



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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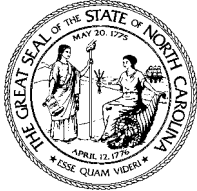
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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Gaston College

This report presents the results of our financial statement audit of Gaston College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Gaston College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Gaston College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Gaston College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gaston College
Dallas, North Carolina

We have audited the accompanying basic financial statements of Gaston College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gaston College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

February 18, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Gaston College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2003. The College's financial statements are blended or combined with the Gaston College Foundation because the Foundation exists only to assist the College and its students and they share common board members which control the Foundation.

Overview of the Financial Statements

This discussion and analysis is an introduction to the College's basic financial statements, which comprise two components: 1) Financial Statements and 2) Notes to the Financial Statements.

College Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets are two statements that report information about the College and about its activities that should help to answer the question: Is the College better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets presents all of the College's assets and liabilities with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the College's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as underlying events giving rise to the change occur, regardless to the cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected tuition and earned but unused vacation leave).

The Statement of Cash Flows is also a basic financial statement included in this report. This Statement provides information related to cash inflows and outflows summarized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The 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 Assets

The overall College financial statements combine the assets, liabilities and net assets of both the College and Gaston College Foundation. The total net assets decreased by \$507,454.52 or 2%. This decrease is attributable, for the most part, to the decline in the net valuation of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

capital assets of \$369,083.00. This decline is the result of the reduction in book value of fixed assets by the current year's depreciation expense of \$928,077.00, and the net increase of \$558,994.00, resulting from purchases and disposals.

Condensed Statement of Net Assets For the Fiscal Year Ended June 30, 2003 and June 30, 2002

| | <u>06/30/03</u> | <u>06/30/02</u> | <u>Change</u> |
|-------------------------------------|-------------------------|-------------------------|------------------------|
| Current and Other Noncurrent Assets | \$ 4,363,009.11 | \$ 3,544,671.96 | \$ 818,337.15 |
| Capital Assets, Net | <u>20,879,289.00</u> | <u>21,248,372.00</u> | <u>(369,083.00)</u> |
| Total Assets | <u>25,242,298.11</u> | <u>24,793,043.96</u> | <u>449,254.15</u> |
| Long-Term Liabilities | 960,272.88 | 18,096.00 | 942,176.88 |
| Other Liabilities | <u>988,387.04</u> | <u>973,855.25</u> | <u>14,531.79</u> |
| Total Liabilities | <u>1,948,659.92</u> | <u>991,951.25</u> | <u>956,708.67</u> |
| Net Assets: | | | |
| Invested in Capital Assets | 20,879,289.00 | 21,248,372.00 | (369,083.00) |
| Restricted | 3,367,775.59 | 1,847,215.42 | 1,520,560.17 |
| Unrestricted | <u>(953,426.40)</u> | <u>705,505.29</u> | <u>(1,658,931.69)</u> |
| Total Net Assets | <u>\$ 23,293,638.19</u> | <u>\$ 23,801,092.71</u> | <u>\$ (507,454.52)</u> |

Current and other noncurrent assets increased by \$818,337.15 or 23% as a result of an increase in cash and cash equivalents of \$194,920.25, receivables of \$602,081.25, inventories of \$56,141.55 and a decline in net carrying value of investments of \$34,805.90. Cash increased as a result of unspent unrestricted fund revenues. Due from Primary Government increased \$224,580.10 as a result of the year-end allocation of bond funds for the Public Safety Building currently under construction. Accounts receivable increased by \$377,501.15 as a result of increased third party sponsorship billings and deferred student payments.

The largest component (90%) of the College's net assets is its investment in capital assets (land, buildings, machinery and equipment, and general infrastructure), less accumulated depreciation. The investment in capital assets decreased by \$369,083.00 primarily due to depreciation for the year exceeding additions to capital assets by \$337,746.00.

Total liabilities increased by \$956,708.67. Accrued compensated absences increased by \$479,295.21, largely due to the granting of 10 days of bonus leave to all full-time employees by legislature and College trustees. Construction contracts payable increased by \$239,624.74. Accrued operating expenses and payroll expenses increased \$190,329.20.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets shows an operating loss of \$19,051,003.30 as compared to the fiscal year 2002 operating loss of \$18,013,895.14. This is an increase of \$1,037,108.15. Colleges will show an operating loss because students do not pay the full costs of college operations. The State of North Carolina and Lincoln and Gaston counties subsidize these operating costs of Gaston College, but their aid and appropriations are considered a nonoperating income. The increase in operating loss is also affected by the increase in expense for compensated absences of \$479,295.21.

Additionally, the expensing of capital asset depreciation will, in most years, including the present year, cause a decrease in net assets.

Is the College better off or worse off as a result of this year's activities? The College is better off in the current year. There is a decrease in net assets of \$507,454.52, which is 54.68% of the current year's depreciation expense of \$928,077.00. Since the College is funded for only actual cash expenses, yearly depreciation expense is not a recoverable operating expense on an annual basis. Unless a college is receiving funds to construct buildings, there will be an annual net decrease in net assets each year because of depreciation expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following information reflects how the net assets changed during the fiscal year.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Year Ended June 30, 2003 and June 30, 2002

| | <u>06/30/03</u> | <u>06/30/02</u> | <u>Change</u> |
|---|-------------------------|-------------------------|------------------------|
| REVENUES | | | |
| Operating Revenues: | | | |
| Student Tuition and Fees | \$ 3,262,317.22 | \$ 2,695,082.73 | \$ 567,234.49 |
| Federal Grants and Contracts | 3,860,952.95 | 3,233,514.95 | 627,438.00 |
| State and Local Grants and Contracts | 305,083.00 | 11,992.23 | 293,090.77 |
| Sales and Services | <u>2,563,274.25</u> | <u>2,825,986.60</u> | <u>(262,712.35)</u> |
| Total Operating Revenue | <u>9,991,627.42</u> | <u>8,766,576.51</u> | <u>1,225,050.91</u> |
| EXPENSES | | | |
| Operating Expenses: | | | |
| Personal Services | 18,721,187.40 | 17,523,209.42 | 1,197,977.98 |
| Supplies and Materials | 3,517,745.01 | 3,269,099.97 | 248,645.04 |
| Services | 2,360,408.82 | 2,014,690.37 | 345,718.45 |
| Scholarships and Fellowships | 2,845,070.15 | 2,174,770.34 | 670,299.81 |
| Utilities | 670,142.34 | 851,511.55 | (181,369.21) |
| Depreciation | <u>928,077.00</u> | <u>947,190.00</u> | <u>(19,113.00)</u> |
| Total Operating Expenses | <u>29,042,630.72</u> | <u>26,780,471.65</u> | <u>2,262,159.07</u> |
| Operating Loss | <u>(19,051,003.30)</u> | <u>(18,013,895.14)</u> | <u>(1,037,108.16)</u> |
| NONOPERATING REVENUES | | | |
| State Aid | 13,301,662.79 | 12,726,282.04 | 575,380.75 |
| County Appropriations | 2,828,434.00 | 2,750,975.00 | 77,459.00 |
| Noncapital Grants | 356,828.54 | | 356,828.54 |
| Noncapital Gifts, Net | 110,794.74 | 124,589.33 | (13,794.59) |
| Investment Income | 112,754.05 | 107,949.58 | 4,804.47 |
| Other Nonoperating Revenues | <u>570,314.29</u> | <u>284,608.66</u> | <u>285,705.63</u> |
| Total Nonoperating Revenues | 17,280,788.41 | 15,994,404.61 | 1,286,383.80 |
| Income (Loss) Before Other Revenues, Expenses, Gains or Losses | (1,770,214.89) | (2,019,490.53) | 249,275.64 |
| State Capital Aid | 482,853.63 | 832,459.48 | (349,605.85) |
| County Capital Appropriations | 713,244.97 | 748,398.46 | (35,153.49) |
| Capital Grants | 2,909.66 | | 2,909.66 |
| Additions to Endowment | <u>63,752.11</u> | <u>6,993.34</u> | <u>56,758.77</u> |
| Decrease in Net Assets | (507,454.52) | (431,639.25) | (75,815.27) |
| NET ASSETS | | | |
| Net Assets - Beginning of Year | <u>23,801,092.71</u> | <u>24,232,731.96</u> | <u>(431,639.25)</u> |
| Net Assets - End of Year | <u>\$ 23,293,638.19</u> | <u>\$ 23,801,092.71</u> | <u>\$ (507,454.52)</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Tuition and fees increased because of an increase in the tuition rate and number of students. Sales and services revenue decreased due to reduction of bookstore sales because of the initial year recording scholarship discount for financial aid transactions. Personal services and supplies increased approximately 7% with growth of the College. Services increased 17%, which is due to growth as well as reclassification of telephone expense from utilities. Scholarships and fellowships increased 31% of which 19% can be attributed to increase in aid provided by federal grants and contracts.

The Gaston College Foundation expended less for operating expenses than it received in nonoperating revenues, donations and investment income. Endowment fund balances increased by \$78,083.99 as a result of donations of \$63,752.11 and fund earnings of \$14,331.88, which were added to endowment balances in accordance with the Board of Trustees' endowment spending plan.

Statement of Cash Flows

The Statement of Cash Flows is presented to provide an analysis of cash inflows and outflows by activity type. The net decrease in cash and cash equivalents, \$91,467.29 is indicative of a fairly stable year for the College. The changes in the activities defined in the condensed statement above do not reflect significant increases or decreases in activity.

The following is a condensed Statement of Cash Flows.

Condensed Statement of Cash Flows For the Fiscal Years Ended June 30, 2003 and June 30, 2002

| | <u>06/30/03</u> | <u>06/30/02</u> | <u>Change</u> |
|---|--------------------|--------------------|--------------------|
| Net Cash Used by Operating Activities | \$ (17,133,397.31) | \$ (16,906,705.11) | \$ (226,692.20) |
| Net Cash Provided by Noncapital Financing Activities | 16,695,667.70 | 15,646,388.98 | 1,049,278.72 |
| Net Cash Provided by Capital and Related Financing Activities | 477,671.85 | 1,391,713.27 | (914,041.42) |
| Net Cash Provided by Investing Activities | 154,978.01 | 154,990.40 | (12.39) |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>194,920.25</u> | <u>286,387.54</u> | <u>(91,467.29)</u> |

Currently Known Facts

Gaston College continues to experience enrollment growth and community support. The economic position of the College is closely tied to that of the State of North Carolina and the counties of Lincoln and Gaston. The appropriation for the upcoming year is not final. The specific impact of the local and national economy on the appropriation for the College is uncertain. However, the College has a positive outlook that growth will continue.

| Gaston College | | |
|--|----|------------------|
| Statement of Net Assets | | |
| June 30, 2003 | | Exhibit A |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ | 1,225,732.27 |
| Restricted Cash and Cash Equivalents | | 34,752.95 |
| Short-Term Investments | | 222,965.00 |
| Receivables, Net (Note 3) | | 791,428.91 |
| Inventories | | 285,148.77 |
| | | <hr/> |
| Total Current Assets | | 2,560,027.90 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 1,499,917.24 |
| Restricted Due from Primary Government | | 245,942.10 |
| Endowment Investments | | 57,121.87 |
| Capital Assets - Nondepreciable, Net (Note 4) | | 1,073,291.00 |
| Capital Assets - Depreciable, Net (Note 4) | | 19,805,998.00 |
| | | <hr/> |
| Total Noncurrent Assets | | 22,682,270.21 |
| | | <hr/> |
| Total Assets | | 25,242,298.11 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities (Note 5) | | 740,173.25 |
| Deferred Revenue | | 201,444.94 |
| Funds Held for Others | | 46,768.85 |
| | | <hr/> |
| Total Current Liabilities | | 988,387.04 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 6) | | 960,272.88 |
| | | <hr/> |
| Total Noncurrent Liabilities | | 960,272.88 |
| | | <hr/> |
| Total Liabilities | | 1,948,659.92 |
| NET ASSETS | | |
| Invested in Capital Assets | | 20,879,289.00 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and Fellowships | | 1,203,098.77 |
| Expendable: | | |
| Capital Projects | | 2,164,676.82 |
| Unrestricted | | (953,426.40) |
| | | <hr/> |
| Total Net Assets | \$ | 23,293,638.19 |
| | | <hr/> |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

| Gaston College | | |
|--|----|------------------|
| Statement of Revenues, Expenses, and | | |
| Changes in Net Assets | | |
| For the Fiscal Year Ended June 30, 2003 | | Exhibit B |
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note B) | \$ | 3,262,317.22 |
| Federal Grants and Contracts | | 3,860,952.95 |
| State and Local Grants and Contracts | | 305,083.00 |
| Sales and Services, Net (Note B) | | 2,563,274.25 |
| Total Operating Revenues | | 9,991,627.42 |
| EXPENSES | | |
| Operating Expenses: | | |
| Personal Services | | 18,721,187.40 |
| Supplies and Materials | | 3,517,745.01 |
| Services | | 2,360,408.82 |
| Scholarships and Fellowships | | 2,845,070.15 |
| Utilities | | 670,142.34 |
| Depreciation | | 928,077.00 |
| Total Operating Expenses | | 29,042,630.72 |
| Operating Loss | | (19,051,003.30) |
| NONOPERATING REVENUES | | |
| State Aid | | 13,301,662.79 |
| County Appropriations | | 2,828,434.00 |
| Noncapital Grants | | 356,828.54 |
| Noncapital Gifts, Net (Note B) | | 110,794.74 |
| Investment Income, Net | | 112,754.05 |
| Other Nonoperating Revenues | | 570,314.29 |
| Net Nonoperating Revenues | | 17,280,788.41 |
| Loss Before Other Revenues, Expenses, Gains, and Losses | | (1,770,214.89) |
| State Capital Aid | | 482,853.63 |
| County Capital Appropriations | | 713,244.97 |
| Capital Gifts, Net (Note B) | | 2,909.66 |
| Additions to Endowments | | 63,752.11 |
| Decrease in Net Assets | | (507,454.52) |
| NET ASSETS | | |
| Net Assets, July 1, 2002 | | 23,801,092.71 |
| Net Assets, June 30, 2003 | \$ | 23,293,638.19 |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

| <i>Gaston College</i> | | |
|---|----|-------------------------|
| <i>Statement of Cash Flows</i> | | |
| <i>For the Fiscal Year Ended June 30, 2003</i> | | <i>Exhibit C</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from Customers | \$ | 9,824,386.29 |
| Payments to Employees and Fringe Benefits | | (18,128,505.20) |
| Payments to Vendors and Suppliers | | (6,527,495.51) |
| Payments for Scholarships and Fellowships | | (2,914,996.23) |
| Other Receipts | | 613,213.34 |
| Net Cash Used by Operating Activities | | (17,133,397.31) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Aid Received | | 13,301,662.79 |
| County Appropriations | | 2,828,434.00 |
| Noncapital Grants Received | | 397,114.40 |
| Noncapital Gifts and Endowments Received | | 168,456.51 |
| Net Cash Provided by Noncapital Financing Activities | | 16,695,667.70 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| State Capital Aid Received | | 258,273.53 |
| County Capital Appropriations | | 555,687.58 |
| Capital Gifts Received | | 13,311.00 |
| Acquisition and Construction of Capital Assets | | (349,600.26) |
| Net Cash Provided by Capital and Related Financing Activities | | 477,671.85 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Income | | 154,978.01 |
| Net Cash Provided by Investing Activities | | 154,978.01 |
| Net Increase in Cash and Cash Equivalents | | 194,920.25 |
| Cash and Cash Equivalents, July 1, 2002 | | 2,565,482.21 |
| Cash and Cash Equivalents, June 30, 2003 | \$ | 2,760,402.46 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | \$ | (19,051,003.30) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 928,077.00 |
| Miscellaneous Nonoperating Income | | 601,651.29 |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | (236,325.21) |
| Inventories | | (56,141.55) |
| Accounts Payable and Accrued Liabilities | | 190,329.20 |
| Deferred Revenue | | (842.00) |
| Funds Held for Others | | 11,562.05 |
| Compensated Absences | | 479,295.21 |
| Net Cash Used by Operating Activities | \$ | (17,133,397.31) |

| | | |
|--|----|-------------------------|
| <i>Gaston College</i> | | |
| <i>Statement of Cash Flows</i> | | <i>Exhibit C</i> |
| <i>For the Fiscal Year Ended June 30, 2003</i> | | <i>Page 2</i> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ | 1,225,732.27 |
| Restricted Cash and Cash Equivalents | | 34,752.95 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 1,499,917.24 |
| Total Cash and Cash Equivalents - June 30, 2003 | \$ | 2,760,402.46 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | |
| Assets Acquired through Assumption of a Liability | \$ | 239,624.74 |
| Assets Acquired through a Gift | | 1,106.00 |
| Change in Fair Value of Investments | | (34,805.90) |
| Increase in Receivables Related to Nonoperating Income | | 379,491.10 |
| Capital Asset Transfer | | 96,378.00 |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

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GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Gaston 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 component units for which the College's Board of Trustees is financially accountable. Although legally separate, Gaston College Foundation is reported as if it were part of the College.

The Foundation is governed by a nine-member board consisting of nine elected directors. 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 elected directors of the Foundation are appointed by the members of the Gaston College Board of Trustees 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 Hwy 321 South, Dallas, N.C. 28034, or by calling (704) 922-6413. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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** - This classification includes corporate stock and cash surrender-value life insurance policy. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net decrease in the fair value of investments is recognized as a component of investment income.
- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

F. Inventories – Inventories, consisting of expendable supplies are valued at cost using the first-in, first-out method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 40 years for buildings, and 2 to 25 years for equipment.

I. Restricted Assets – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at 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 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

N. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

was \$4,034.00. The carrying amount of cash on deposit was \$2,756,368.46 and the bank balance was \$3,019,984.14.

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.

Cash on deposit at year end consisted of the following:

| | <u>Book Balance</u> | <u>Bank Balance</u> |
|--|-------------------------|-------------------------|
| Cash on Deposit with State Treasurer | \$ 1,858,951.79 | \$ 1,858,951.79 |
| Cash on Deposit with Private Financial Institutions | <u>897,416.67</u> | <u>1,161,032.35</u> |
| | <u>\$ 2,756,368.46</u> | <u>\$ 3,019,984.14</u> |

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool 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.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$202,192.04 of the bank balance was covered by federal depository

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance, \$958,840.31 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Investments of the College's component unit(s), the Gaston College Foundation is subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the College's investments at June 30, 2003 is presented below:

| | Fair Value | | | Total |
|--|---------------|---------|---------|----------------------|
| | Risk Category | | | |
| | 1 | 2 | 3 | |
| Categorized Investments: | | | | |
| Corporate Stock | \$ 257,965.00 | \$ 0.00 | \$ 0.00 | \$ 257,965.00 |
| Investments Not Categorized: | | | | |
| Life Insurance Policy - Cash Surrender Value | | | | 22,121.87 |
| Total Investments | | | | \$ 280,086.87 |

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|----------------------------------|----------------------|---|----------------------|
| Current Receivables: | | | |
| Students | \$ 741,016.64 | \$ 146,314.00 | \$ 594,702.64 |
| Accounts | 26,101.14 | | 26,101.14 |
| Intergovernmental | 154,911.00 | | 154,911.00 |
| Pledges | 9,000.00 | | 9,000.00 |
| Investment Earnings | 6,714.13 | | 6,714.13 |
| Total Current Receivables | \$ 937,742.91 | \$ 146,314.00 | \$ 791,428.91 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

| | Balance July 1, 2002 | Increases | Decreases | Balance June 30, 2003 |
|---|-------------------------|------------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 804,319.00 | \$ 1,106.00 | \$ 31,337.00 | \$ 774,088.00 |
| Construction in Progress | 60,670.00 | 238,533.00 | | 299,203.00 |
| Total Capital Assets, Nondepreciable | 864,989.00 | 239,639.00 | 31,337.00 | 1,073,291.00 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 23,806,101.00 | | | 23,806,101.00 |
| Machinery and Equipment | 2,799,790.00 | 350,692.00 | 65,041.00 | 3,085,441.00 |
| Leasehold Improvements | 4,079,290.00 | | | 4,079,290.00 |
| General Infrastructure | 1,144,725.00 | | | 1,144,725.00 |
| Total Capital Assets, Depreciable | 31,829,906.00 | 350,692.00 | 65,041.00 | 32,115,557.00 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 7,820,179.00 | 595,153.00 | | 8,415,332.00 |
| Machinery and Equipment | 2,093,347.00 | 216,329.00 | 65,041.00 | 2,244,635.00 |
| Leasehold Improvements | 447,608.00 | 101,982.00 | | 549,590.00 |
| General Infrastructure | 1,085,389.00 | 14,613.00 | | 1,100,002.00 |
| Total Accumulated Depreciation | 11,446,523.00 | 928,077.00 | 65,041.00 | 12,309,559.00 |
| Total Capital Assets, Depreciable, Net | 20,383,383.00 | (577,385.00) | | 19,805,998.00 |
| Capital Assets, Net | \$ 21,248,372.00 | \$ (337,746.00) | \$ 31,337.00 | \$ 20,879,289.00 |

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 181,885.95 |
| Accrued Payroll | 258,668.12 |
| Contract Retainage | 239,624.74 |
| Intergovernmental Payables | 30,119.07 |
| Other | 29,875.37 |
| Total Accounts Payable and Accrued Liabilities | \$ 740,173.25 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

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

| | <u>Balance July 1, 2002</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2003</u> |
|----------------------|---------------------------------|------------------|-------------------|----------------------------------|
| Compensated Absences | \$ 480,978.00 | \$ 987,003.04 | \$ 507,708.16 | \$ 960,272.88 |

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

| <u>Fiscal Year</u> | <u>Amount</u> |
|------------------------------|----------------------|
| 2004 | \$ 149,146.00 |
| 2005 | 102,418.00 |
| 2006 | 68,145.00 |
| 2007 | 61,879.00 |
| 2008 | 61,879.00 |
| 2009-2014 | <u>51,566.00</u> |
| Total Minimum Lease Payments | <u>\$ 495,033.00</u> |

Rental expense for all operating leases during the year was \$33,498.20.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|--|------------------------|-----------------------------------|----------------------------------|---|------------------------|
| Operating Revenues: | | | | | |
| Student Tuition and Fees | \$ 3,832,457.01 | \$ 0.00 | \$ 570,139.79 | \$ 0.00 | \$ 3,262,317.22 |
| Sales and Services: | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Bookstore | \$ 2,308,985.01 | \$ 77,355.97 | \$ 570,139.78 | \$ 0.00 | \$ 1,661,489.26 |
| Café | 192,764.83 | 23,207.16 | | | 169,557.67 |
| Vending | 54,042.23 | | | | 54,042.23 |
| Childcare | 368,208.26 | | | | 368,208.26 |
| Parking | 90,146.42 | | | | 90,146.42 |
| Fire Training | 164,240.68 | | | | 164,240.68 |
| Student Activity Fees | 45,511.34 | | | | 45,511.34 |
| Print Shop | 250,200.56 | 240,122.17 | | | 10,078.39 |
| Total Sales and Services | <u>\$ 3,474,099.33</u> | <u>\$ 340,685.30</u> | <u>\$ 570,139.78</u> | <u>\$ 0.00</u> | <u>\$ 2,563,274.25</u> |
| Nonoperating - Noncapital Gifts | <u>\$ 110,794.74</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 110,794.74</u> |
| Capital Gifts | <u>\$ 4,826.63</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 1,916.97</u> | <u>\$ 2,909.66</u> |

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|----------------------|----------------------|-------------------------|
| Instruction | \$ 10,286,304.98 | \$ 901,365.15 | \$ 55,642.92 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 11,243,313.05 |
| Public Service | 438,710.62 | 66,438.67 | 416,789.07 | | | | 921,938.36 |
| Academic Support | 2,076,182.54 | 128,298.72 | 212,671.73 | | | | 2,417,152.99 |
| Student Services | 1,104,380.59 | 37,769.58 | 101,172.56 | | | | 1,243,322.73 |
| Institutional Support | 2,535,850.07 | 251,461.89 | 646,233.72 | | 670,142.34 | | 4,103,688.02 |
| Operations and Maintenance of Plant | 1,356,744.58 | 83,893.62 | 714,297.45 | | | | 2,154,935.65 |
| Student Financial Aid | | | | 2,845,070.15 | | | 2,845,070.15 |
| Auxiliary Enterprises | 923,014.02 | 2,048,517.38 | 213,601.37 | | | | 3,185,132.77 |
| Depreciation | | | | | | 928,077.00 | 928,077.00 |
| Total Operating Expenses | <u>\$ 18,721,187.40</u> | <u>\$ 3,517,745.01</u> | <u>\$ 2,360,408.82</u> | <u>\$ 2,845,070.15</u> | <u>\$ 670,142.34</u> | <u>\$ 928,077.00</u> | <u>\$ 29,042,630.72</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - PENSION PLANS

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$15,170,055.17, of which \$12,540,448.69 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$752,426.92. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$243,847.72, and \$611,549.00, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2003

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

were \$4,755.15. The voluntary contributions by employees amounted to \$189,289.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$94,851.90 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$294,700.54. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$65,210.33. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses over \$5,000,000 are paid out of county operating funds.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,164,676.82 at June 30, 2003.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

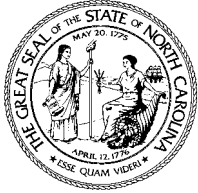
cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$9,291,500.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

Gaston College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

| Capital Improvement Projects | Projected Start Date | General Obligation Bonds Authorized | Other Sources | Total Project Budget | Amount Expended | Percent Completed | Expected Completion Date |
|---|-----------------------------|--|----------------------|-----------------------------|------------------------|--------------------------|---------------------------------|
| <i>Projects Approved by the State Board</i> | | | | | | | |
| New Public Safety Building #1121 | Jan 2002 | \$ 1,500,000.00 | \$ 0.00 | \$ 1,500,000.00 | \$ 158,088.65 | 10.54% | Mar 2004 |
| <i>Projects Pending Approval by the State Board</i> | | | | | | | |
| New Lincoln Campus Building | Oct 2004 | 396,044.00 | | 396,044.00 | | | |
| Renovation - Comer Building East | Feb 2005 | 1,830,684.00 | | 1,830,684.00 | 15,200.00 | 0.83% | Jun 2006 |
| New Health Sciences Building | Jul 2005 | 4,989,955.00 | | 4,989,955.00 | | | |
| Renovation - Craig Building | Feb 2005 | 900,000.00 | | 900,000.00 | | | |
| Total All Projects | | \$ 9,616,683.00 | \$ 0.00 | \$ 9,616,683.00 | \$ 173,288.65 | | |
| <p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p> | | | | | | | |

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Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Gaston College
Dallas, North Carolina

We have audited the financial statements of Gaston College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 18, 2004.

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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

February 18, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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| | |
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| The Honorable Beverly M. Perdue | Lieutenant Governor of North Carolina |
| The Honorable Richard H. Moore | State Treasurer |
| The Honorable Roy A. Cooper, III | Attorney General |
| Mr. David T. McCoy | State Budget Officer |
| Mr. Robert L. Powell | State Controller |
| Mr. H. Martin Lancaster | President, North Carolina Community College System |
| Dr. Patricia A. Skinner | President, Gaston College |
| Mr. Ralph Huddin | Vice President for Finance, Operations and Facilities Gaston College |
| Mr. Alan Albright | Chairman, Board of Trustees Gaston College |

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Other Legislative Officials

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|----------------------|------------------------------------|
| Mr. James D. Johnson | Director, Fiscal Research Division |
|----------------------|------------------------------------|

June 28, 2004

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