

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NC OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, 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, 2016, 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



Beth A. Wood, CPA  
State Auditor

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# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **INDEPENDENT AUDITOR'S REPORT**

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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 (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, 2016, 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*.

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 respective financial position of Surry Community College, and its discretely presented component unit, as of June 30, 2016, and the respective 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 and other required supplementary information, as listed in the table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017 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

July 10, 2017



# **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, 2016. 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.

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

Condensed Statement of Net Position			
	2016	2015 (As Restated)	Change
<b>Assets</b>			
Current Assets	\$ 5,293,730.15	\$ 5,269,847.98	\$ 23,882.17
Noncurrent Assets			
Capital Assets, Net	22,871,302.42	23,515,110.81	(643,808.39)
Other Noncurrent Assets	1,001,419.73	984,219.32	17,200.41
Total Assets	<u>29,166,452.30</u>	<u>29,769,178.11</u>	<u>(602,725.81)</u>
Deferred Outflows of Resources	<u>1,134,231.00</u>	<u>1,153,283.00</u>	<u>(19,052.00)</u>
<b>Liabilities</b>			
Current Liabilities	1,164,214.17	811,206.50	353,007.67
Long-Term Liabilities	<u>3,829,706.05</u>	<u>1,816,286.89</u>	<u>2,013,419.16</u>
Total Liabilities	<u>4,993,920.22</u>	<u>2,627,493.39</u>	<u>2,366,426.83</u>
Deferred Inflows of Resources	<u>748,934.00</u>	<u>3,636,560.00</u>	<u>(2,887,626.00)</u>
<b>Net Position</b>			
Investment in Capital Assets	22,871,302.42	23,515,110.81	(643,808.39)
Restricted - Expendable	1,106,313.69	1,307,205.36	(200,891.67)
Unrestricted	<u>580,212.97</u>	<u>(163,908.45)</u>	<u>744,121.42</u>
Total Net Position	<u>\$ 24,557,829.08</u>	<u>\$ 24,658,407.72</u>	<u>\$ (100,578.64)</u>

For the year ended June 30, 2016, the College's total assets decreased by \$602,725.81, with the most significant change occurring in capital assets. Capital assets decreased by \$643,808.39 mainly due to depreciation expense of \$877,529.92 on capital assets in service during fiscal year 2016 exceeding the acquisition cost of machinery and equipment additions of \$275,902.30.

Total liabilities at fiscal year ended June 30, 2016 were \$4,993,920.22. Long-term liabilities totaled \$3,829,706.05 at year-end, of which \$721,241.05 represented liabilities for accrued vacation and \$3,108,465.00 represented net pension liability for employees. Long-term liabilities increased by \$2,013,419.16 from the previous fiscal year. This increase was substantially attributed to the change in the College's proportionate share of the collective net pension liability for the Teachers' and State Employees' Retirement System. Refer to Note 7 of the Notes to the Financial Statements for more information about the College's long-term liabilities. Current liabilities, consisting mainly of accounts payable, accrued payroll, unearned revenue, and the current portion of long-term liabilities related to accrued vacation totaled \$1,164,214.17 or 23% of the total liabilities at year-end. Current liabilities increased by \$353,007.67 primarily due to an increase in accounts payable of \$242,966.03 for fiscal year 2016 compared to the prior year. These year-end payables related mainly to furniture purchases to equip new instructional programming space in Yadkin County in time for the Fall 2016 semester.

Last fiscal year, Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as well as GASB Statement No. 71 - *Pension Transitions for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, were implemented which required the College to include its portion of cost-sharing for the Teachers' and State Employees' Retirement System (TSERS) defined benefit pension plan. As cost-sharing employers in the TSERS plan, the College must report a net pension liability, deferred outflows of resources, and deferred inflows of resources, as well as a pension expense based on its proportional share of the aggregated net pension liability of all participating employers in the plan. Collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods are to be aggregated and included as a net collective deferred outflow of resources related to pensions or a net collective deferred inflow of resources related to pensions. As a result of the implementation of GASB Statement No. 68 in fiscal year 2015, the College recorded deferred outflows related to pensions of \$1,134,231.00, a net pension liability of \$3,108,465.00, and deferred inflows related to pensions of \$748,934.00. Deferred outflows decreased by \$19,052.00 and deferred inflows decreased by \$2,887,626.00, which is a direct result of a decrease in the retirement system's investment income. Since the College is a participant in the cost sharing pension plan, the College shares the loss on the decrease in market value of investments.

As a result of the activity noted above, the College's net position decreased to \$24,557,829.08 from \$24,658,407.72 at June 30, 2015, a decrease of \$100,578.64. Total net position as of June 30, 2016, consists of capital assets (93%), restricted (5%), and unrestricted (2%).

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

	2016	2015 (As Restated)	Change
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 2,311,890.15	\$ 2,184,670.38	\$ 127,219.77
Sales and Services, Net	1,288,887.28	1,347,586.46	(58,699.18)
Other Operating Revenues	6,001.31	10,493.97	(4,492.66)
Total Operating Revenues	<u>3,606,778.74</u>	<u>3,542,750.81</u>	<u>64,027.93</u>
<b>Operating Expenses</b>			
Salaries and Benefits	18,117,138.70	18,232,793.23	(115,654.53)
Supplies and Materials	3,840,555.85	3,816,767.41	23,788.44
Services	3,444,366.00	3,312,930.90	131,435.10
Scholarships and Fellowships	2,164,949.05	2,502,053.76	(337,104.71)
Utilities	551,272.28	583,786.71	(32,514.43)
Depreciation	877,529.92	807,132.90	70,397.02
Total Operating Expenses	<u>28,995,811.80</u>	<u>29,255,464.91</u>	<u>(259,653.11)</u>
Operating Loss	<u>(25,389,033.06)</u>	<u>(25,712,714.10)</u>	<u>323,681.04</u>
<b>Nonoperating Revenues</b>			
State Aid	15,277,616.20	14,885,778.20	391,838.00
County Appropriations	2,872,837.52	2,595,779.96	277,057.56
Noncapital Grants and Gifts	5,991,783.51	7,003,350.03	(1,011,566.52)
Investment Income	32,501.11	29,052.03	3,449.08
Other Nonoperating Expenses	(42,180.77)	(41,506.32)	(674.45)
Total Net Nonoperating Revenues	<u>24,132,557.57</u>	<u>24,472,453.90</u>	<u>(339,896.33)</u>
Loss Before Other Revenues	<u>(1,256,475.49)</u>	<u>(1,240,260.20)</u>	<u>(16,215.29)</u>
Capital Contributions	<u>1,155,896.85</u>	<u>1,581,090.96</u>	<u>(425,194.11)</u>
Increase (Decrease) in Net Position	<u>(100,578.64)</u>	<u>340,830.76</u>	<u>(441,409.40)</u>
Net Position, Beginning of Year	24,658,407.72	23,793,253.19	865,154.53
Restatement		524,323.77	(524,323.77)
Net Position, End of Year	<u>\$ 24,557,829.08</u>	<u>\$ 24,658,407.72</u>	<u>\$ (100,578.64)</u>

Total revenues for June 30, 2016, decreased \$700,388.06 to \$28,937,413.93. This is a 2% decrease over the June 30, 2015, revenues of \$29,637,801.99. The largest change occurred in noncapital grants and gifts which was \$1,011,566.52. The majority of this decrease (\$765,967.66) was the result of a reduction in noncapital grants related to student federal financial aid, specifically due to a decrease in Pell grants awarded to students in the 2015-16 fiscal year. The decrease in Pell grants is contributed to a reduction in qualified applicants for fiscal year 2016.

Operating revenues, which generally result from providing services and goods in connection with the College's principal ongoing operations, remained fairly consistent with the prior year, with only minimal changes occurring with the applicable components of student tuition and fees, sales and services, and other operating revenues.

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. State aid increased by \$391,838.00 and county appropriations increased by \$277,057.56 due to additional funding in fiscal year 2016.

Capital contributions are comprised of state and county capital aid. Regular equipment allocations included in state capital aid provide funds for administrative and educational equipment and furniture. Capital contributions decreased by \$425,194.11 in fiscal year 2016 primarily due to a decrease in state capital aid of \$265,601.76. The reduction in state capital aid is the result of a decrease in equipment purchases during fiscal year 2016.

Total expenses for fiscal year 2016 were \$29,037,992.57. This is a reduction of \$260,327.56 from fiscal year 2015 total expenses of \$29,296,971.23. The most substantial portion of this reduction occurred within operating expenses. Total operating expenses for June 30, 2016, decreased \$259,653.11 to \$28,995,811.80. This is approximately a 1% decrease from the June 30, 2015 operating expenses total of \$29,255,464.91. The largest decrease occurred in scholarships and fellowships, which was \$337,104.71. The largest increase occurred in services of \$131,435.10. The decrease in scholarships and fellowships is attributed to the decrease in Pell grants awarded to students as previously discussed. The increase in services is attributed to additional HVAC repairs that occurred in fiscal year 2016.

### **Capital Assets**

The College's capital assets, net of accumulated depreciation at June 30, 2016, were \$22,871,302.42. There were no construction commitments or construction projects in progress at fiscal year-end. For more information about the College's capital asset holdings, refer to Note 5 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 67% of the total revenues during the fiscal year ended June 30, 2016. There continues to be reports that the state and local economy remains sluggish. 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.



# FINANCIAL STATEMENTS

**Surry Community College**  
**Statement of Net Position**  
**June 30, 2016**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,208,828.35
Restricted Cash and Cash Equivalents	326,745.77
Receivables, Net (Note 4)	378,831.80
Inventories	379,324.23
	<hr/>
Total Current Assets	5,293,730.15

Noncurrent Assets:

Restricted Cash and Cash Equivalents	596,273.76
Restricted Due from Primary Government	405,145.97
Capital Assets - Nondepreciable (Note 5)	173,142.00
Capital Assets - Depreciable, Net (Note 5)	22,698,160.42
	<hr/>
Total Noncurrent Assets	23,872,722.15

Total Assets	<hr/> <hr/> 29,166,452.30
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	<hr/> 1,134,231.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	776,062.47
Unearned Revenue	183,361.74
Funds Held for Others	81,387.55
Long-Term Liabilities - Current Portion (Note 7)	123,402.41
	<hr/>
Total Current Liabilities	1,164,214.17

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 3,829,706.05
Total Liabilities	<hr/> 4,993,920.22

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	<hr/> 748,934.00
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**NET POSITION**

Investment in Capital Assets	22,871,302.42
Restricted for:	
Expendable:	
Loans	2,293.80
Capital Projects	783,271.73
Restricted for Specific Programs	244,313.52
Other	76,434.64
Unrestricted	<hr/> 580,212.97
Total Net Position	<hr/> <hr/> \$ 24,557,829.08

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, 2016**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 2,311,890.15
Sales and Services, Net (Note 9)	1,288,887.28
Other Operating Revenues	6,001.31
	<hr/>
Total Operating Revenues	3,606,778.74
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	18,117,138.70
Supplies and Materials	3,840,555.85
Services	3,444,366.00
Scholarships and Fellowships	2,164,949.05
Utilities	551,272.28
Depreciation	877,529.92
	<hr/>

Total Operating Expenses 28,995,811.80

Operating Loss (25,389,033.06)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	15,277,616.20
County Appropriations	2,872,837.52
Noncapital Grants - Student Financial Aid	4,903,290.97
Noncapital Grants	881,595.45
Noncapital Gifts	206,897.09
Investment Income	32,501.11
Other Nonoperating Expenses	(42,180.77)
	<hr/>

Net Nonoperating Revenues 24,132,557.57

Loss Before Other Revenues (1,256,475.49)

State Capital Aid	1,145,517.62
County Capital Aid	10,379.23
	<hr/>

Decrease in Net Position (100,578.64)

**NET POSITION**

Net Position, July 1, 2015 as Restated (Note 15) 24,658,407.72

Net Position, June 30, 2016 \$ 24,557,829.08

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, 2016**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,645,575.00
Payments to Employees and Fringe Benefits	(18,938,226.83)
Payments to Vendors and Suppliers	(7,553,489.85)
Payments for Scholarships and Fellowships	(2,164,949.05)
Other Receipts	12,631.00
	<hr/>
Net Cash Used by Operating Activities	(24,998,459.73)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	15,277,616.20
County Appropriations	2,872,837.52
Noncapital Grants - Student Financial Aid	4,903,290.97
Noncapital Grants	924,281.09
Noncapital Gifts	206,897.09
	<hr/>
Cash Provided by Noncapital Financing Activities	24,184,922.87

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

State Capital Aid Received	1,145,517.62
County Capital Aid	10,379.23
Acquisition and Construction of Capital Assets	(275,902.30)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	879,994.55

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	32,501.11
	<hr/>
Net Increase in Cash and Cash Equivalents	98,958.80
Cash and Cash Equivalents, July 1, 2015	5,032,889.08
	<hr/>
Cash and Cash Equivalents, June 30, 2016	\$ 5,131,847.88

**Surry Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2016**

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

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

Operating Loss	\$ (25,389,033.06)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	877,529.92
Pension Expense	307,584.00
Miscellaneous Pension Adjustments	1,174.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	9,580.86
Inventories	24,441.26
Accounts Payable and Accrued Liabilities	268,150.24
Unearned Revenue	29,215.40
Funds Held for Others	12,631.00
Deferred Outflows for Contributions Subsequent to the Measurement Date	(1,075,742.00)
Compensated Absences	(63,991.35)
Net Cash Used by Operating Activities	<u>\$ (24,998,459.73)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 4,208,828.35
Restricted Cash and Cash Equivalents	326,745.77
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>596,273.76</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 5,131,847.88</u>

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

Loss on Disposal of Capital Assets	(42,180.77)
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The accompanying notes to the financial statements are an integral part of this statement.

**Surry Community College Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2016**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$ 3,760,515
Investments	3,836,045
Land	892,093
	<hr/>
Total Assets	<u>\$ 8,488,653</u>

**LIABILITIES**

Accounts Payable	\$ 5,171
Notes Payable	95,200
	<hr/>
Total Liabilities	<u>100,371</u>

**NET ASSETS**

Unrestricted	1,203,372
Temporarily Restricted	1,788,866
Permanently Restricted	5,396,044
	<hr/>
Total Net Assets	<u>8,388,282</u>
	<hr/>
Total Liabilities and Net Assets	<u>\$ 8,488,653</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, 2016**

**Exhibit B-2**

**CHANGES IN UNRESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	\$ 408,978
Special Events Income	87,858
Capital Campaign Income	106,300
Rental Income	4,025
Investment Income (Net of Fees)	514
Change in Market Value of Investments	(3,551)
Other Income	41,624
	<hr/>
Total Unrestricted Support and Revenues	645,748
	<hr/>
Total Unrestricted Expenses	439,245
	<hr/>
Increase in Unrestricted Net Assets	206,503

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	68,208
Rental Income	1,724
Investment Income (Net of Fees)	28,038
Change in Market Value of Investments	(66,313)
Special Events Income	250
Other Income	23
Transfers Out	(194)
	<hr/>
Total Temporarily Restricted Support and Revenues	31,736
	<hr/>
Total Temporarily Restricted Expenses	204,838
	<hr/>
Decrease in Temporarily Restricted Net Assets	(173,102)

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	457,176
Special Events Income	1,850
Investment Income (Net of Fees)	316
Other Income	91,344
Tranfers In	194
	<hr/>
Increase in Permanently Restricted Net Assets	550,880
	<hr/>
Increase in Net Assets	584,281
Net Assets at Beginning of Year	7,804,001
	<hr/>
Net Assets at End of Year	\$ 8,388,282

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



# NOTES TO THE FINANCIAL STATEMENTS

**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 (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.

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, 2016, the Foundation distributed \$173,474.57 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 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

- 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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery & Equipment	5-45 years
General Infrastructure	10-75 years

- 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 or resources whose use is limited by external parties or statute.
- I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- 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.

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 outflows and inflows 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 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 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 totaling \$9,695.00, and deposits in private financial institutions with a carrying value of \$4,748,909.01 and a bank balance of \$4,803,929.37.

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, 2016, 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, 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$373,243.87, 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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, 2016:

	Balance
Cash on Deposit with Private Financial Institutions	\$ 855,827
Cash on Deposit with State Treasurer	2,512,831
Cash Portion of Investments	391,857
<b>Total Deposits</b>	<b>\$ 3,760,515</b>

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:

Investment Type	Value
Certificates of Deposit	\$ 253,573
Fixed Income Funds	1,045,018
Common Trust - Equities	2,450,090
Common Trust - Small Cap	72,658
Corporate Stocks	14,706
Total Investments	\$ 3,836,045

**NOTE 3 - FAIR VALUE MEASUREMENTS**

**College** - To the extent available, the College’s investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

**Short-Term Investment Fund** - At year-end, all of the College's investments valued at \$373,243.87 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

**Component Unit** – The Foundation's investments are reported at fair value in the accompanying statement of financial position as follows for the period ended June 30, 2016.

	Fair Value	Inputs Level 1	Inputs Level 2	Inputs Level 3
Certificates of Deposit	\$ 253,573	\$ 253,573	\$ 0	\$ 0
Fixed Income Funds	1,045,018	1,045,018		
Common Trust-Equities	2,450,090	2,450,090		
Common Trust-Small Cap	72,658	72,658		
Corporate Stocks	14,706	14,706		
Total	<u>\$ 3,836,045</u>	<u>\$ 3,836,045</u>	<u>\$ 0</u>	<u>\$ 0</u>

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 774,232.90	\$ 583,509.97	\$ 190,722.93
Student Sponsors	15,199.45		15,199.45
Accounts	154,077.88		154,077.88
Intergovernmental	18,831.54		18,831.54
Total Current Receivables	<u>\$ 962,341.77</u>	<u>\$ 583,509.97</u>	<u>\$ 378,831.80</u>

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015 (As Restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 173,142.00	\$ 0.00	\$ 0.00	\$ 173,142.00
Capital Assets, Depreciable:				
Buildings	32,079,808.25			32,079,808.25
Machinery and Equipment	4,532,572.21	275,902.30	134,009.93	4,674,464.58
General Infrastructure	756,173.44			756,173.44
<b>Total Capital Assets, Depreciable</b>	<b>37,368,553.90</b>	<b>275,902.30</b>	<b>134,009.93</b>	<b>37,510,446.27</b>
Less Accumulated Depreciation for:				
Buildings	11,389,431.36	597,937.44		11,987,368.80
Machinery and Equipment	2,230,173.55	256,709.44	91,829.16	2,395,053.83
General Infrastructure	406,980.18	22,883.04		429,863.22
<b>Total Accumulated Depreciation</b>	<b>14,026,585.09</b>	<b>877,529.92</b>	<b>91,829.16</b>	<b>14,812,285.85</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>23,341,968.81</b>	<b>(601,627.62)</b>	<b>42,180.77</b>	<b>22,698,160.42</b>
<b>Capital Assets, Net</b>	<b>\$ 23,515,110.81</b>	<b>\$ (601,627.62)</b>	<b>\$ 42,180.77</b>	<b>\$ 22,871,302.42</b>

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 456,398.88
Accrued Payroll	191,764.03
Other	127,899.56
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 776,062.47</b>

**NOTE 7 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	\$ 1,006,875.00	\$ 2,101,590.00	\$ 0.00	\$ 3,108,465.00	\$ 0.00
Compensated Absences	908,634.81	601,070.56	665,061.91	844,643.46	123,402.41
<b>Total Long-Term Liabilities</b>	<b>\$ 1,915,509.81</b>	<b>\$ 2,702,660.56</b>	<b>\$ 665,061.91</b>	<b>\$ 3,953,108.46</b>	<b>\$ 123,402.41</b>

Additional information regarding the net pension liability is included in Note 11.

**NOTE 8 - 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, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 34,440.60
2018	13,896.85
2019	5,937.60
2020	5,937.60
2021	<u>4,948.00</u>
Total Minimum Lease Payments	<u>\$ 65,160.65</u>

Rental expense for all operating leases during the year was \$29,492.60.

**NOTE 9 - REVENUES**

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 4,416,072.66</u>	<u>\$ 2,038,661.11</u>	<u>\$ 65,521.40</u>	<u>\$ 2,311,890.15</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 423,127.67	\$ 0.00	\$ 0.00	\$ 423,127.67
Bookstore	1,624,421.94	822,878.21	28,629.39	772,914.34
Parking	5,960.00			5,960.00
Athletic	14,669.50			14,669.50
Other	18,544.80			18,544.80
Sales and Services of Education and Related Activities	<u>53,670.97</u>			<u>53,670.97</u>
Total Sales and Services, Net	<u>\$ 2,140,394.88</u>	<u>\$ 822,878.21</u>	<u>\$ 28,629.39</u>	<u>\$ 1,288,887.28</u>

**NOTE 10 - OPERATING EXPENSES BY FUNCTION**

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 10,668,383.96	\$ 1,544,448.05	\$ 604,461.46	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,817,293.47
Academic Support	3,049,904.93	351,431.32	526,743.66				3,928,079.91
Student Services	1,499,236.99	29,611.49	96,676.75				1,625,525.23
Institutional Support	1,602,326.14	202,144.04	1,082,638.40				2,887,108.58
Operations and Maintenance of Plant	907,445.20	177,068.64	1,005,499.97		551,272.28		2,641,286.09
Student Financial Aid			2,012.52	2,164,949.05			2,166,961.57
Auxiliary Enterprises	389,841.48	1,535,852.31	126,333.24				2,052,027.03
Depreciation						877,529.92	877,529.92
Total Operating Expenses	<u>\$ 18,117,138.70</u>	<u>\$ 3,840,555.85</u>	<u>\$ 3,444,366.00</u>	<u>\$ 2,164,949.05</u>	<u>\$ 551,272.28</u>	<u>\$ 877,529.92</u>	<u>\$ 28,995,811.80</u>

**NOTE 11 - PENSION PLANS****Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were \$1,075,741.56, and employee contributions were \$705,404.30 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the *2015 Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2016, the College reported a liability of \$3,108,465.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was 0.08435%, which was a decrease of 0.00153 from its proportion measured as of June 30, 2014.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 9,355,620.00	\$ 3,108,465.00	\$ (2,192,968.00)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the College recognized pension expense of \$307,584.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 353,432.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		336,775.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	58,489.00	58,727.00
Contributions Subsequent to the Measurement Date	1,075,742.00	
Total	\$ 1,134,231.00	\$ 748,934.00

The amount of \$1,075,742.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	\$ (400,047.00)
2018	(400,047.00)
2019	(391,674.00)
2020	501,323.00
Total	\$ (690,445.00)

**NOTE 12 - 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 (TSERS). 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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$658,377.35, \$644,298.61, and \$636,352.35, 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$48,202.63, \$48,117.02, and \$51,850.93, 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 13 - 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.

**A. Employee Benefit Plans**

**1. State Health Plan**

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.

**2. Death Benefit Plan of North Carolina**

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.

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

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.

## **2. Public Officers' and Employees' Liability Insurance**

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.

## **3. Employee Dishonesty and Computer Fraud**

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 \$100,000 deductible. Losses from county and institutional funds paid employees are covered with contracts with private insurance companies.

## **4. Statewide Workers' Compensation Program**

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.

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 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

**NOTE 15 - NET POSITION RESTATEMENT**

As of July 1, 2015, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2015 Net Position as Previously Reported	\$ 24,134,083.95
Restatement:	
Correction of Prior Period Capital Asset Purchases	<u>524,323.77</u>
<b>July 1, 2015 Net Position as Restated</b>	<u><u>\$ 24,658,407.72</u></u>



# **REQUIRED SUPPLEMENTARY INFORMATION**

**Surry Community College**  
**Required Supplementary Information**  
**Schedule of the Proportionate Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Three Fiscal Years**

**Exhibit C-1**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.08435%	0.08588%	0.08460%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 3,108,465.00	\$ 1,006,875.00	\$ 5,136,082.00
Covered-Employee Payroll	\$ 11,735,858.15	\$ 11,784,302.70	\$ 11,805,799.22
Net Pension Liability as a Percentage of Covered-Employee Payroll	26.49%	8.54%	43.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

**Surry Community College**  
**Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

**Exhibit C-2**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 1,075,741.56	\$ 1,073,831.02	\$ 1,024,055.90	\$ 983,423.08	\$ 854,503.46
Contributions in Relation to the Contractually Determined Contribution	<u>1,075,741.56</u>	<u>1,073,831.02</u>	<u>1,024,055.90</u>	<u>983,423.08</u>	<u>854,503.46</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 11,756,738.39	\$ 11,735,858.15	\$ 11,784,302.70	\$ 11,805,799.22	\$ 11,485,261.62
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 568,632.67	\$ 409,767.98	\$ 397,206.38	\$ 350,014.88	\$ 288,808.24
Contributions in Relation to the Contractually Determined Contribution	<u>568,632.67</u>	<u>409,767.98</u>	<u>397,206.38</u>	<u>350,014.88</u>	<u>288,808.24</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 11,534,131.30	\$ 11,478,094.62	\$ 11,821,618.46	\$ 11,475,897.84	\$ 10,857,452.72
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

**Surry Community College**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

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Changes of Benefit Terms:

Cost of Living Increase

<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

\*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



# INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
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<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**

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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 (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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 10, 2017. 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 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

July 10, 2017

# ORDERING INFORMATION

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For additional information contact:  
Brad Young  
Director of External Affairs  
**919-807-7513**



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This audit required 380.5 audit hours at an approximate cost of \$39,192.