u>
Capital Assets, Depreciable:				
Buildings	26,426,822.73			26,426,822.73
Machinery and Equipment	2,952,847.13	240,313.10	159,373.30	3,033,786.93
General Infrastructure	598,017.17			598,017.17
Total Capital Assets, Depreciable	<u>29,977,687.03</u>	<u>240,313.10</u>	<u>159,373.30</u>	<u>30,058,626.83</u>
Less Accumulated Depreciation for:				
Buildings	7,864,449.04	529,506.24		8,393,955.28
Machinery and Equipment	1,257,665.22	193,305.63	16,774.69	1,434,196.16
General Infrastructure	282,070.67	19,719.96		301,790.63
Total Accumulated Depreciation	<u>9,404,184.93</u>	<u>742,531.83</u>	<u>16,774.69</u>	<u>10,129,942.07</u>
Total Capital Assets, Depreciable, Net	<u>20,573,502.10</u>	<u>(502,218.73)</u>	<u>142,598.61</u>	<u>19,928,684.76</u>
Capital Assets, Net	<u>\$ 21,364,045.96</u>	<u>\$ 2,704,746.71</u>	<u>\$ 142,598.61</u>	<u>\$ 23,926,194.06</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 656,712.72
Accrued Payroll	64,879.85
Contract Retainage	<u>91,806.00</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 813,398.57</u>

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Compensated Absences	\$ 649,515.71	\$ 479,948.88	\$ 467,503.90	\$ 661,960.69	\$ 15,026.51

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 35,423.28
2012	23,231.16
2013	<u>9,632.55</u>
Total Minimum Lease Payments	<u>\$ 68,286.99</u>

Rental expense for all operating leases during the year was \$96,447.60.

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	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 4,665,452.12</u>	<u>\$ 1,620,730.47</u>	<u>\$ 82,604.10</u>	<u>\$ 2,962,117.55</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 525,461.82	\$ 0.00	\$ 0.00	\$ 525,461.82
Health, Physical Education, and Recreation Services	37,100.30			37,100.30
Bookstore	1,889,622.39	746,758.14		1,142,864.25
Graduation	11,514.00			11,514.00
Parking	5,765.00			5,765.00
Rent	83,352.00			83,352.00
Other	10,100.81			10,100.81
Sales and Services of Education and Related Activities	<u>53,066.04</u>			<u>53,066.04</u>
Total Sales and Services	<u>\$ 2,615,982.36</u>	<u>\$ 746,758.14</u>	<u>\$ 0.00</u>	<u>\$ 1,869,224.22</u>

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,730,285.53	\$ 1,944,989.22	\$ 634,042.80	\$ 0.00	\$ 0.00	\$ 0.00	\$ 13,309,317.55
Academic Support	2,599,494.20	154,515.61	150,266.67				2,904,276.48
Student Services	1,061,554.71	51,991.37	126,965.95				1,240,512.03
Institutional Support	1,838,662.73	310,578.53	575,585.43				2,724,826.69
Operations and Maintenance of Plant	771,667.96	356,306.44	413,052.85		469,581.47		2,010,608.72
Student Financial Aid			2,545.25	3,984,992.80			3,987,538.05
Auxiliary Enterprises	381,798.79	1,847,048.57	78,244.92				2,307,092.28
Depreciation						742,531.83	742,531.83
Total Operating Expenses	<u>\$ 17,383,463.92</u>	<u>\$ 4,665,429.74</u>	<u>\$ 1,980,703.87</u>	<u>\$ 3,984,992.80</u>	<u>\$ 469,581.47</u>	<u>\$ 742,531.83</u>	<u>\$ 29,226,703.63</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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$14,087,645.14, of which \$11,478,094.62 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$409,767.98 and \$688,685.68, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$409,767.98, \$397,206.38, and \$350,014.88, respectively.

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

- B. Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2010, were \$5,885.31. The voluntary contributions by employees amounted to \$178,754.00 for the year ended June 30, 2010.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. The required contribution rate for the years ended June 30, 2009 and 2008 was 4.1% for both years. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$516,514.26, \$484,686.36, and \$470,511.81, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2009 and 2008 was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$59,686.09, \$61,472.42, and \$59,674.67, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from county and institutional fund paid employees are covered with contracts with private insurance companies.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$712,445.38 at June 30, 2010.

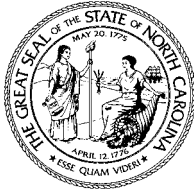
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.



Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 25, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider both deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies.

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 responses to the findings identified in our audit are 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

May 25, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

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

1. INADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over the payroll, purchasing, and accounts payable functions. As a result, errors or fraud could occur and not be detected in a timely manner.

Two employees in the business office are responsible for processing the College's payroll, which includes adding new employees to the system, entering pay rates, setting up direct deposit information, printing checks, and posting payroll transactions to the general ledger. One of these employees also had been granted access to create purchase orders and process them, which was outside of her job responsibilities.

Another employee had access to the accounting system that would allow her to create vendors, pay vouchers, and print checks.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. Employees should only be assigned the minimum access rights needed to perform the assigned job function.

Recommendation: Management should evaluate and reassign job duties and system access rights as necessary to better segregate duties and enhance internal control.

College Response: We concur with the recommendation. Security classes for all Business Office personnel have been reviewed and implemented based on job function to better segregate duties and enhance internal controls.

2. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Surry Community College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to readers. Misstatements noted during our audit included the following:

- a. The College overstated federal student financial aid revenue and scholarships and fellowships expense by \$1,425,633 and \$1,400,768, respectively, while associated liabilities were understated by \$24,865. This misstatement was the result of the College incorrectly reporting revenue and expenditure activity associated with the

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Federal Family Education Loan program, which should not be reflected on the statement of revenues, expenses, and changes in net assets.

- b. The College misclassified net assets between unrestricted and restricted funds, as well as within the restricted categories. Unrestricted net assets were overstated by \$632,789, while restricted net assets were understated by the same amount. In addition, there were misclassifications within the restricted categories totaling \$252,536.
- c. The College understated current restricted cash and noncurrent restricted cash by \$222,828 and \$275,910, respectively, and current unrestricted cash was overstated by \$498,738, primarily due to the College not recognizing the effect of restricted accounts with cash deficits on unrestricted cash.
- d. The College understated student tuition and fees revenue by \$123,536 and overstated other operating revenues by the same amount due to the College's incorrect reporting of student fees.
- e. Misstatements were also made in the Notes to the Financial Statements.

We also noted that the ending capital asset balances per the College's note, general ledger, and subsidiary ledger agreed in total; however, there were discrepancies within the capital asset categories upon comparing these three sources. Further, we noted a weakness in the financial reporting process in that year-end journal entries and the financial statements did not contain evidence of review and approval by someone independent of the preparer.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy and completeness of the financial statements. This process should include an independent review and approval of supporting journal entries and the financial statements.

College Response: The year-end financial reporting processes have been modified to enhance internal controls and ensure accuracy and completeness. The Controller will be responsible for all year-end reporting and journal entries with the Chief Financial Officer providing an independent review and approval.

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