STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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

We have completed a financial statement audit of Gaston College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

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

June 6, 2006

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State Auditor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gaston College
Dallas, North Carolina

We have audited the accompanying financial statements of Gaston College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Gaston College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Gaston College Foundation, Inc., which represent 13.7 percent, 12.9 percent, and 1.7 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Gaston College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Gaston College as of June 30, 2005, and the changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. 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.

Leslie W. Merritt, Jr.

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

April 19, 2006

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, 2005. The College's financial statements are blended or combined with those of Gaston College Foundation, Inc. (Foundation), because the Foundation exists only to assist the College and its students and both entities share common board members.

Overview of the Financial Statements

This discussion and analysis provides additional comparative information regarding the College's basic financial statements and notes to the 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 total net assets of the College increased by $2,386,216.20 or 9.23%. This increase is mainly attributable, to the $1,823,637.66 increase in Restricted Due from Primary Government for the College's bond allotments from the North Carolina Community College System. This is discussed further in Note 14–B. These funds increased the Restricted Net Assets.

Condensed Statement of Net Assets
For Fiscal Years Ended June 30, 2005 and June 30, 2004

	6/30/2005	6/30/2004	Change
Current and Other Noncurrent Assets	$ 9,430,959.28	$ 6,872,439.98	$ 2,558,519.30
Capital Assets	21,737,737.52	21,583,821.85	153,915.67
Total Assets	31,168,696.80	28,456,261.83	2,712,434.97
Long-Term Liabilities	1,320,040.82	1,379,276.25	(59,235.43)
Other Liabilities	1,614,330.36	1,228,876.16	385,454.20
Total Liabilities	2,934,371.18	2,608,152.41	326,218.77
Net Assets:			
Invested in Capital Assets	21,642,627.67	21,583,821.85	58,805.82
Restricted	6,728,616.46	4,408,504.11	2,320,112.35
Unrestricted	(136,918.51)	(144,216.54)	7,298.03
Total Net Assets	$ 28,234,325.62	$ 25,848,109.42	$ 2,386,216.20

Total assets increased by $2,712,434.97 or 9.53%. This increase is due to an increase in cash of $935,282.65, which is primarily a result of collection of Foundation pledges, $709,000.00 of other construction cash received, and a $1,823,637.66 increase in State construction bond funds receivable (Restricted Due from Primary Government).

Capital Assets of $21,737,737.52 is the largest component (69.74%) of the College's total assets. Included in this category are land, buildings, machinery and equipment, and general infrastructure, less accumulated depreciation. Net Capital Assets increased by $153,915.67 as a result of $1,269,620.52 in additions less the current year's depreciation expense of $1,115,704.85. Disposals for the year were $149,992.86 and were fully depreciated.

Total liabilities increased $326,218.77 or 12.51%. Long-term liabilities accrued compensated absences decreased by $59,235.43. Other liabilities increased $385,454.20 and include $375,000.00 in Funds Held for Others. These funds were received from Lincoln County to construct a Lincoln Campus building which will be the property of Lincoln County.

Statement of Revenues, Expenses, and Changes in Net Assets - The Statement of Revenues, Expenses, and Changes in Net Assets shows an operating loss of $20,914,978.66 as compared to the fiscal year 2004 operating loss of $18,944,762.60. This is an increase of $1,970,216.06. 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 a nonoperating income.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For Fiscal Years June 30, 3005 and June 30, 2004

	6/30/2005	6/30/2004	Change
REVENUES			
Operating Revenues:			
Student Tuition & Fees	$ 3,524,716.61	$ 3,487,041.17	$ 37,675.44
Grants and Contracts	4,975,087.18	4,681,902.07	293,185.11
Sales and Services, Net	2,679,181.64	2,734,060.46	(54,878.82)
Other Operating Revenue	19,888.41	173,757.95	(153,869.54)
Total Operating Revenue	11,198,873.84	11,076,761.65	122,112.19
EXPENSES			
Operating Expenses	32,113,852.50	30,021,524.25	2,092,328.25
Operating Loss	(20,914,978.66)	(18,944,762.60)	(1,970,216.06)
Nonoperating Revenues:			
State Aid and County Appropriations	18,542,195.01	16,326,663.07	2,215,531.94
Noncapital Grants and Gifts	518,381.85	689,160.33	(170,778.48)
Investment and Other Revenues	94,179.26	142,887.31	(48,708.05)
Total Nonoperating Revenues	19,154,756.12	17,158,710.71	1,996,045.41
Loss Before Other Revenues	(1,760,222.54)	(1,786,051.89)	25,829.35
Capital Contributions	4,146,438.74	4,340,523.12	(194,084.38)
Increase (Decrease) in Net Assets	2,386,216.20	2,554,471.23	(168,255.03)
NET ASSETS			
Net Assets - Beginning of Year	25,848,109.42	23,293,638.19	2,554,471.23
Net Assets - End of Year	$ 28,234,325.62	$ 25,848,109.42	$ 2,386,216.20

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 $2,386,216.20.

This increase is due primarily to the $1,823,637.66 increase in the Restricted Due from Primary Government and related State Capital Aid revenue designated 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. Unless a college receives funds to construct buildings, as it did this year, there would be a net decrease in net assets each year because of depreciation expense.

Tuition and fees revenue increased moderately because of an increase in the tuition rate and number of students. Federal grants and contracts decreased because of a decrease in the number of eligible students attending the College. Personal services and supplies increased approximately 7.92% with growth of the College. Scholarships and fellowships decreased 23.6% which can be attributed to a decrease in aid provided by Federal grants and contracts.

Total revenues for fiscal year end 2005 were $34,503,068.69 while total revenues for fiscal year end 2004 were $32,575,995.48. This represents an increase of $1,927,073.21 or 5.91%. The largest increases were in State appropriations and in State Capital Aid. The most significant decrease in revenue was $767,966.26 in Capital Gifts. There was a significant capital campaign through the Foundation in the prior year which provided the additional capital gifts.

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.

Next fiscal year Gaston College's operations and financial statements will be combined with the North Carolina Center for Applied Textile Technology. The North Carolina Center for Applied Textile Technology (NCCATT), Belmont, N.C., has merged with Dallas, N.C.-based Gaston College as a result of legislation signed into law by North Carolina Governor Mike Easley. The NCCATT campus now is called Gaston College, East Campus and Textile Technology Center. The Textile Technology Center will still continue research, development and product testing for the Textile Industry.

Gaston College
Statement of Net Assets
June 30, 2005 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,264,664.16
Restricted Cash and Cash Equivalents		112,592.83
Receivables, Net (Note 4)		855,416.67
Due from Primary Government		10,008.21
Inventories		322,457.76
Total Current Assets		2,565,139.63
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,650,636.41
Receivables, Net (Note 4)		665,068.77
Restricted Due from Primary Government		3,489,393.79
Endowment Investments		25,720.68
Other Long-Term Investments		35,000.00
Capital Assets - Nondepreciable (Note 5)		1,063,114.85
Capital Assets - Depreciable, Net (Note 5)		20,674,622.67
Total Noncurrent Assets		28,603,557.17
Total Assets		31,168,696.80
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		824,359.90
Deferred Revenue		262,559.26
Funds Held for Others		402,870.70
Long-Term Liabilities - Current Portion (Note 7)		124,540.50
Total Current Liabilities		1,614,330.36
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,320,040.82
Total Liabilities		2,934,371.18
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		21,642,627.67
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,363,387.45
Expendable:		
Capital Projects		5,365,229.01
Unrestricted		(136,918.51)
Total Net Assets	$	28,234,325.62

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, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	3,524,716.61
Federal Grants and Contracts		4,449,866.71
State and Local Grants and Contracts		525,220.47
Sales and Services, Net (Note 9)		2,679,181.64
Other Operating Revenues		19,888.41
Total Operating Revenues		11,198,873.84
EXPENSES		
Operating Expenses:		
Personal Services		21,271,013.15
Supplies and Materials		3,756,334.58
Services		2,592,523.61
Scholarships and Fellowships		2,560,492.07
Utilities		817,784.24
Depreciation		1,115,704.85
Total Operating Expenses		32,113,852.50
Operating Loss		(20,914,978.66)
NONOPERATING REVENUES		
State Aid		15,421,679.01
County Appropriations		3,120,516.00
Noncapital Grants		362,752.42
Noncapital Gifts		155,629.43
Investment Income, Net		94,179.26
Net Nonoperating Revenues		19,154,756.12
Loss Before Other Revenues		(1,760,222.54)
State Capital Aid		3,199,608.79
County Capital Appropriations		580,211.17
Capital Gifts		340,713.53
Additions to Endowments		25,905.25
Increase in Net Assets		2,386,216.20
NET ASSETS		
Net Assets, July 1, 2004		25,848,109.42
Net Assets, June 30, 2005	$	28,234,325.62

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, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	11,188,409.48
Payments to Employees and Fringe Benefits		(21,450,836.09)
Payments to Vendors and Suppliers		(6,973,644.34)
Payments for Scholarships and Fellowships		(2,634,181.04)
Other Receipts		371,738.65
Net Cash Used by Operating Activities		(19,498,513.34)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		15,421,679.01
County Appropriations		3,120,516.00
Noncapital Grants Received		413,560.88
Noncapital Gifts and Endowments Received		180,034.91
Cash Provided by Noncapital Financing Activities		19,135,790.80
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,375,971.13
County Capital Appropriations		580,211.17
Capital Grants Received		248,484.32
Capital Gifts Received		297,995.85
Proceeds from Sale of Capital Debt		12,691.31
Acquisition and Construction of Capital Assets		(1,296,187.55)
Principal Paid on Capital Leases		(15,340.30)
Net Cash Provided by Capital and Related Financing Activities		1,203,825.93
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		94,179.26
Net Increase in Cash and Cash Equivalents		935,282.65
Cash and Cash Equivalents, July 1, 2004		3,092,610.75
Cash and Cash Equivalents, June 30, 2005	$	4,027,893.40
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(20,914,978.66)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense		1,115,704.85
Changes in Assets and Liabilities:		
Receivables, Net		(82,685.68)
Inventories		84,749.95
Prepaid Items		7,694.00
Accounts Payable and Accrued Liabilities		(36,772.71)
Deferred Revenue		(1,467.65)
Funds Held for Others		371,738.65
Compensated Absences		(42,496.09)
Net Cash Used by Operating Activities	$	(19,498,513.34)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,264,664.16
Restricted Cash and Cash Equivalents		112,592.83
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,650,636.41
Total Cash and Cash Equivalents - June 30, 2005	$	4,027,893.40

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	123,141.46
Assets Acquired through a Gift		1,724.77
Increase in Receivables Related to Nonoperating Income		1,866,130.34
Capital Asset Write-Offs		149,992.86

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

Blended Component Unit – Although legally separate, Gaston College Foundation, Inc., 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).

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

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 is 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 charged 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. Current 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 for Current Unrestricted General Funds and moving weighted average for Current Proprietary Funds.

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 capital lease obligations and 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 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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. 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, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations 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 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $4,234.00, and deposits in private financial institutions with a carrying value of $884.853.33 and a bank balance of $964,180.08.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $3,138,806.07 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit 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 Foundation is subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value
Investment Type	
Other Securities	
Domestic Stocks	35,000.00
Other-Cash Surrender Value Life Insurance Policy	25,720.68
Total Investments	$ 60,720.68

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2005, is as follows:

Cash on Hand	$ 4,234.00
Carrying Amount of Deposits with Private Financial Institutions	884,853.33
Investments in the Short Term Investment Fund	3,138,806.07
Other Investments	60,720.68
Total Deposits and Investments	$ 4,088,614.08
Current:	
Cash and Cash Equivalents	$ 1,264,664.16
Restricted Cash and Cash Equivalents	112,592.83
Noncurrent:	
Restricted Cash and Cash Equivalents	2,650,636.41
Endowment Investments	25,720.68
Other Long-Term Investments	35,000.00
Total	$ 4,088,614.08

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, 2005, net appreciation of $44,154.59 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 835,942.64	$ 368,926.00	$ 467,016.64
Accounts	20,425.58		20,425.58
Intergovernmental	9,595.25		9,595.25
Pledges	269,067.68		269,067.68
Investment Earnings	1,000.00		1,000.00
Other	88,311.52		88,311.52
Total Current Receivables	$ 1,224,342.67	$ 368,926.00	$ 855,416.67
Noncurrent Receivables:			
Pledges	$ 718,583.00	$ 53,514.23	$ 665,068.77

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 774,088.00	$ 0.00	$ 0.00	$ 0.00	$ 774,088.00
Construction in Progress	1,364,702.43	(2,079,532.55)	1,003,856.97		289,026.85
Total Capital Assets, Nondepreciable	2,138,790.43	(2,079,532.55)	1,003,856.97		1,063,114.85
Capital Assets, Depreciable:					
Buildings	27,969,557.42	1,860,174.55			29,829,731.97
Machinery and Equipment	3,245,729.59		265,763.55	149,992.86	3,361,500.28
General Infrastructure	1,386,310.87	219,358.00			1,605,668.87
Total Capital Assets, Depreciable	32,601,597.88	2,079,532.55	265,763.55	149,992.86	34,796,901.12
Less Accumulated Depreciation:					
Buildings	9,663,108.57		723,241.03		10,386,349.60
Machinery and Equipment	2,374,465.12		366,213.18	149,992.86	2,590,685.44
General Infrastructure	1,118,992.77		26,250.64		1,145,243.41
Total Accumulated Depreciation	13,156,566.46		1,115,704.85	149,992.86	14,122,278.45
Total Capital Assets, Depreciable, Net	19,445,031.42	2,079,532.55	(849,941.30)		20,674,622.67
Capital Assets, Net	$ 21,583,821.85	$ 0.00	$ 153,915.67	$ 0.00	$ 21,737,737.52

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 250,910.27
Accrued Payroll	224,449.64
Contract Retainage	74,066.07
Intergovernmental Payables	254,776.98
Other	20,156.94
Total Accounts Payable and Accrued Liabilities	$ 824,359.90

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Capital Leases Payable	$ 0.00	$ 110,450.15	$ 15,340.30	$ 95,109.85	$ 36,816.72
Compensated Absences	1,379,276.25	623,326.50	665,822.59	1,336,780.16	86,406.49
Charitable Remainder Trust		12,691.31		12,691.31	1,317.29
Total Long-Term Liabilities	$ 1,379,276.25	$ 746,467.96	$ 681,162.89	$ 1,444,581.32	$ 124,540.50

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to the telephone system are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 46,695.00
2007	46,695.00
2008	27,240.00
Total Minimum Lease Payments	120,630.00
Amount Representing Interest (8.65% Rate of Interest)	25,520.15
Present Value of Future Lease Payments	$ 95,109.85

Machinery and equipment acquired under capital lease amounted to $110,450.15 at June 30, 2005.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 116,145.00
2007	109,879.00
2008	109,879.00
2009	99,566.00
2010	32,000.00
Total Minimum Lease Payments	$ 467,469.00

Rental expense for all operating leases during the year was $126,866.87.

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
Operating Revenues:				
Student Tuition and Fees	$ 4,542,107.51	$ 0.00	$ 1,017,390.90	$ 3,524,716.61
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 179,207.21	$ 12,858.36	$ 0.00	$ 166,348.85
Student Activity Fees	48,973.73			48,973.73
Vending	72,400.52			72,400.52
Fire Training	262,270.12			262,270.12
Bookstore	2,643,105.75	44,663.25	1,021,620.89	1,576,821.61
Parking	87,311.23			87,311.23
Print Shop	312,884.40	302,042.00		10,842.40
Childcare	406,919.60			406,919.60
Sales and Services of Education and Related Activities	47,293.58			47,293.58
Total Sales and Services	$ 4,060,366.14	$ 359,563.61	$ 1,021,620.89	$ 2,679,181.64

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

		Personal Services		Supplies and Materials		Services		Scholarships and Fellowships		Utilities		Depreciation		Total
Instruction	$	12,317,744.93	$	1,005,027.36	$	453,865.63	$	0.00	$	0.00	$	0.00	$	13,776,637.92
Academic Support		4,841,964.94		410,368.49		1,344,522.05								6,596,855.48
Student Services		1,458,264.33		39,123.81		133,931.00								1,631,319.14
Operations and Maintenance of Plant		1,468,229.14		252,077.29		372,270.42				817,784.24				2,910,361.09
Student Financial Aid		115,946.98						2,560,492.07						2,676,439.05
Auxiliary Enterprises		1,068,862.83		2,049,737.63		287,934.51								3,406,534.97
Depreciation												1,115,704.85		1,115,704.85
Total Operating Expenses	$	21,271,013.15	$	3,756,334.58	$	2,592,523.61	$	2,560,492.07	$	817,784.24	$	1,115,704.85	$	32,113,852.50

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 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $18,294,388.02 of which $14,855,890.28 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $891,355.51 and $322,372.82, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $322,372.82, $29,922.68, and $0.00, 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 G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2005, were $8,066.51. The voluntary contributions by employees amounted to $253,863.00 for the year ended June 30, 2005.

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 $56,171.28 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was

$475,388.49. 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 was not required to contribute to the DIPNC for the year ended June 30, 2005. 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, and can include 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 $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. There were no employer contributions required for the current fiscal year.

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

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 $317,231.15 at June 30, 2005.

B. Community College General Obligation Bonds – 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 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 $4,582,744.00 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.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 16 - SUBSEQUENT EVENTS

The North Carolina Center for Applied Textile Technology will be transferred from the Community Colleges System Office to Gaston College. This transfer becomes effective July 1, 2005, in accordance with Senate Bill 988 of the General Assembly of North Carolina.

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

Board of Trustees
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, 2005, and have issued our report thereon dated February 27, 2006. We did not audit the financial statements of Gaston College Foundation, Inc., which represent 13.7 percent, 12.9 percent, and 1.7 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gaston College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of Gaston College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Gaston College Foundation, Inc.

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 an opinion 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 reportable 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

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

risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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.

Leslie W. Merritt, Jr.

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

April 19, 2006

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