GASTON COLLEGE

(A Component Unit of the State of North Carolina)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Report of Independent Auditor

Members of the Board of Trustees
Gaston College
Dallas, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Gaston College (the "College"), a component unit of the State of North Carolina, and Gaston College Foundation, Inc. a blended component unit, as of and for the year ended June 30, 2016 which collectively comprises 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 an opinion on these financial statements based on our audit. 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.

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 opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 this 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 November 29, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Charlotte, North Carolina
November 29, 2016

The following is a discussion and analysis of Gaston College's (the "College") financial performance, providing an overview of the activities for the fiscal year ended June 30, 2016. The College's financial statements are blended with the Gaston College Foundation, Inc. (the "Foundation"). The Foundation exists to assist the College and its students.

Overview of the Financial Statements

This discussion and analysis is an introduction to the College's basic financial statements. The College's basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The Financial Statements are accompanied by Notes to the Financial Statements that explain and provide more detailed information.

The Statement of Net Position presents information about the College's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position describes changes in the College's net position during the fiscal year. Revenue and expense are presented in a format that distinguishes between operating and nonoperating revenue and expense.

The Statement of Cash Flows provides detail on the College's cash activities for the year. The direct method is used to present cash flows. Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the College's financial statements.

Statement of Net Position

Net position serves as a useful indicator of the College's financial position. In the case of Gaston College, net position increased $2,787,544.42. The increase represents a 3.90% increase compared to the prior year's total net position. Significant year-to-year differences reported on the Statement of Net Position are the result of construction activity and pension activity.

Noncapital Assets which include cash and cash equivalents, investments, accounts receivable, prepaid expenses, and inventory, increased $201,354.13 during FY2015-16. A majority of this increase in noncapital assets comes from an increase in intergovernmental accounts receivable.

Capital Assets grew $1,945,544.81 as construction-in-progress increased from $352,499.66 at the beginning of the fiscal year to $3,253,550.78 at the end of the fiscal year. *Net Position Invested in Capital Assets* mirrors the balance reported as *Capital Assets* less construction accounts payable and retainage of $716,605.80.

Deferred Outflows Related to Pensions increased $99,462.00 as the cash contribution related to covered-employee payroll increased. The pension liability calculation lags financial reporting by one year. As a result of the lag, cash contributions made by the College during FY2015-16 are recorded as a deferred outflow. This deferred outflow is recognized as an expense during FY2016-17.

Current Liabilities increased by $1,030,508.64 primarily as a result of construction accounts payable and retainage of $716,605.80. The current liabilities group includes unearned revenue, funds held for others, and the current portion of long-term liabilities. The unearned revenue increased $206,828.13 with expanded summer course offerings. The liability for compensated absences shifted towards current liabilities as a result of higher utilization during FY2015-16.

Noncurrent Liabilities include compensated absences and net pension liability. Noncurrent compensated absences decreased during FY2015-16, while its current counterpart increased. The net pension liability increased $3,756,804.00 from $1,769,887.00 to $5,526,691.00 as prescribed by actuarial calculations and investment performance.

Deferred Inflows Related to Pensions reports the cumulative difference between expected performance and actual performance. The cumulative difference decreased during FY2015-16 by $5,165,196.00, largely due to investment performance. Cumulative differences between expected and actual pension plan experience totaled $628,385.00. The cumulative difference between projected and actual pension plan investment returns declined from $5,979,800.00 in FY2014-15 to $598,770.00 at the end of FY2015-16.

Condensed Statement of Net Position
For the Fiscal Years Ended June 30, 2016 and June 30, 2015

	FY2015-2016	FY2014-2015	Change	% Change
Noncapital Assets	$18,123,317.09	$17,921,962.96	$ 201,354.13	1.12%
Capital Assets, Net	65,433,293.49	63,487,748.68	1,945,544.81	3.06%
Total Assets	83,556,610.58	81,409,711.64	2,146,898.94	2.64%
Deferred Outflows Related to Pensions	2,219,948.00	2,120,486.00	99,462.00	4.69%
Total Deferred Outflows	2,219,948.00	2,120,486.00	99,462.00	4.69%
Current Liabilities	3,018,871.13	1,988,362.49	1,030,508.64	51.83%
Noncurrent Liabilities	7,321,440.12	3,727,936.24	3,593,503.88	96.39%
Total Liabilities	10,340,311.25	5,716,298.73	4,624,012.52	80.89%
Deferred Inflows Related to Pensions	1,227,155.00	6,392,351.00	(5,165,196.00)	(80.80%)
Total Deferred Inflows	1,227,155.00	6,392,351.00	(5,165,196.00)	(80.80%)
Net Position:				
Net Investment in Capital Assets	64,716,687.69	63,487,748.68	1,228,939.01	1.94%
Restricted	4,911,621.10	4,881,392.77	30,228.33	0.62%
Unrestricted	4,580,783.54	3,052,406.46	1,528,377.08	50.07%
Total Net Position	$74,209,092.33	$71,421,547.91	$ 2,787,544.42	3.90%

Restricted Net Position increased $30,228.33 as restricted funds for construction projects increased from FY2014-15 $45,380.83 to FY2015-16 $151,500.00. The increase in restricted capital projects is offset by a decline in expendable scholarships.

The College's *Unrestricted Net Position* increased by $1,528,377.08 or 50.07%. This increase was largely the result of changes to pension-related accounts. The net effect of pension adjustments included net pension liability increases of $3,756,804.00 and deferred inflows and outflows decreases of $5,065,734.00 accounting for $1,308,930.00 of the change in *Unrestricted Net Position.*

Statement of Revenues, Expenses, and Changes in Net Position

The comparative Statement of Revenues, Expenses, and Changes in Net Position reports an increase in net position for FY2015-16 of $2,787,544.42 which is an increase of $1,299,208.59 over the prior year. This net increase represented an 87.29% increase over the previous fiscal year's net increase of $1,488,335.83. Continuing, but slowing, declines in enrollment, construction activity, and pension reporting drove most of the year-to-year changes on the Condensed Statement of Revenue, Expenses, and Changes in Net Position.

Student Tuition and Fees and *Sales and Services and Other* increased as growth in Textile Center revenue and Fire Training revenue offset declines in tuition fees, and bookstore sales. As enrollment shifted toward non-financial aid Early College and Career and College Promise programs, the amount of *Scholarship and Fellowship* expense decreased.

State Aid increased 2.26% during FY2015-16. The State allots a specific amount of funds to the College for the year. This allotment is recognized as *State Aid*, *Student Tuition*, *State Capital Aid*, and *Capital Grants*. As *Student Tuition* and *State Capital Aid* decreased, the total allotment remained unchanged; the decline in *Tuition* and *State Capital Aid* was offset by an increase in *State Aid*.

Salaries and Benefits increased 0.88% as a result of a 1.5% salary increase plus increases in health and retirement costs. The increase was offset to some extent by fewer positions at the College.

Supplies and Materials decreased $266,213.46 as non-capital equipment spending declined and the Textile Center shifted spending away from supplies and materials and toward the purchase of capital assets.

Services increased $318,627.31 due to growth in grants and Textile Center spending. The College purchased services for the new WIOA Youth Grant and NSF Apprenticeship Grants. The Textile Center purchased outside services to expand textile training.

County Appropriations grew 2.07%, as both Gaston and Lincoln counties increased College support.

Investment Income totaled $20,786.99 as Gaston College Foundation investments experienced a more subdued year.

Depreciation Expense increased 1.66% as new facilities in FY2014-15 were depreciated for a full year in FY2015-16. *Other Nonoperating Expenses* included insurance proceeds of $60,501.42 to repair water damage to Kimbrell Campus Classroom Building.

County Capital Aid provides some funds for routine maintenance; however, a majority of the funds for both of the reported fiscal years were spent on construction projects. The 141.97% increase in County Capital Aid during FY2015-16 supported construction activity for the Center for Advanced Manufacturing and the second phase of the Pharr building renovation.

State Capital Aid decreased 45.87% during FY2015-16 as state equipment funds supported operating expenses.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and June 30, 2015

	FY 2015-16	FY 2014-15	Change	% Change
Operating Revenues				
Student Tuition & Fees, Net	$ 4,536,301.96	$ 4,603,648.38	$ (67,346.42)	(1.46%)
Sales and Services and Other, Net	3,504,163.90	3,416,718.29	87,445.61	2.56%
Total Operating Revenue	8,040,465.86	8,020,366.67	20,099.19	0.25%
Operating Expenses				
Salaries and Benefits	33,174,273.53	32,884,826.28	289,447.25	0.88%
Supplies and Materials	5,308,447.19	5,574,660.65	(266,213.46)	(4.78%)
Services	4,677,444.66	4,358,817.35	318,627.31	7.31%
Scholarships and Fellowships	3,918,409.14	4,357,131.07	(438,721.93)	(10.07%)
Utilities	1,175,738.54	1,235,885.15	(60,146.61)	(4.87%)
Depreciation	1,391,875.31	1,369,111.18	22,764.13	1.66%
Total Operating Expenses	49,646,188.37	49,780,431.68	(134,243.31)	(0.27%)
Operating Loss	(41,605,722.51)	(41,760,065.01)	154,342.50	(0.37%)
Nonoperating Revenues (Expenses)				
State Aid	23,732,188.41	23,207,580.50	524,607.91	2.26%
County Appropriations	4,998,078.92	4,896,923.00	101,155.92	2.07%
Noncapital Grants and Gifts	11,752,257.87	12,577,115.97	(824,858.10)	(6.56%)
Investment Income, Net	20,786.99	117,863.44	(97,076.45)	(82.36%)
Other Nonoperating Expense	76,171.51	(80,154.97)	156,326.48	(195.03%)
Total Nonoperating Revenues	40,579,483.70	40,719,327.94	(139,844.24)	(0.34%)
Loss before Other Revenues and Expenses	(1,026,238.81)	(1,040,737.07)	14,498.26	1.39%
Capital Aid and Gifts				
State Capital Aid	439,402.18	811,714.89	(372,312.71)	(45.87%)
County Capital Aid	3,012,096.41	1,244,843.76	1,767,252.65	141.97%
Capital Grants	49,331.26	225,256.05	(175,924.79)	(78.10%)
Capital Gifts	279,028.38	109,000.00	170,028.38	155.99%
Additions to Endowment	33,925.00	138,258.20	(104,333.20)	(75.46%)
Increase in Net Position	2,787,544.42	1,488,335.83	1,299,208.59	87.29%
Net Position - Beginning of Year	71,421,547.91	77,244,965.08	(5,823,417.17)	(7.54%)
Cumulative Effect of Change in Accounting Principle	-	(7,311,753.00)	7,311,753.00	
Net Position - Beginning of Year - as Restated	71,421,547.91	69,933,212.08	1,488,335.83	2.13%
Net Position - End of Year	$74,209,092.33	$71,421,547.91	$ 2,787,544.42	3.90%

The *Capital Grants* line decreased by $175,924.79 during FY2015-16. This decrease reflects the FY2014-15 Duke Energy Community College Grant to purchase welding equipment. *Capital Gifts* during FY2015-16 supported construction of the second phase of the Pharr renovation and the Center for Advanced Manufacturing. A decline in *Additions to Endowment* for the year related to the FY2014-15 establishment of the Farmer Endowment.

Capital Asset Activity
The College continued to work on a number of construction projects during the year. The projects include the second phase of the Pharr building renovation and the Center for Advanced Manufacturing. The College also completed smaller renovation projects during the fiscal year. Construction in progress increased from $352,499.66 at the beginning of the year, to $3,253,550.78 at the end of the FY2015-16.

Final Analysis
During the 2015-16 fiscal year, the College's net position increased $2,787,544.42. This increase, in comparison to FY2014-15's net position growth of $1,488,335.83, reflects ongoing construction activities.

As the economic recovery continued during FY2015-16, the College continued to experience declining enrollment. The College's overall funding is closely tied to the State's enrollment-based funding model. State funding for FY2016-17 will decrease as a function of enrollment. The College also receives funding from Gaston and Lincoln Counties; County funding is dependent upon the economic climate in each county.

Request for Information
This report provides an overview of the College's finances for those with an interest in this area. For questions concerning any of the information in this report or requests for additional information contact the Vice President for Finance, Operations and Facilities, Gaston College, 201 Highway 321 South, Dallas, NC 28034.

Gaston College
Statement of Net Position
June 30, 2016

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	6,076,748.58
Restricted Cash and Cash Equivalents		647,919.65
Short-Term Investments		2,113,642.51
Receivables, Net (Note 5)		3,410,612.31
Inventories		707,692.56
Prepaid Items		274,532.28
Total Current Assets		13,231,147.89
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		146,846.02
Receivables, Net (Note 5)		90,000.00
Restricted Due from Primary Government		0.00
Restricted Investments		4,618,222.32
Other Investments		37,100.86
Capital Assets - Nondepreciable (Note 6)		4,634,653.30
Capital Assets - Depreciable, Net (Note 6)		60,798,640.19
Total Noncurrent Assets		70,325,462.69
Total Assets		83,556,610.58
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions (Note 12)		2,219,948.00
Total Deferred Outflows of Resources		2,219,948.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		1,314,520.43
Unearned Revenue		1,274,548.65
Funds Held for Others		156,867.85
Long-Term Liabilities - Current Portion (Note 8)		272,934.20
Total Current Liabilities		3,018,871.13
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		7,321,440.12
Total Noncurrent Liabilities		7,321,440.12
Total Liabilities		10,340,311.25
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions (Note 12)		1,227,155.00
Total Deferred Inflows of Resources		1,227,155.00
NET POSITION		
Net Investment in Capital Assets		64,716,687.69
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,450,716.50
Expendable:		
Scholarships and Fellowships		1,011,311.58
Capital Projects		151,500.00
Other		298,093.02
Unrestricted		4,580,783.54
Total Net Position	$	74,209,092.33

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

Gaston College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 4,536,301.96
State and Local Grants and Contracts	60,941.96
Sales and Services, Net (Note 10)	3,332,570.15
Other Operating Revenues	110,651.79
Total Operating Revenues	8,040,465.86
EXPENSES	
Operating Expenses:	
Salaries and Benefits	33,174,273.53
Supplies and Materials	5,308,447.19
Services	4,677,444.66
Scholarships and Fellowships	3,918,409.14
Utilities	1,175,738.54
Depreciation/ Amortization	1,391,875.31
Total Operating Expenses	49,646,188.37
Operating Loss	(41,605,722.51)
NONOPERATING REVENUES (EXPENSES)	
State Aid	23,732,188.41
County Appropriations	4,998,078.92
Noncapital Grants - Student Financial Aid	11,206,812.61
Noncapital Grants	183,889.52
Noncapital Gifts	361,555.74
Investment Income (Net of Investment Expense of $38,224.93)	20,786.99
Other Nonoperating Expenses	76,171.51
Net Nonoperating Revenues	40,579,483.70
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,026,238.81)
CAPITAL AID AND GIFTS	
State Capital Aid	439,402.18
County Capital Aid	3,012,096.41
Capital Grants	49,331.26
Capital Gifts, Net	279,028.38
Additions to Endowments	33,925.00
Increase in Net Position	2,787,544.42
NET POSITION	
Net Position, July 1, 2015	71,421,547.91
Net Position, June 30, 2016	$ 74,209,092.33

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

Gaston College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,218,793.47
Payments to Employees and Fringe Benefits	(34,768,540.28)
Payments to Vendors and Suppliers	(11,212,696.15)
Payments for Scholarships and Fellowships	(3,878,887.09)
Other Receipts	47,734.90
Net Cash Used by Operating Activities	(41,593,595.15)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	23,732,188.41
County Appropriations	4,998,078.92
Noncapital Grants - Student Financial Aid	10,145,139.76
Noncapital Grants	1,028,739.26
Noncapital Gifts and Endowments	404,109.67
Net Cash Provided by Noncapital Financing Activities	40,308,256.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	439,405.00
County Capital Aid	1,476,735.56
Capital Grants	272,302.88
Capital Gifts	174,028.38
Proceeds from Sale of Capital Assets	5,789.21
Proceeds from Insurance on Capital Assets	60,501.42
Acquisition and Construction of Capital Assets	(2,648,159.48)
Net Cash Used by Capital and Related Financing Activities	(219,397.03)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,167,698.47
Investment Income	173,015.55
Purchase of Investments and Related Fees	(3,328,692.72)
Net Cash Provided by Investing Activities	1,012,021.30
Net Decrease in Cash and Cash Equivalents	(492,714.86)
Cash and Cash Equivalents, July 1, 2015	7,364,229.11
Cash and Cash Equivalents, June 30, 2016	$ 6,871,514.25

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (41,605,722.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	1,391,875.31
Pension Expense	579,020.00
Miscellaneous Pension Adjustments	2,771.00
Miscellaneous Nonoperating Income	25,110.33
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	184,271.32
Inventories	13,657.04
Prepaid Items	(84,401.28)
Accounts Payable and Accrued Liabilities	12,566.23
Unearned Revenue	33,578.34
Funds Held for Others	22,624.57
Deferred Outflows - Contributions After Measurement Date	(2,089,645.00)
Compensated Absences	(79,300.50)
Net Cash Used by Operating Activities	$ (41,593,595.15)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 6,076,748.58
Restricted Cash and Cash Equivalents	647,919.65
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	146,846.02
Total Cash and Cash Equivalents - June 30, 2016	$ 6,871,514.25

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 716,605.80
Change in Fair Value of Investments	(305,893.98)
Increase in Receivables Related to Nonoperating Income	1,799,641.60
Loss on Disposal of Capital Assets	(9,440.24)

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

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. Gaston College (the "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 blended with the College's financial statements. The blended component unit, although legally separate, is in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit - Although legally separate, The Gaston College Foundation (the "Foundation") is reported as part of the College. The Foundation is governed by a 15-member board of directors, all of whom are appointed by the College's Board of Trustees, but a majority of whom must be non-trustee directors. Gaston College has operational responsibility for the Foundation. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the directors of the Foundation are appointed by the members of the Gaston College Board of Trustees, the College has operational responsibility, and the Foundation's sole purpose is to benefit Gaston College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 201 Highway 321 South, Dallas, North Carolina 28054**,** or by calling (704) 922-6309. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed information regarding the blended component unit is provided in Note 17.

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** - Cash and cash equivalents include petty cash, cash on deposit in private bank accounts, money market 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.

E. **Investments** - To the extent available, investments are reported at fair value based on quoted market prices in active markets or on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, vendor credits, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method. Bookstore merchandise is valued with a weighted moving average cost inventory method.

H. **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.

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 except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater.

Depreciation/amortization is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery & Equipment	5-75 years
General Infrastructure	10-75 years

The Rauch collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The collection is considered inexhaustible and is therefore not depreciated.

I. 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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

J. Deferred Outflows/Inflows of Resources - Deferred outflows and inflows of resources relate to the pension plan as further described in Note 12.

K. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include notes payable, 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 *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 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

L. 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 January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1st and June 30th.

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 December 31st is retained by employees and transferred into the next calendar 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.

M. **Net Position** - The College's net position is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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.

N. **Scholarship Discounts** - Student tuition and fee 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.

O. 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.

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstore and copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

Q. 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 Gaston County current appropriations revert at the end of the fiscal year. Unexpended Lincoln County current appropriations and Gaston County capital appropriations do not revert and are available for future use. Gaston County capital appropriations and capital bond funds are drawn as needed.

R. Unearned Revenue - Unearned revenue includes the portion of student tuition and fees for summer programs which have been received as of June 30 of the year, but not earned; scholarship and grant income that has been received but not expended; and unearned revenue for certain ongoing projects.

O. New Pronouncement - The Governmental Accounting Standards Board ("GASB") issued Statement No. 72 - *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This statement 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 and establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. The College adopted this statement in the current fiscal year.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits - 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. Cash on hand at June 30, 2016 was $5,625.00. The carrying amount of the College's deposits not with the State Treasurer was $6,583,975.15, and the bank balance was $ 6,748,958.01.

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.

B. Investments - 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $11,824.77, 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 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments and obligations of certain entities with specific ratings.

Investments of the College's component unit, The Gaston College Foundation, 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2016, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation investment policy provides domestic fixed income managers with latitude to adjust the overall duration of their portfolio within +/- 50% of their specific benchmark.

		Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Investment Type					
Debt Securities					
U.S. Treasuries	$ 208,845.64	$ 60,956.08	$ 34,103.52	$ 113,786.04	$ -
Mortgage Pass Throughs	46,329.56	-	-	15,699.80	30,629.76
Asset-Backed Securities	67,736.36	-	44,222.76	21,103.11	2,410.49
Domestic Corporate Bonds	329,646.77	28,279.80	301,366.97	-	-
Total Debt Securities	652,558.33	$ 89,235.88	$ 379,693.25	$ 150,588.95	$ 33,040.25
Other Securities					
Mutual Funds	5,079,939.94				
Domestic Stocks	625,743.55				
Foreign Stocks	373,623.01				
Other	37,100.86				
Total Investments	$ 6,768,965.69				

Investment Income of $59,011.92 is reported on the basic financial statements net of investment expense. Investment expense for the fiscal year ending June 30, 2016 is $38,244.93.

In addition to the maturity-related interest rate risk disclosed above, the College's investments include investments with fair values highly sensitive to interest rate changes. Investments in Asset-Backed Securities and Mortgage Pass-Throughs are sensitive to prepayments which may result from a decline in interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has a formal policy that addresses credit risk. The policy stipulates that corporate debt issues should have a rating no lower than BBB; Investment in BBB rated securities is limited to 15% of the manager's portfolio. As of June 30, 2016, the College's investments with related credit risk were rated as follows:

	Fair Value	**AAA Aaa**	**AA Aa**	**A**	**BBB Baa**
Mortgage Pass Throughs	$ 46,329.56	$ 46,329.56	$ -	$ -	$ -
Asset-Backed Securities	67,736.36	67,736.36	-	-	-
Domestic Corporate Bonds	329,646.77	15,444.30	81,731.32	189,652.95	42,818.20
Totals	$ 443,712.69	$ 129,510.22	$ 81,731.32	$ 189,652.95	$ 42,818.20

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. All investments are held in the name of the College or its Foundation. Foundation money market accounts of $270,089.33 are reported as cash and cash equivalents. The College is not party to any swap or derivative contracts.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. Other than securities of the United States Government or its agencies, the Foundation places a 5% limit on the amount that may be invested in any one domestic fixed income issuer.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College's investment policy permits it to invest in foreign-currency denominated securities. The College does not currently hold any foreign-currency denominated securities. The College holds foreign debt and foreign equities through American Depository Receipts and dollar-denominated mutual funds.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	$ 5,625.00
Carrying Amount of Deposits with Private Financial Institutions	6,583,975.15
Investments in the Short-Term Investment Fund (STIF)	11,824.77
Money Market Accounts with Private Financial Institutions	270,089.33
Investments with Private Financial Institutions	6,731,864.83
Other Investments	37,100.86
Total Deposits and Investments	$ 13,640,479.94
Current:	
Cash and Equivalents	$ 6,076,748.58
Short-term Investments	2,113,642.51
Restricted Cash and Cash Equivalents	647,919.65
Noncurrent:	
Restricted Cash and Cash Equivalents	146,846.02
Restricted Investments	4,618,222.32
Other Investments	37,100.86
Total Deposits and Investments	$ 13,640,479.94

NOTE 3 - FAIR VALUE MEASUREMENTS

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.

The following table summarizes the College's investments within the fair value hierarchy at June 30, 2016:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Investment by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 208,845.64	$ 208,845.64	$ -	$ -
Mortgage Pass Throughs	46,329.56	-	46,329.56	-
Asset-Backed Securities	67,736.36	-	67,736.36	-
Domestic Corporate Bonds	329,646.77	-	329,646.77	-
Total Debt Securities	652,558.33	208,845.64	443,712.69	-
Equity Mutual Funds	3,231,576.55	3,231,576.55	-	-
Debt Mutual Funds	1,848,363.39	1,848,363.39	-	-
Domestic Stocks	625,743.55	625,743.55	-	-
Foreign Stocks	373,623.01	373,623.01	-	-
Other	37,100.86	37,100.86	-	-
Total Investments by Fair Value Level	$ 6,768,965.69	$ 6,325,253.00	$ 443,712.69	$ -

There has not been a change in valuation techniques used during the fiscal year. Debt and equity securities (U.S. Treasuries, mutual funds, and stocks) classified in Level 1 of the fair value hierarchy are valued at prices quoted in active markets for those securities using the market approach. Values are evaluated by calculating the appropriate spread over a comparable U.S. Treasury for each issue. These spreads represent the amount of additional yield required to account for the risks inherent with stocks, including credit, refunding, and liquidity risk.

Evaluations include benchmark quotes on liquid assets, follow both the listed and new issue market, and focus on changing market conditions.

Mortgage pass throughs, asset-backed securities, money market mutual funds, and corporate bonds classified in Level 2 of the fair value hierarchy are valued using an income approach since these types of investments tend to have little, if any, trading activity. The fair value measurement reflects current market expectations about future amounts.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Income available for disbursement is determined by a total return calculation. Specifically, the fair market value of the endowment's five previous fiscal years (as adjusted for additions and withdrawals) is determined. Then a five year average is calculated. The generally accepted spending policy is a maximum of 5%. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the Foundation uses accumulated income and appreciation in the principal balance to make up the difference. At June 30, 2016, net appreciation of $624,579.75 was available to be spent, all of which was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,037,864.57	$ 1,828,483.34	$ 1,209,381.23
Student Sponsors	65,272.55	-	65,272.55
Vendors	41,542.75	-	41,542.75
Sales and Service	471,989.21	170,000.00	301,989.21
Intergovernmental	1,698,881.20	-	1,698,881.20
Pledges	95,681.23	2,135.86	93,545.37
Total Current Receivables	$ 5,411,231.51	$ 2,000,619.20	$ 3,410,612.31
Noncurrent Receivables:			
Pledges	$ 90,000.00	$ -	$ 90,000.00
Total Noncurrent Receivables	$ 90,000.00	$ -	$ 90,000.00

NOTE 6 - 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	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 1,326,373.52	$ -	$ -	$ 1,326,373.52
Art, Literature, and Artifacts	54,729.00	-	-	54,729.00
Construction in Progress	352,499.66	2,901,051.12	-	3,253,550.78
Total Capital Assets, Nondepreciable	1,733,602.18	2,901,051.12	-	4,634,653.30
Capital Assets, Depreciable:				
Buildings	72,714,606.08	-	-	72,714,606.08
Machinery and Equipment	6,265,156.19	451,598.45	25,411.16	6,691,343.48
General Infrastructure	4,355,391.71	-	-	4,355,391.71
Total Capital Assets, Depreciable	83,335,153.98	451,598.45	25,411.16	83,761,341.27
Less Accumulated Depreciation/Amortization for:				
Buildings	18,128,156.75	1,005,652.53	-	19,133,809.28
Machinery and Equipment	2,298,898.41	292,949.13	10,181.71	2,581,665.83
General Infrastructure	1,153,952.32	93,273.65	-	1,247,225.97
Total Accumulated Depreciation/Amortization	21,581,007.48	1,391,875.31	10,181.71	22,962,701.08
Total Capital Assets, Depreciable, Net	61,754,146.50	(940,276.86)	15,229.45	60,798,640.19
Capital Assets, Net	$ 63,487,748.68	$ 1,960,774.26	$ 15,229.45	$ 65,433,293.49

NOTE 7 - 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	$ 954,431.90
Accrued Payroll	222,426.07
Contract Retainage	137,662.46
Total	$ 1,314,520.43

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented below. Noncurrent, long-term liabilities total $7,321,440.12.

	Balance July 1, 2015 (as restated)	Additions	Reductions	Balance June 30, 2016	Current Portion
Compensated Absences	$ 2,146,983.82	$ 1,155,839.88	$ 1,235,140.38	$ 2,067,683.32	$ 272,934.20
Net Pension Liability	1,769,887.00	3,756,804.00	-	5,526,691.00	-
Total Long-Term Liabilities	$ 3,916,870.82	$ 4,912,643.88	$ 1,235,140.38	$ 7,594,374.32	$ 272,934.20

NOTE 9 - LEASE OBLIGATIONS

Operating Lease Obligations - The College entered into operating leases for facilities and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 138,746.81
2018	137,111.82
2019	101,539.25
2020	76,479.21
2021	31,370.70
Total Minimum Lease Payments	$ 485,247.79

Rental expense for all operating leases during the year was $132,809.15.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, net	$ 9,213,857.27	$ 8,762.42	$ 4,416,792.89	$ 252,000.00	$ 4,536,301.96
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 3,526,131.92	$ 20,686.86	$ 2,078,477.03	$ 100,000.00	$ 1,326,968.03
Fire Training	401,176.42	-	-	-	401,176.42
Printing	230,327.10	219,838.67	-	-	10,488.43
Textile	1,478,681.15	-	-	(10,000.00)	1,488,681.15
Vending	45,353.31	-	-	-	45,353.31
Sales and Services of Education:					
and Related Activities	59,902.81	-	-	-	59,902.81
Total Sales and Services, Net	$ 5,741,572.71	$ 240,525.53	$ 2,078,477.03	$ 90,000.00	$ 3,332,570.15
Nonoperating - Noncapital Gifts, Net	$ 362,039.08	$ -	$ -	$ -	$ 362,039.08
Capital Gifts, Net	$ 279,028.38	$ -	$ -	$ -	$ 279,028.38

NOTE 11 - 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 Amortization	Total
Instruction	$ 17,189,558.20	$ 918,054.50	$ 1,133,454.18	$ -	$ -	$ -	$ 19,241,066.88
Academic Support	4,109,429.98	151,688.27	675,578.91	-	-	-	4,936,697.16
Student Services	2,978,376.36	66,948.30	385,962.59	-	-	-	3,431,287.25
Institutional Support	4,199,706.97	199,317.03	1,373,300.41	-	-	-	5,772,324.41
Operations and Maintenance of Plant	2,370,871.55	817,415.61	677,518.18	-	1,175,738.54	-	5,041,543.88
Student Financial Aid	-	-	-	3,918,409.14	-	-	3,918,409.14
Auxiliary Enterprises	1,747,310.47	3,155,023.48	431,630.39	-	-	-	5,333,964.34
Depreciation and Amortization	-	-	-	-	-	1,391,875.31	1,391,875.31
Pension Expense	579,020.00	-	-	-	-	-	579,020.00
Total Operating Expenses	$ 33,174,273.53	$ 5,308,447.19	$ 4,677,444.66	$ 3,918,409.14	$ 1,175,738.54	$ 1,391,875.31	$ 49,646,188.37

NOTE 12 - 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 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 $2,089,644.86, and employee contributions were $1,370,260.77 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 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.

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 $5,526,691.00 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 0.14997%, which was a decrease of 0.00099% from its 0.15096% 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, 2014 (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	1% Increase (8.25%)
$ 16,633,815	$ 5,526,691	$ (3,898,984)

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 $579,020.00. 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	$ -	$ 628,385.00
Net difference between projected and actual earnings on pension plan investments	-	598,770.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	130,303.00	-
Contributions subsequent to the measurement date	2,089,645.00	-
Total	$ 2,219,948.00	$ 1,227,155.00

The amount of $2,089,645.00 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	$ (679,112.00)
2018	(679,112.00)
2019	(660,471.00)
2020	921,843.00
2021	-
Total	$ (1,096,852.00)

NOTE 13 - 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 $1,278,908.32, $1,228,196.64, and $1,190,815.13, 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 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 0.41% of covered payroll under the TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were 0.41% and 0.44%, 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 $93,634.36, $91,723.25, and $97,029.38, 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 14 - 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 0.16% for the current fiscal year.

B. Other Risk Management and Insurance Activities

1. 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.

2. 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.

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. The 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 employee dishonesty for employees paid from County and Institutional funds are covered by a private insurance company policy with coverage of $100,000 per occurrence and $1,000 deductible.

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.

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The College purchased School Leaders Error and Omissions Liability Coverage which covers Equal Opportunity occurrences. The policy carries a $2,500 deductible for each occurrence.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $3,581,349.56 at June 30, 2016.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 16 - RELATED PARTIES

Foundation - The North Carolina Center for Applied Textile Technology Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as a fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing textile equipment. The College's financial statements do not include the assets, liabilities, net position, or operational transactions of the Foundation, except for support from the Foundation. The College received no support from the Foundation for the year ended June 30, 2016.

NOTE 17 - BLENDED COMPONENT UNIT

Condensed information for the College's blended component unit for the year ended June 30, 2016, is presented as follows:

Condensed Statement of Net Position
For the Fiscal Year Ended June 30, 2016

	College	Foundation	Eliminations	Total
ASSETS				
Current Assets	$ 10,477,555.83	$ 3,584,340.83	$ (830,748.77)	$ 13,231,147.89
Capital Assets	65,373,293.49	60,000.00	-	65,433,293.49
Other Noncurrent Assets	-	4,892,169.20	-	4,892,169.20
Total Assets	75,850,849.32	8,536,510.03	(830,748.77)	83,556,610.58
DEFERRED OUTFLOWS OF RESOURCES	2,219,948.00	-	-	2,219,948.00
LIABILITIES				
Currernt Liabilities	3,286,940.89	562,679.01	(830,748.77)	3,018,871.13
Long-Term Liabilities	7,321,440.12	-	-	7,321,440.12
Total Liabilities	10,608,381.01	562,679.01	(830,748.77)	10,340,311.25
DEFERRED INFLOWS OF RESOURCES	1,227,155.00	-	-	1,227,155.00
NET POSITION				
Net Investment in Capital Assets	64,656,687.69	60,000.00	-	64,716,687.69
Restricted - Nonexpendable	-	3,450,716.50	-	3,450,716.50
Restricted - Expendable	102,031.10	1,358,873.50	-	1,460,904.60
Unrestricted	1,476,542.52	3,104,241.02	-	4,580,783.54
Total Net Position	$ 66,235,261.31	$ 7,973,831.02	$ -	$ 74,209,092.33

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	College	Foundation	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 4,536,301.96	$ -	$ -	$ 4,536,301.96
State and Local Contracts and Grants	60,941.96	-	-	60,941.96
Sales and Services	3,332,570.15	-	-	3,332,570.15
Other Operating Revenue	110,651.79	-	-	110,651.79
Total Operating Revenues	8,040,465.86	-	-	8,040,465.86
OPERATING EXPENSES				
Operating Expenses	47,632,054.14	999,752.12	377,493.20	48,254,313.06
Depreciation	1,391,875.31	-	-	1,391,875.31
Total Operating Expenses	49,023,929.45	999,752.12	377,493.20	49,646,188.37
Operating Loss	(40,983,463.59)	(999,752.12)	(377,493.20)	(41,605,722.51)
NONOPERATING REVENUES				
Noncapital Aid and Gifts	40,197,140.97	361,555.74	-	40,558,696.71
Investment Income, Net	83.36	20,703.63	-	20,786.99
Capital Aid and Gifts	3,878,323.05	279,028.38	377,493.20	3,779,858.23
Net Nonoperating Revenues	44,075,547.38	661,287.75	377,493.20	44,359,341.93
Additions to Endowments	-	33,925.00	-	33,925.00
Increase (Decrease) in Net Position	3,092,083.79	(304,539.37)	-	2,787,544.42
NET POSITION				
Net Position, July 1, 2015	63,143,177.52	8,278,370.39	-	71,421,547.91
Net Position, June 30, 2016	$ 66,235,261.31	$ 7,973,831.02	$ -	$ 74,209,092.33

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

	College	Foundation	Eliminations	Total
Net Cash Used by Operating Activities	$ (40,964,947.73)	$ (1,006,140.62)	$ 377,493.20	$ (41,593,595.15)
Cash Provided by Noncapital Financing Activities	39,678,555.53	629,700.49	-	40,308,256.02
Net Cash Provided (Used) by Capital and Related Financing Activities	814,816.56	(656,720.39)	(377,493.20)	(219,397.03)
Net Cash Provided (Used) by Investing Activities	83.36	1,011,937.94	-	1,012,021.30
Net Decrease in Cash and Cash Equivalents	(471,492.28)	(21,222.58)	-	(492,714.86)
Cash and Cash Equivalents, July 1, 2014	6,672,111.22	692,117.89	-	7,364,229.11
Cash and Cash Equivalents, June 30, 2015	$ 6,200,618.94	$ 670,895.31	$ -	$ 6,871,514.25

NOTE 18 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through November 27, 2016, which is the date the financial statements were available to be issued.

NOTE 19 - AUDIT HOURS AND COST

This audit required 310 audit hours at an approximate cost of $35,500. The cost represents 0.04% of the College's total assets and 0.07% of total expenses subjected to audit.

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

	2015	2014	2013
(1) Proportionate share percentage of collective net pension liability	0.14997%	0.15096%	0.15200%
(2) Proportionate share of TSERS collective net pension liability	$ 5,526,691	$ 1,769,887	9,227,949
(3) Covered-employee payroll	$ 23,371,524	$ 22,052,132	22,447,539
(4) Net pension liability as a percentage of covered-employee payroll	23.65%	8.03%	41.11%
(5) Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%	90.60%

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

	2016	2015	2014
Contractually required contribution	$ 2,089,645.00	$ 2,046,994.42	$ 1,916,330.28
Contributions in relation to the contractually determined contribution	2,089,645.00	2,046,994.42	1,916,330.28
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 22,837,648.78	$ 22,371,523.60	$ 22,052,132.12
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%

	2013	2012	2011
Contractually required contribution	$ 1,869,879.97	$ 1,616,501.45	$ 1,056,823.88
Contributions in relation to the actuarially determined contribution	1,869,879.97	1,616,501.45	1,056,823.88
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 22,447,538.64	$ 21,727,169.99	$ 21,436,589.81
Contributions as a percentage of covered-employee payroll	8.33%	7.44%	4.93%

	2010	2009	2008
Contractually required contribution	$ 699,911.40	$ 661,981.96	$ 561,815.46
Contributions in relation to the actuarially determined contribution	699,911.40	661,981.96	561,815.46
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 19,605,361.43	$ 19,701,844.04	$ 18,420,179.04
Contributions as a percentage of covered-employee payroll	3.57%	3.36%	3.05%

	2007
Contractually required contribution	$ 466,643.99
Contributions in relation to the actuarially determined contribution	466,643.99
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 17,543,006.97
Contributions as a percentage of covered-employee payroll	2.66%

Gaston College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Nine Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
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.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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*

Members of the Board of Trustees
Gaston College
Gastonia, 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 Gaston College (the "College") 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 November 29, 2016.

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 opinions 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

Cherry Bekaert LLP

Charlotte, North Carolina
November 29, 2016