



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT REVIEW REPORT OF**

**GASTON COLLEGE**

**DALLAS, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT REVIEW REPORT OF**

**GASTON COLLEGE**

**DALLAS, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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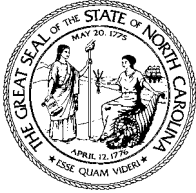
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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**REVIEWER'S TRANSMITTAL**

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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 review of Gaston College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures, as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Gaston College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

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

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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Board of Trustees  
Gaston College  
Dallas, North Carolina

We have reviewed 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, 2004, as listed in the table of contents. We conducted our review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management. We did not review the financial statements of The Gaston College Foundation, Inc., which represent 12 percent, 13 percent, and 8 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for The Gaston College Foundation, Inc., is based on the report of the other accountants.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 21, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2004. The Gaston College Foundation (Foundation) financial statements are blended or combined with the College financial statements 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 the 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 Foundation and the College. The total net assets increased by \$1,522,485.71, or 6.5%. This increase is attributable, for the most part, to an increase in capital gifts totaling

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$1,108,679.79, and an increase in State capital aid of \$1,848,173.50, both of which are to fund current and future construction projects. Another significant decrease in net assets occurred as an increase in salaries and benefits expense of \$1,187,163.78.

### Condensed Statement of Net Assets For the Fiscal Years Ended June 30, 2004, and June 30, 2003

	June 30, 2004	June 30, 2003	Change
<b>Assets</b>			
Current and Other Noncurrent Assets	\$ 6,872,439.98	\$ 4,363,009.11	\$ 2,509,430.87
Capital Assets, Net	21,583,821.85	20,879,289.00	704,532.85
<b>Total Assets</b>	<b>28,456,261.83</b>	<b>25,242,298.11</b>	<b>3,213,963.72</b>
<b>Liabilities</b>			
Long-Term Liabilities	1,379,276.25	960,272.88	419,003.37
Other Liabilities	1,228,876.16	988,387.04	240,489.12
<b>Total Liabilities</b>	<b>2,608,152.41</b>	<b>1,948,659.92</b>	<b>659,492.49</b>
<b>Net Assets</b>			
Invested In Capital Assets	21,583,821.85	20,879,289.00	704,532.85
Restricted	4,408,504.11	3,367,775.59	1,040,728.52
Unrestricted	(144,216.54)	(953,426.40)	809,209.86
<b>Total Net Assets</b>	<b>\$ 25,848,109.42</b>	<b>\$ 23,293,638.19</b>	<b>\$ 2,554,471.23</b>

Total assets increased by \$3,213,963.72, or 12.7%. This increase, for the most part, is due to an increase in accounts receivable of \$2,268,560.60, which is primarily a result of the recognition of new Foundation pledges of \$1,100,825.00. There was also an increase in State construction bond funds receivable (Restricted Due from Primary Government) of \$1,419,814.03.

Capital assets of \$21,583,821.85 is the largest component (75.8%) of the College's total assets. Included in this category are land, buildings, machinery and equipment, and general infrastructure, less accumulated depreciation. Invested in capital assets increased by \$704,532.85 as a result of additions, \$1,639,367.27; disposals, \$87,826.96; and net current year's accumulated depreciation of \$847,007.46.

Total liabilities increased by \$659,492.49. Long-term liabilities, comprised of accrued compensated absences, increased by \$419,003.37, as a result of granting 10 days leave to all full-time employees by the Legislature. Other liabilities increased by \$240,489.12, of which \$180,452.10 is recognition of additional construction contracts payables.

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

The Statement of Revenues, Expenses, and Changes in Net Assets shows an operating loss of \$18,944,762.60, as compared to the fiscal year 2003 operating loss of \$19,051,003.30. This is



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

an increase of \$106,240.70. 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 the operating costs of Gaston College, but their aid and appropriations are considered nonoperating income. The increase in operating loss is also affected by the increase in expense for compensated absences of \$419,003.37.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2004, and June 30, 2003

	June 30, 2004	June 30, 2003	Change
<b>REVENUES</b>			
Operating Revenues:			
Student Tuition and Fees	\$ 3,487,041.17	\$ 3,262,317.22	\$ 224,723.95
Federal Grants and Contracts	4,681,902.07	3,860,952.95	820,949.12
State and Local Grants and Contracts		305,083.00	(305,083.00)
Sales and Services	2,734,060.46	2,563,274.25	170,786.21
Other Operating Revenue	173,757.95		173,757.95
Total Operating Revenue	<u>11,076,761.65</u>	<u>9,991,627.42</u>	<u>1,085,134.23</u>
<b>EXPENSES</b>			
Operating Expenses:			
Salaries and Benefits	19,908,351.18	18,721,187.40	1,187,163.78
Supplies and Materials	3,179,199.41	3,517,745.01	(338,545.60)
Services	1,994,906.46	2,360,408.82	(365,502.36)
Scholarships and Fellowships	3,350,128.69	2,845,070.15	505,058.54
Utilities	656,775.13	670,142.34	(13,367.21)
Depreciation	932,163.38	928,077.00	4,086.38
Total Operating Expenses	<u>30,021,524.25</u>	<u>29,042,630.72</u>	<u>978,893.53</u>
Operating Loss	(18,944,762.60)	(19,051,003.30)	106,240.70
Nonoperating Revenues:			
State Aid	13,360,456.07	13,301,662.79	58,793.28
County Appropriations	2,966,207.00	2,828,434.00	137,773.00
Noncapital Grants	448,146.58	356,828.54	91,318.04
Noncapital Gifts, Net	241,013.75	174,546.85	66,466.90
Investment Income	137,333.07	112,754.05	24,579.02
Other Nonoperating Revenues	5,554.24	570,314.29	(564,760.05)
Total Nonoperating Revenues	<u>17,158,710.71</u>	<u>17,344,540.52</u>	<u>(185,829.81)</u>
Loss Before Other Revenues	(1,786,051.89)	(1,706,462.78)	(79,589.11)
State Capital Aid	2,331,027.13	482,853.63	1,848,173.50
County Capital Appropriations	863,718.20	713,244.97	150,473.23
Capital Grants	37,098.00	2,909.66	34,188.34
Capital Gifts	1,108,679.79		1,108,679.79
Increase (Decrease) in Net Assets	<u>2,554,471.23</u>	<u>(507,454.52)</u>	<u>3,061,925.75</u>
<b>NET ASSETS</b>			
Net Assets - Beginning of Year	<u>23,293,638.19</u>	<u>23,801,092.71</u>	<u>(507,454.52)</u>
Net Assets - End of Year	<u>\$ 25,848,109.42</u>	<u>\$ 23,293,638.19</u>	<u>\$ 2,554,471.23</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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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 an increase in net assets of \$2,554,471.22. This increase is due primarily to an increase in State capital aid of \$1,848,173.50 to fund building construction projects. Since the College is normally funded for only actual cash expenses this advanced funding of next years' construction payments creates revenue in the current year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Tuition and fees increased because of an increase in the tuition rate and number of students. Federal grants and contracts increased because of an increase in the number of eligible students attending the College. Salaries and benefits increased 6.3%, and supplies and services decreased approximately 12.0%. Scholarships and fellowships increased 17.8%, of which 15.0% can be attributed to increase in aid provided by federal grants and contracts.

The Foundation expended less for operating expenses than it received in nonoperating revenues, donations and investment income. The Foundation received \$1,109,825.00 in donations and pledges receivable for future construction projects in the current fiscal year. These donations and pledges account for the increase in capital gifts revenue.

### 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 increase in cash and cash equivalents \$332,208.29 is indicative of a fairly stable year for the College. During the current year the Foundation sold investments and received \$269,500.42 in cash. This transaction was significant to this increase. The other significant increase in cash flows was in State capital aid and is the largest part of the \$817,243.69 increase in Net Cash Provided by Capital and Related Financing Activities. Other changes in the activities defined in the condensed statement above do not reflect significant increase or decreases in activity. The detailed Statement of Cash Flows in the body of the statements should be reviewed for additional information.

### The following is a condensed Statement of Cash Flows

#### Condensed Statement of Cash Flows For the Fiscal Years Ended June 30, 2004, and June 30, 2003

	June 30, 2004	June 30, 2003	Change
Net Cash Used by Operating Activities	\$ (18,513,605.12)	\$ (17,133,397.31)	\$ (1,380,207.81)
Net Cash Provided by Noncapital Financing Activities	17,185,759.71	16,695,667.70	490,092.01
Net Cash Provided by Capital and Related Financing Activities	1,294,915.54	477,671.85	817,243.69
Net Cash Provided by Investing Activities	365,138.16	154,978.01	210,160.15
Net Increase in Cash & Cash Equivalents	<u>\$ 332,208.29</u>	<u>\$ 194,920.25</u>	<u>\$ 137,288.04</u>

### Currently Known Facts

Gaston Community 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, 2004***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,645,721.62
Restricted Cash and Cash Equivalents	145,602.45
Receivables, Net (Note 4)	756,925.48
Inventories	407,207.71
Prepaid Items	7,694.00
	<hr/>
Total Current Assets	2,963,151.26

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,301,286.68
Receivables	883,250.00
Restricted Due from Primary Government	1,665,756.13
Endowment Investments	23,995.91
Other Long-Term Investments	35,000.00
Capital Assets - Nondepreciable (Note 5)	2,138,790.43
Capital Assets - Depreciable, Net (Note 5)	19,445,031.42
	<hr/>
Total Noncurrent Assets	25,493,110.57

Total Assets	<hr/> <hr/> 28,456,261.83
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	988,343.14
Deferred Revenue	209,400.97
Funds Held for Others	31,132.05
	<hr/>
Total Current Liabilities	1,228,876.16

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,379,276.25
	<hr/>
Total Liabilities	2,608,152.41

**NET ASSETS**

Invested in Capital Assets	21,583,821.85
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,349,918.44
Expendable:	
Capital Projects	3,058,585.67
Unrestricted	(144,216.54)
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 25,848,109.42

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, 2004***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 3,487,041.17
Federal Grants and Contracts	4,681,902.07
Sales and Services, Net (Note 9)	2,734,060.46
Other Operating Revenues	173,757.95
	<hr/>
Total Operating Revenues	11,076,761.65

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	19,908,351.18
Supplies and Materials	3,179,199.41
Services	1,994,906.46
Scholarships and Fellowships	3,350,128.69
Utilities	656,775.13
Depreciation	932,163.38
	<hr/>
Total Operating Expenses	30,021,524.25
	<hr/>
Operating Loss	(18,944,762.60)

**NONOPERATING REVENUES**

State Aid	13,360,456.07
County Appropriations	2,966,207.00
Noncapital Grants	448,146.58
Noncapital Gifts	241,013.75
Investment Income, Net	137,333.07
Other Nonoperating Revenues	5,554.24
	<hr/>
Net Nonoperating Revenues	17,158,710.71
	<hr/>
Loss Before Other Revenues	(1,786,051.89)
State Capital Aid	2,331,027.13
County Capital Appropriations	863,718.20
Capital Grants	37,098.00
Capital Gifts	1,108,679.79
	<hr/>
Increase in Net Assets	2,554,471.23

**NET ASSETS**

Net Assets, July 1, 2003	23,293,638.19
	<hr/>
Net Assets, June 30, 2004	\$ 25,848,109.42

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, 2004***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 11,252,646.19
Payments to Employees and Fringe Benefits	(19,381,465.55)
Payments to Vendors and Suppliers	(7,023,574.26)
Payments for Scholarships and Fellowships	(3,345,574.70)
Other Payments	(15,636.80)
	<u>(15,636.80)</u>
Net Cash Used by Operating Activities	<u>(18,513,605.12)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	13,360,456.07
County Appropriations	2,966,207.00
Noncapital Grants Received	615,807.89
Noncapital Gifts and Endowments Received	243,288.75
	<u>243,288.75</u>
Net Cash Provided by Noncapital Financing Activities	<u>17,185,759.71</u>

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

State Capital Aid Received	911,213.10
County Capital Appropriations	863,718.20
Capital Grants Received	142,102.45
Capital Gifts Received	5,579.79
Proceeds from Sale of Capital Assets	0.00
Proceeds from Insurance on Capital Assets	8,225.28
Acquisition and Construction of Capital Assets	(635,923.28)
	<u>(635,923.28)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,294,915.54</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	269,500.42
Investment Income	95,637.74
	<u>95,637.74</u>
Net Cash Provided by Investing Activities	<u>365,138.16</u>

Net Increase in Cash and Cash Equivalents	332,208.29
Cash and Cash Equivalents, July 1, 2003	2,760,402.46
	<u>2,760,402.46</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 3,092,610.75</u>

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

Operating Loss	\$ (18,944,762.60)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	932,163.38
Changes in Assets and Liabilities:	
Receivables, Net	180,438.53
Inventories	(122,058.94)
Prepaid Items	(7,694.00)
Accounts Payable and Accrued Liabilities	(955,058.06)
Funds Held for Others	(15,636.80)
Compensated Absences	419,003.37
	<u>419,003.37</u>
Net Cash Used by Operating Activities	<u>\$ (18,513,605.12)</u>

***Gaston College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2004***

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

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,645,721.62
Restricted Cash and Cash Equivalents	145,602.45
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,301,286.68</u>
Total Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 3,092,610.75</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 1,003,443.99
Change in Fair Value of Investments	1,874.04
Increase in Receivables Related to Nonoperating Income	2,560,717.71
Capital Asset Write-Offs	87,826.96

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, 2004**

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**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. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if they were part of the College.

**Blended Component Unit** – Although legally separate, The Gaston College Foundation, Inc. (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, NC 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 (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 petty cash, cash on deposit with private bank 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 increase (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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. 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, 10 to 50 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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**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.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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accounts, and certificates of deposit. At year end, cash on hand was \$4,034.00. The carrying amount of cash on deposit was \$3,088,576.75 and the bank balance was \$3,175,078.10.

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:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 2,221,885.17	\$ 2,224,538.98
Cash on Deposit with Private Financial Institutions	866,691.58	950,539.12
	\$ 3,088,576.75	\$ 3,175,078.10

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, 2004, \$166,313.90 of the bank balance was covered by federal depository insurance, \$784,225.22 was covered by collateral held by the depository's

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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agent in the name of the College under the dedicated method described above.

- B. Investments** – In addition to donated securities and real estate held by the College, 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 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 of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 616,843.10	\$ 264,565.00	\$ 352,278.10
Intergovernmental	49,906.55		49,906.55
Pledges	226,575.00		226,575.00
Investment Earnings	1,000.00		1,000.00
Other	127,165.83		127,165.83
<b>Total Current Receivables</b>	<b>\$ 1,021,490.48</b>	<b>\$ 264,565.00</b>	<b>\$ 756,925.48</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 774,088.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 774,088.00
Construction in Progress	299,203.00	(325,752.29)	1,391,251.72		1,364,702.43
<b>Total Capital Assets, Nondepreciable</b>	<b>1,073,291.00</b>	<b>(325,752.29)</b>	<b>1,391,251.72</b>		<b>2,138,790.43</b>
Capital Assets, Depreciable:					
Buildings	23,806,101.00	84,166.42			23,890,267.42
Leasehold Improvements	4,079,290.00				4,079,290.00
Machinery & Equipment	3,085,441.00		248,115.55	87,826.96	3,245,729.59
General Infrastructure	1,144,725.00	241,585.87			1,386,310.87
<b>Total Capital Assets, Depreciable</b>	<b>32,115,557.00</b>	<b>325,752.29</b>	<b>248,115.55</b>	<b>87,826.96</b>	<b>32,601,597.88</b>
Less Accumulated Depreciation:					
Buildings	8,415,332.00		596,204.21		9,011,536.21
Leasehold Improvements	549,590.00		101,982.36		651,572.36
Machinery & Equipment	2,244,635.00		214,986.04	85,155.92	2,374,465.12
General Infrastructure	1,100,002.00		18,990.77		1,118,992.77
<b>Total Accumulated Depreciation</b>	<b>12,309,559.00</b>		<b>932,163.38</b>	<b>85,155.92</b>	<b>13,156,566.46</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>19,805,998.00</b>	<b>325,752.29</b>	<b>(684,047.83)</b>	<b>2,671.04</b>	<b>19,445,031.42</b>
<b>Capital Assets, Net</b>	<b>\$ 20,879,289.00</b>	<b>\$ 0.00</b>	<b>\$ 707,203.89</b>	<b>\$ 2,671.04</b>	<b>\$ 21,583,821.85</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

A summary of the College's investments at June 30, 2004, is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
Corporate Stock	\$ 35,000.00	\$ 0.00	\$ 0.00	\$ 35,000.00
<b>Investments Not Categorized:</b>				
Life insurance policy cash surrender value				23,995.91
<b>Total Investments</b>				<b>\$ 58,995.91</b>

### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$176,342.44 was available to be spent, all of which was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 328,125.17
Accrued Payroll	368,422.48
Contract Retainage	30,630.81
Intergovernmental Payables	244,970.33
Other	16,194.35
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 988,343.14</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Compensated Absences	\$ 960,272.88	\$ 1,408,458.33	\$ 989,454.96	\$ 1,379,276.25

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 102,418.00
2006	68,145.00
2007	61,879.00
2008	61,879.00
2009	51,566.00
Total Minimum Lease Payments	\$ 345,887.00

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,220,738.51	\$ 0.00	\$ 733,697.34	\$ 3,487,041.17
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 265,030.78	\$ 23,465.95	\$ 0.00	\$ 241,564.83
Student Union Services	48,087.84			48,087.84
Bookstore	2,447,211.68	40,147.41	742,078.83	1,664,985.44
Parking	90,301.00			90,301.00
Other	915,908.25	274,969.32		640,938.93
Sales and Services of Education and Related Activities	48,182.42			48,182.42
<b>Total Sales and Services</b>	\$ 3,814,721.97	\$ 338,582.68	\$ 742,078.83	\$ 2,734,060.46

### NOTE 10 - 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	\$ 11,617,093.59	\$ 664,544.72	\$ 594,708.06	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,876,346.37
Academic Support	2,047,889.34	120,297.97	182,990.55				2,351,177.86
Student Services	1,223,122.40	38,357.37	91,396.44				1,352,876.21
Institutional Support	2,506,996.80	132,007.03	607,821.15				3,246,824.98
Operations and Maint. of Plant	1,329,990.22	161,023.36	485,761.38		656,775.13		2,633,550.09
Student Financial Aid	91,321.68			3,350,128.69			3,441,450.37
Auxiliary Enterprises	1,091,937.15	2,062,968.96	32,228.88				3,187,134.99
Depreciation						932,163.38	932,163.38
Total Operating Expenses	\$ 19,908,351.18	\$ 3,179,199.41	\$ 1,994,906.46	\$ 3,350,128.69	\$ 656,775.13	\$ 932,163.38	\$ 30,021,524.25

### NOTE 11 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$16,735,666.97, of which \$13,601,214.64 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$816,072.88 and \$29,922.68, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$29,922.68, \$0.00, and \$243,847.72, 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, 2004, were \$6,416.70. The voluntary contributions by employees amounted to \$217,410.00 for the year ended June 30, 2004.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contributions by employees amounted to \$89,611.14 for the year ended June 30, 2004.

### NOTE 12 - 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$435,238.87. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

### NOTE 14 - 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 \$1,031,985.52 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 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 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 \$7,259,187.00 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, 2004***

***Schedule 1***

<b>Capital Improvement Projects</b>	<b>Original Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Original Expected Completion Date</b>
<b><i>Projects Approved by the State Board</i></b>							
New Public Safety Building	Jan. 2002	\$ 1,500,000.00	\$ 467,551.00	\$ 1,967,551.00	\$ 1,035,952.00	52.65%	Oct. 2004
Renovation - Comer Building	Jan. 2005	1,830,684.00	362,334.00	2,193,018.00	43,060.00	1.96%	Aug. 2006
Renovation - Craig Building	Jan. 2005	900,000.00	79,590.00	979,590.00	9,290.00	0.95%	Aug. 2006
<b><i>Projects Not Started - To Be Funded in Future Years</i></b>							
New Lincoln Campus	Jun. 2005	396,044.00	1,603,956.00	2,000,000.00			Jul 2006
New Health Sciences	Apr. 2005	4,989,955.00	1,010,045.00	6,000,000.00			Oct. 2006
<b>Total All Projects</b>		<b>\$ 9,616,683.00</b>	<b>\$ 3,523,476.00</b>	<b>\$ 13,140,159.00</b>	<b>\$ 1,088,302.00</b>		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.



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Mr. James D. Johnson	Director, Fiscal Research Division
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June 27, 2005

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