



STATE OF NORTH CAROLINA

SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position	8
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	10
A-3 Statement of Cash Flows	11
Component Unit Exhibits	
B-1 Statement of Financial Position	13
B-2 Statement of Activities.....	14
Notes to the Financial Statements	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	29
ORDERING INFORMATION	31

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Surry Community College
Dobson, North Carolina

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Surry Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Surry Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Surry Community College Foundation, Inc. were not audited in accordance with Government Auditing Standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Surry Community College and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 30, 2015

SURRY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Surry Community College's Financial Statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2014. This section should be read in conjunction with the College's basic financial statements and the related notes to the financial statements.

Using the Financial Statements

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The College's financial activity is considered to be a single business-type activity and accordingly, is reported within a single column on the basic financial statements. The basic financial statements consist of three statements. These statements are featured below with brief descriptions of each.

The first statement, the Statement of Net Position includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement of Net Position is presented in a classified format and is classified by current and noncurrent. The second statement, Statement of Revenues, Expenses, and Changes in Net Position, 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Condensed Statement of Net Position

	2014	2013	Change
Assets			
Current Assets	\$ 4,891,636.22	\$ 5,328,259.17	\$ (436,622.95)
Noncurrent Assets			
Capital Assets, Net	23,613,565.69	24,226,648.48	(613,082.79)
Other Noncurrent Assets	1,052,520.28	1,466,956.75	(414,436.47)
Total Assets	<u>29,557,722.19</u>	<u>31,021,864.40</u>	<u>(1,464,142.21)</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Liabilities			
Current Liabilities	937,203.99	884,552.92	52,651.07
Long-Term Liabilities	715,240.01	693,402.30	21,837.71
Total Liabilities	<u>1,652,444.00</u>	<u>1,577,955.22</u>	<u>74,488.78</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net Position			
Investment in Capital Assets	23,613,565.69	24,226,648.48	(613,082.79)
Restricted - Expendable	1,317,944.45	1,048,655.71	269,288.74
Unrestricted	2,973,768.05	4,168,604.99	(1,194,836.94)
Total Net Position	<u>\$ 27,905,278.19</u>	<u>\$ 29,443,909.18</u>	<u>\$ (1,538,630.99)</u>

For the year ended June 30, 2014, the College's total assets decreased by \$1,464,142.21. Capital assets decreased by \$613,082.79 mainly due to accumulated depreciation of \$866,955.67 during fiscal year 2014. Other noncurrent assets decreased by \$414,436.47 mainly due to a decrease in the receivable due from the State related to construction projects. Current assets decreased by \$436,622.95 mainly due to renovations of the Reeves Building as well as the Learning Resources Center.

Long-term liabilities increased by \$21,837.71 and consisted entirely of compensated absences. Current liabilities increased by \$52,651.07 resulting from slight increases in accounts payable and accrued payroll at June 30, 2014.

As a result of the changes noted above, the College's net position decreased to \$27,905,278.19 from \$29,443,909.18 at June 30, 2013, a decrease of \$1,538,630.99. Total net position as of June 30, 2014, consists of capital assets (85%), restricted (5%), and unrestricted (10 %).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2014	2013	Change
Operating Revenues			
Student Tuition and Fees, Net	\$ 2,451,443.33	\$ 2,429,020.86	\$ 22,422.47
Sales and Services, Net	1,260,339.87	1,316,210.23	(55,870.36)
Other Operating Revenues	14,892.32	11,899.14	2,993.18
Total Operating Revenues	<u>3,726,675.52</u>	<u>3,757,130.23</u>	<u>(30,454.71)</u>
Operating Expenses			
Salaries and Benefits	18,582,870.07	19,056,498.28	(473,628.21)
Supplies and Materials	5,098,889.94	4,052,819.80	1,046,070.14
Services	3,159,387.12	2,177,322.67	982,064.45
Scholarships and Fellowships	2,744,831.61	3,059,452.10	(314,620.49)
Utilities	566,157.54	515,800.41	50,357.13
Depreciation	866,955.67	849,881.29	17,074.38
Total Operating Expenses	<u>31,019,091.95</u>	<u>29,711,774.55</u>	<u>1,307,317.40</u>
Operating Loss	<u>(27,292,416.43)</u>	<u>(25,954,644.32)</u>	<u>(1,337,772.11)</u>
Nonoperating Revenues			
State Aid	14,032,956.86	13,725,867.05	307,089.81
County Appropriations	2,454,994.05	1,900,810.00	554,184.05
Noncapital Grants and Gifts	7,724,442.10	8,829,021.38	(1,104,579.28)
Other Nonoperating Revenues (Expenses)	4,462.98	(65,891.53)	70,354.51
Total Net Nonoperating Revenues	<u>24,216,855.99</u>	<u>24,389,806.90</u>	<u>(172,950.91)</u>
Loss Before Other Revenues	(3,075,560.44)	(1,564,837.42)	(1,510,723.02)
Capital Contributions	<u>1,536,929.45</u>	<u>1,519,234.44</u>	<u>17,695.01</u>
Decrease in Net Position	(1,538,630.99)	(45,602.98)	(1,493,028.01)
Net Position, Beginning of Year	<u>29,443,909.18</u>	<u>29,489,512.16</u>	<u>(45,602.98)</u>
Net Position, End of Year	<u>\$ 27,905,278.19</u>	<u>\$ 29,443,909.18</u>	<u>\$ (1,538,630.99)</u>

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of \$29,507,834.03 and total expenses of \$31,046,465.02, resulting in an overall decrease in net position of \$1,538,630.99 at year-end.

Total revenues for June 30, 2014, decreased \$254,855.50 to \$29,507,834.03. This is a .86% decrease over the June 30, 2013 revenues total of \$29,762,689.53. The largest change occurred in noncapital grants and gifts which was \$1,104,579.28. This decrease was the result of a reduction in funding from the Federal Pell Grant Program as well as termination of the Trade Adjustment Assistance Community College and Career Training Grant Programs. Net sales and services slightly decreased by \$55,870.36. The majority of this decrease was the result of declining bookstore sales.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Total operating expenses for June 30, 2014, increased \$1,307,317.40 to \$31,019,091.95. This is a 4.4% increase over the June 30, 2013 operating expenses of \$29,711,774.55. The largest increase occurred in supplies and materials which was \$1,046,070.14. This increase can be attributed to two factors. One is related to renovation costs of the Reeves Building and the Learning Resources Center mentioned earlier. The second factor pertains to increased technology costs due to computer upgrades for faculty and staff, as well as starting a new intranet system.

Capital Assets

The College's capital assets, net of accumulated depreciation at June 30, 2014, were \$23,613,565.69. There were no significant construction projects in progress for the 2013-2014 fiscal year. For more information about the College's capital asset holdings, refer to Note 4 of the Notes to the Financial Statements.

Economic Outlook

The economic position of Surry Community College is closely tied to that of the State of North Carolina. State and county funding comprised 61% of the total revenues during the fiscal year ended June 30, 2014. There continues to be reports that the state and local economy remains sluggish and may not be improving 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 Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,456,376.47
Restricted Cash and Cash Equivalents	480,388.71
Receivables, Net (Note 3)	499,257.42
Inventories	455,613.62
	<hr/>
Total Current Assets	4,891,636.22

Noncurrent Assets:

Restricted Cash and Cash Equivalents	602,008.92
Restricted Due from Primary Government	450,511.36
Capital Assets - Nondepreciable (Note 4)	263,142.00
Capital Assets - Depreciable, Net (Note 4)	23,350,423.69
	<hr/>
Total Noncurrent Assets	24,666,085.97

Total Assets	<hr/> 29,557,722.19
--------------	---------------------

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<hr/> 0.00
--------------------------------------	------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	546,534.38
Unearned Revenue	226,911.96
Funds Held for Others	96,288.08
Long-Term Liabilities - Current Portion (Note 6)	67,469.57
	<hr/>
Total Current Liabilities	937,203.99

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 715,240.01
Total Liabilities	<hr/> 1,652,444.00

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<hr/> 0.00
-------------------------------------	------------

***Surry Community College
Statement of Net Position
June 30, 2014***

***Exhibit A-1
Page 2 of 2***

NET POSITION

Investment in Capital Assets	23,613,565.69
Restricted for:	
Expendable:	
Loans	2,293.80
Capital Projects	1,105,769.41
Restricted for Specific Programs	162,306.63
Other	47,574.61
Unrestricted	<u>2,973,768.05</u>
Total Net Position	<u>\$ 27,905,278.19</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 Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,451,443.33
Sales and Services, Net (Note 8)	1,260,339.87
Other Operating Revenues	14,892.32
	<hr/>
Total Operating Revenues	3,726,675.52
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	18,582,870.07
Supplies and Materials	5,098,889.94
Services	3,159,387.12
Scholarships and Fellowships	2,744,831.61
Utilities	566,157.54
Depreciation	866,955.67
	<hr/>
Total Operating Expenses	31,019,091.95
	<hr/>
Operating Loss	(27,292,416.43)
	<hr/>

NONOPERATING REVENUES

State Aid	14,032,956.86
County Appropriations	2,454,994.05
Noncapital Grants - Federal Student Financial Aid	5,705,058.69
Noncapital Grants	1,899,993.10
Noncapital Gifts	119,390.31
Investment Income	31,836.05
Other Nonoperating Expenses	(27,373.07)
	<hr/>
Net Nonoperating Revenues	24,216,855.99
	<hr/>
Loss Before Other Revenues	(3,075,560.44)
	<hr/>
State Capital Aid	1,536,929.45
	<hr/>
Decrease in Net Position	(1,538,630.99)
	<hr/>

NET POSITION

Net Position, July 1, 2013	29,443,909.18
	<hr/>
Net Position, June 30, 2014	\$ 27,905,278.19
	<hr/> <hr/>

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, 2014

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,627,127.85
Payments to Employees and Fringe Benefits	(18,552,887.08)
Payments to Vendors and Suppliers	(8,811,488.22)
Payments for Scholarships and Fellowships	(2,744,831.61)
Other Payments	(40,675.44)

Net Cash Used by Operating Activities (26,522,754.50)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	14,032,956.86
County Appropriations	2,454,994.05
Noncapital Grants - Federal Student Financial Aid	5,705,058.69
Noncapital Grants	1,968,058.34
Noncapital Gifts	119,390.31

Cash Provided by Noncapital Financing Activities 24,280,458.25

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,903,543.49
Acquisition and Construction of Capital Assets	(309,620.79)

Net Cash Provided by Capital and Related Financing Activities 1,593,922.70

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>31,836.05</u>
-------------------	------------------

Net Decrease in Cash and Cash Equivalents (616,537.50)

Cash and Cash Equivalents, July 1, 2013 5,155,311.60

Cash and Cash Equivalents, June 30, 2014 \$ 4,538,774.10

Surry Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (27,292,416.43)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	866,955.67
Nonoperating Other Income	15,132.28
Changes in Assets and Liabilities:	
Receivables, Net	(120,420.96)
Inventories	(92,465.28)
Accounts Payable and Accrued Liabilities	86,444.12
Unearned Revenue	20,873.29
Funds Held for Others	(55,807.72)
Compensated Absences	48,950.53
	<u>48,950.53</u>
Net Cash Used by Operating Activities	<u><u>\$ (26,522,754.50)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 3,456,376.47
Restricted Cash and Cash Equivalents	480,388.71
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>602,008.92</u>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 4,538,774.10</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	(42,505.35)
------------------------------------	-------------

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, 2014

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,524,070
Investments		4,144,289
Land		<u>892,093</u>
Total Assets	\$	<u><u>7,560,452</u></u>

LIABILITIES

Notes Payable	\$	<u>285,600</u>
---------------	----	----------------

NET ASSETS

Unrestricted		666,273
Temporarily Restricted		1,707,461
Permanently Restricted		<u>4,901,118</u>
Total Net Assets		<u>7,274,852</u>
Total Liabilities and Net Assets	\$	<u><u>7,560,452</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, 2014

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenues:	
Contributions	\$ 133,094
Special Events Income	86,735
Rental Income	7,200
Investment Income (Net of Fees)	2,070
Change in Market Value of Investments	16,510
Other Income	86,735
Transfers In	8,864
	<hr/>
Total Unrestricted Support and Revenues	341,208
	<hr/>
Total Unrestricted Expenses	85,479
	<hr/>
Increase in Unrestricted Net Assets	255,729
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Support and Revenues:	
Contributions	57,724
Investment Income (Net of Fees)	54,659
Change in Market Value of Investments	397,830
Transfers In	44,233
	<hr/>
Total Temporarily Restricted Support and Revenues	554,446
	<hr/>
Total Temporarily Restricted Expenses	74,507
	<hr/>
Increase in Temporarily Restricted Net Assets	479,939
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Support and Revenues:	
Contributions	54,505
Special Events Income	1,350
Investment Income (Net of Fees)	372
Change in Market Value of Investments	5,636
Other Income	359,584
Transfers In	312
Transfers Out	(30,448)
	<hr/>
Increase in Permanently Restricted Net Assets	391,311
	<hr/>

Increase in Net Assets	1,126,979
Net Assets at Beginning of Year	6,147,873
	<hr/>
Net Assets at End of Year	\$ 7,274,852
	<hr/> <hr/>

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

SURRY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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. See below for further discussion of the College's component unit.

Discretely Presented Component Unit – Surry Community College Foundation, Inc. (Foundation) is a legally separate, tax-exempt, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$110,849.70 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 GASB.

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 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 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 (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at fiscal year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

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 Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

College - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

totaling \$9,395.00, and deposits in private financial institutions with a carrying value of \$4,160,563.96 and a bank balance of \$4,182,972.82.

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, 2014, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$368,815.14 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s STIF) are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

Component Unit

Deposits – All funds of the College’s discretely presented component unit, Surry Community College Foundation, Inc., are deposited in board-designated official depositories or with the State Treasurer. The Foundation had the following balances in established accounts at June 30, 2014:

	Balance
Cash on Deposit with Private Financial Institutions	\$ 489,146
Cash on Deposit with State Treasurer	2,034,924
Total Deposits	\$ 2,524,070

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in the State Treasurer’s Short-Term Investment Fund. These moneys are invested in accordance with G.S. 147-69.1 and as required by law are “readily convertible into cash.” All investments of the funds are held either by the Department of State Treasurer or its agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized to secure all deposits in excess of the federal depository insurance coverage.

The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash.

Investments - 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 following is an analysis of investments by type:

	Fair Value
Investment Type	
Mutual Funds	\$ 4,144,289

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 584,533.97	\$ 366,075.82	\$ 218,458.15
Student Sponsors	7,759.75		7,759.75
Accounts	223,787.13		223,787.13
Intergovernmental	49,252.39		49,252.39
Total Current Receivables	\$ 865,333.24	\$ 366,075.82	\$ 499,257.42

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 173,142.00	\$ 0.00	\$ 0.00	\$ 173,142.00
Construction in Progress	90,000.00			90,000.00
Total Capital Assets, Nondepreciable	263,142.00			263,142.00
Capital Assets, Depreciable:				
Buildings	32,079,808.25			32,079,808.25
Machinery and Equipment	3,512,833.65	296,378.23	63,873.31	3,745,338.57
General Infrastructure	756,173.44			756,173.44
Total Capital Assets, Depreciable	36,348,815.34	296,378.23	63,873.31	36,581,320.26
Less Accumulated Depreciation for:				
Buildings	10,162,646.10	636,173.52		10,798,819.62
Machinery and Equipment	1,861,448.66	207,899.11	21,367.96	2,047,979.81
General Infrastructure	361,214.10	22,883.04		384,097.14
Total Accumulated Depreciation	12,385,308.86	866,955.67	21,367.96	13,230,896.57
Total Capital Assets, Depreciable, Net	23,963,506.48	(570,577.44)	42,505.35	23,350,423.69
Capital Assets, Net	\$ 24,226,648.48	\$ (570,577.44)	\$ 42,505.35	\$ 23,613,565.69

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 296,907.71
Accrued Payroll	173,497.90
Other	<u>76,128.77</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 546,534.38</u></u>

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 733,759.05</u>	<u>\$ 578,993.42</u>	<u>\$ 530,042.89</u>	<u>\$ 782,709.58</u>	<u>\$ 67,469.57</u>

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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 53,223.72
2016	49,002.27
2017	35,330.49
2018	10,053.25
2019	<u>6,282.00</u>
Total Minimum Lease Payments	<u><u>\$ 153,891.73</u></u>

Rental expense for all operating leases during the year was \$38,436.98.

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	\$ 4,989,605.30	\$ 2,540,923.17	\$ (2,761.20)	\$ 2,451,443.33
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 423,399.21	\$ 0.00	\$ 0.00	\$ 423,399.21
Bookstore	1,795,910.85	1,021,797.10	109,822.75	664,291.00
Parking	10,709.00			10,709.00
Athletic	13,621.50			13,621.50
Other	85,901.00			85,901.00
Sales and Services of Education and Related Activities	62,418.16			62,418.16
Total Sales and Services	\$ 2,391,959.72	\$ 1,021,797.10	\$ 109,822.75	\$ 1,260,339.87

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	\$ 10,662,514.77	\$ 2,618,183.91	\$ 568,166.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 13,848,865.02
Academic Support	2,856,897.45	245,960.79	541,368.49				3,644,226.73
Student Services	1,004,241.71	37,124.63	99,316.39				1,140,682.73
Institutional Support	2,772,247.15	232,378.51	1,037,504.96				4,042,130.62
Operations and Maintenance of Plant	907,520.65	265,825.60	636,737.40		566,157.54		2,376,241.19
Student Financial Aid				2,744,831.61			2,744,831.61
Auxiliary Enterprises	379,448.34	1,699,416.50	276,293.54				2,355,158.38
Depreciation						866,955.67	866,955.67
Total Operating Expenses	\$ 18,582,870.07	\$ 5,098,889.94	\$ 3,159,387.12	\$ 2,744,831.61	\$ 566,157.54	\$ 866,955.67	\$ 31,019,091.95

NOTE 10 - PENSION 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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$15,429,105.03, of which \$11,784,302.70 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,024,055.90 and \$707,058.16, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,024,055.90, \$983,423.08, and \$854,503.46, respectively.

The TSERS 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$636,352.35, \$625,707.36, and \$574,263.08, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of 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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$51,850.93, \$51,945.52, and \$59,723.36, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

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 funds paid employees are covered with contracts with private insurance companies.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

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.

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Trustees
Surry Community College
Dobson, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 30, 2015. Our report includes a reference to other auditors who audited the financial statements of Surry Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Surry Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Surry Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

**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)**

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 30, 2015

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513