



STATE OF NORTH CAROLINA

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the 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 and compliance audit of Gaston College for the year ended June 30, 2007, 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 and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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

May 29, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gaston College
Dallas, North Carolina

We have audited the accompanying basic financial statements of Gaston College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Gaston College Foundation, Inc., which represent 15 percent, 13 percent, and 4 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 the Foundation, 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 provides 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, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2008, 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

May 19, 2008

GASTON COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaston College

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, 2007. The College's financial statements are blended or combined with the Gaston College Foundation, Inc. (Foundation) because the Foundation exists only to assist the College and its students and both entities share common board members which control the Foundation.

Overview of the Financial Statements

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

College Financial Statements

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the College's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as underlying events giving rise to the change occur, regardless of 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets - The overall College financial statements combine the assets, liabilities and net assets of both the College and Gaston College Foundation. The total net assets increased by \$9,896,803.79. This increase is attributable, for the most part, to a State capital aid receivable of \$4,086,435.30 for the College's bond allotments from the North Carolina Community College System, a cash balance increase of \$2,097,563.89 and an increase in net capital assets of \$4,541,890.94.

Condensed Statement of Net Assets For the Fiscal Years Ended June 30, 2007 and June 30, 2006

	2007	2006	Change
ASSETS:			
Current & Other Noncurrent Assets	\$ 15,072,861.56	\$ 9,493,091.67	\$ 5,579,769.89
Capital Assets, Net	32,925,446.13	28,383,555.19	4,541,890.94
Total Assets	47,998,307.69	37,876,646.86	10,121,660.83
LIABILITIES:			
Long-Term Liabilities	1,660,737.63	1,685,474.62	(24,736.99)
Other Liabilities	2,374,053.17	2,124,459.14	249,594.03
Total Liabilities	4,034,790.80	3,809,933.76	224,857.04
NET ASSETS:			
Invested in Capital Assets	32,890,121.05	28,287,672.75	4,602,448.30
Restricted	10,453,797.45	5,987,654.46	4,466,142.99
Unrestricted	619,598.39	(208,614.11)	828,212.50
Total Net Assets	\$ 43,963,516.89	\$ 34,066,713.10	\$ 9,896,803.79

Total assets increased by \$10,121,660.83 or 27%. This increase is due to an increase in cash of \$2,097,563.89, which is primarily a result of a Foundation Endowment gift of \$1,224,868.58, a \$4,086,435.30 increase in State construction bond funds (Restricted Due from Primary Government) and a \$4,541,890.94 increase in Net Capital Assets.

Capital assets of \$32,925,446.13 are the largest component (67.13%) of the College's total assets. Included in this category are land, art collection, construction in progress, buildings, machinery and equipment, and general infrastructure, less accumulated depreciation. Net Capital Assets increased by \$4,541,890.94 as a result of net additions of \$1,606,099.28 and the \$4,027,108.12 restatement of Depreciable Capital Assets for the reevaluation useful lives. Effectively, accumulated depreciation was reduced by \$4,027,108.12 for prior years.

Total liabilities increased by \$224,857.04 or 5.9%. Other Liabilities increased \$249,594.03 which includes increases in Funds Held for Others of \$256,529.28 and Unearned Revenues of \$400,006.10, and a decrease in Accounts Payable and Accrued Liabilities of \$415,941.35. Funds Held for Others increased due to the College receiving \$250,000 from Lincoln County for the future construction of a science building on the Lincoln campus, which will be the property of Lincoln County. Unearned Revenue increased due to an increase in unearned tuition revenue for Summer 2007 of \$250,498.04.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets - The Statement of Revenues, Expenses, and Changes in Net Assets shows an operating loss of \$26,366,459.77 as compared to the fiscal year 2006 operating loss of \$23,131,730.94. This is an increase of \$3,234,728.83. Colleges will show an operating loss because students do not pay the full costs of college operations. The State of North Carolina, Lincoln and Gaston counties subsidize the operating costs of Gaston College, but their aid and appropriations are considered as nonoperating income.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2007 and June 30, 2006

	2007	2006	Change
REVENUES:			
Operating Revenues:			
Student Tuition & Fees	\$ 3,439,580.21	\$ 3,816,288.73	\$ (376,708.52)
Grants and Contracts	4,170,872.79	4,875,081.16	(704,208.37)
Sales and Services	2,839,165.26	2,440,888.67	398,276.59
Other Operating Revenues	28,223.65	35,834.73	(7,611.08)
Total Operating Revenues	10,477,841.91	11,168,093.29	(690,251.38)
EXPENSES:			
Operating Expenses	36,844,301.68	34,299,824.23	2,544,477.45
Operating Loss	(26,366,459.77)	(23,131,730.94)	(3,234,728.83)
Nonoperating Revenues:			
State Aid and County Appropriations	24,596,687.09	20,643,550.07	3,953,137.02
Noncapital Grants and Gifts	390,241.81	766,719.31	(376,477.50)
Investment and Other Revenues	252,116.10	174,219.81	77,896.29
Total Nonoperating Revenues	25,239,045.00	21,584,489.19	3,654,555.81
Loss Before Other Revenues	(1,127,414.77)	(1,547,241.75)	419,826.98
Capital Contributions	5,769,802.57	6,988,489.52	(1,218,686.95)
Additions to Endowment	1,227,307.87	24,174.18	1,203,133.69
Increase in Net Assets	5,869,695.67	5,465,421.95	404,273.72
NET ASSETS			
Net Assets (As Restated) - Beginning of Year	38,093,821.22	28,601,291.15	9,492,530.07
Net Assets - End of Year	\$ 43,963,516.89	\$ 34,066,713.10	\$ 9,896,803.79

There is an increase in net assets of \$9,896,803.79. This increase is due primarily to the increase in State Aid and County Appropriations of \$3,953,137.02, the \$4,027,108.12 restatement of beginning Net Assets previously discussed, and \$1,227,307.87 in Additions to Endowments. The increases in State and County Appropriations were budgeted to fund the increase in operating loss of \$3,234,702.83. Additions to Endowments increased due to endowed gifts to the Foundation. Tuition and fees decreased moderately due to a decrease in number of students attending in the current year. Federal grants and contracts also decreased

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

slightly because of the change in the number financial aid eligible students attending the College. Operating expenses increased by \$2,544,477.45 or 7.42%. Personal Services increased by \$1,709,545.38 (7.13%) reflecting board of trustees approved salary increases of 6 percent for all full-time and part-time staff and full-time faculty. An additional one-time 2% bonus was also approved. Supplies and Materials increased by \$800,917.85 due to increased repairs and maintenance expenses incurred during in the fiscal year.

Currently Known Facts - Gaston Community College has experienced a reduction in enrollment but continues to be proactive in recruiting to increase 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 specific impact of the local and national economy on the appropriations for the College is uncertain. However, the College has a positive outlook that growth will continue.

Gaston College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,099,323.37
Restricted Cash and Cash Equivalents	276,719.97
Receivables, Net (Note 4)	1,061,660.50
Inventories	418,287.28
	<hr/>
Total Current Assets	2,855,991.12

Noncurrent Assets:

Restricted Cash and Cash Equivalents	5,745,591.92
Receivables - Pledges	316,805.30
Restricted Due from Primary Government	6,122,897.96
Investments	31,575.26
Capital Assets - Nondepreciable (Note 5)	1,976,258.35
Capital Assets - Depreciable, Net (Note 5)	30,949,187.78
	<hr/>
Total Noncurrent Assets	45,142,316.57

Total Assets	<hr/> <hr/> 47,998,307.69
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	490,371.84
Unearned Revenue	839,173.12
Funds Held for Others	1,044,508.21
Long-Term Liabilities - Current Portion (Note7)	273,923.60
	<hr/>
Total Current Liabilities	2,647,976.77

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,386,814.03
	<hr/>
Total Liabilities	4,034,790.80

NET ASSETS

Invested in Capital Assets, Net of Related Debt	32,890,121.05
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,614,869.50
Expendable:	
Capital Projects	7,838,927.95
Unrestricted	619,598.39
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 43,963,516.89

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, 2007

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 3,439,580.21
Federal Grants and Contracts	3,899,733.36
State and Local Grants and Contracts	271,139.43
Sales and Services, Net (Note 9)	2,839,165.26
Other Operating Revenues	28,223.65
	<hr/>
Total Operating Revenues	10,477,841.91

EXPENSES

Operating Expenses:	
Personal Services	25,701,243.46
Supplies and Materials	4,537,224.01
Services	2,293,223.76
Scholarships and Fellowships	2,170,077.29
Utilities	1,051,216.70
Depreciation	1,091,316.46
	<hr/>
Total Operating Expenses	36,844,301.68
	<hr/>
Operating Loss	(26,366,459.77)

NONOPERATING REVENUES

State Aid	21,071,799.09
County Appropriations	3,524,888.00
Noncapital Grants	162,440.00
Noncapital Gifts	227,801.81
Investment Income	227,618.18
Other Nonoperating Revenues	24,497.92
	<hr/>
Nonoperating Revenues	25,239,045.00
	<hr/>
Income Before Other Revenues	(1,127,414.77)

State Capital Aid	4,993,964.00
County Capital Aid	496,277.35
Capital Grants	246,515.00
Capital Gifts	33,046.22
Additions to Endowments	1,227,307.87
	<hr/>
Increase in Net Assets	5,869,695.67

NET ASSETS

Net Assets, July 1, 2006, as Restated (Note 16)	38,093,821.22
	<hr/>
Net Assets, June 30, 2007	\$ 43,963,516.89

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 10,806,771.65
Payments to Employees and Fringe Benefits	(25,675,161.16)
Payments to Vendors and Suppliers	(8,056,797.76)
Payments for Scholarships and Fellowships	(2,170,077.29)
Other Receipts	288,486.23
	<hr/>
Net Cash Used by Operating Activities	(24,806,778.33)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	21,071,799.09
County Appropriations	3,524,888.00
Noncapital Grants Received	168,595.89
Noncapital Gifts and Endowments Received	1,583,551.39
	<hr/>
Cash Provided by Noncapital Financing Activities	26,348,834.37

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	907,528.70
County Capital Aid Received	496,277.35
Capital Grants Received	363,112.69
Capital Gifts	305,750.73
Proceeds from the sale of capital assets	4,825.48
Acquisition and Construction of Capital Assets	(1,722,084.90)
Principal Paid on Capital Debt and Leases	(60,557.32)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	294,852.73

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	62,036.94
Investment Income	198,618.18
	<hr/>
Cash Provided by Investing Activities	260,655.12

Net Increase in Cash and Cash Equivalents	2,097,563.89
Cash and Cash Equivalents, July 1, 2006	5,024,071.37
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 7,121,635.26

Gaston College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

Page 2

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

Operating Loss	\$ (26,366,459.77)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,091,316.46
Provision for Uncollectible Loans and Write-Offs	
Miscellaneous Nonoperating Income	22,956.95
Changes in Assets and Liabilities:	
Receivables, Net	(972,425.00)
Inventories	41,203.76
Accounts Payable and Accrued Liabilities	(226,698.04)
Unearned Revenue	1,301,354.74
Funds Held for Others	265,529.28
Compensated Absences	36,443.29
	<u>36,443.29</u>
Net Cash Used by Operating Activities	<u>\$ (24,806,778.33)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,099,323.37
Restricted Cash and Cash Equivalents	276,719.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	5,745,591.92
	<u>5,745,591.92</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 7,121,635.26</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 54,729.00
Capital asset write-off	3,284.51
Increase in receivables related to nonoperating income	4,086,535.30

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were a part of the College.

Blended Component Unit - The Gaston College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a 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)

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 fund. The short-term investment fund 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 the cash-surrender value life of a 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using either 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.

The Rauch Art collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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 annuities payable, 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 include the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Gaston County Appropriations revert at the end of the year. Lincoln County current appropriations do not revert. County Capital Appropriations are drawn as needed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$768,512.63 and a bank balance of \$1,518,871.74.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - In addition to donated securities held by the College, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$6,348,888.63, 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 1.6 years as of June 30, 2007. 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 North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

At June 30, 2007, the amount shown on the Statement of Net Assets as investments represents the cash-surrender value of a life insurance policy.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the College's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$	4,234.00
Carrying Amount of Deposits with Private Financial Institutions		768,512.63
Investments in the Short Term Investment Fund		6,348,888.63
Other Investments		<u>31,575.26</u>
Total Deposits and Investments	\$	<u>7,153,210.52</u>
Current:		
Cash and Cash Equivalents	\$	1,099,323.37
Restricted Cash and Cash Equivalents		276,719.97
Noncurrent:		
Restricted Cash and Cash Equivalents		5,745,591.92
Other Investments		<u>31,575.26</u>
Total	\$	<u>7,153,210.52</u>

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 noncurrent restricted cash and cash equivalents 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, 2007, net appreciation of \$99,289.86 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 981,954.85	\$ 733,523.66	\$ 248,431.19
Accounts	228,781.90		228,781.90
Intergovernmental	233,666.41		233,666.41
Pledges	350,781.00		350,781.00
Total Current Receivables	\$ 1,795,184.16	\$ 733,523.66	\$ 1,061,660.50

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 792,488.00	\$ 0.00	\$ 0.00	\$ 792,488.00
Art, Literature, and Artifacts		54,729.00		54,729.00
Construction in Progress	3,678,187.45	1,173,163.05	3,722,309.15	1,129,041.35
Total Capital Assets, Nondepreciable	4,470,675.45	1,227,892.05	3,722,309.15	1,976,258.35
Capital Assets, Depreciable:				
Buildings	35,051,959.76	3,470,338.86		38,522,298.62
Machinery and Equipment	3,796,987.53	381,491.74	51,076.00	4,127,403.27
General Infrastructure	1,734,497.11	251,970.20		1,986,467.31
Total Capital Assets, Depreciable	40,583,444.40	4,103,800.80	51,076.00	44,636,169.20
Less Accumulated Depreciation:				
Buildings	10,553,649.15	748,181.23		11,301,830.38
Machinery and Equipment	1,513,310.13	307,820.94	47,791.49	1,773,339.58
General Infrastructure	576,497.17	35,314.29		611,811.46
Total Accumulated Depreciation	12,643,456.45	1,091,316.46	47,791.49	13,686,981.42
Total Capital Assets, Depreciable, Net	27,939,987.95	3,012,484.34	3,284.51	30,949,187.78
Capital Assets, Net	\$ 32,410,663.40	\$ 4,240,376.39	\$ 3,725,593.66	\$ 32,925,446.13

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 222,845.20
Accrued Payroll	229,198.34
Contract Retainage	11,809.74
Intergovernmental Payables	26,518.56
Total Accounts Payable and Accrued Liabilities	\$ 490,371.84

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Capital Leases Payable	\$ 95,882.40	\$ 0.00	\$ 60,557.32	\$ 35,325.08	\$ 35,325.08
Compensated Absences	1,577,788.26	802,445.99	766,002.70	1,614,231.55	237,311.52
Annuities Payable	11,803.96		622.96	11,181.00	1,287.00
Total Long-Term Liabilities	\$ 1,685,474.62	\$ 802,445.99	\$ 827,182.98	\$ 1,660,737.63	\$ 273,923.60

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

NOTE 8 - CAPITAL LEASE OBLIGATIONS

A. Capital Lease Obligations - relating to telephone systems 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, 2007:

	Fiscal Year	Amount
	2008	\$ 43,324.82
Total Minimum Lease Payments		43,324.82
Amount Representing Interest (7.55% Rate of Interest)		7,999.74
Present Value of Future Lease Payments		\$ 35,325.08

Machinery and equipment acquired under capital lease amounted to \$181,671.92 at June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 144,252.48
2009	139,095.86
2010	70,373.04
2011	34,373.04
2012	34,373.04
Total Minimum Lease Payments	<u>\$ 422,467.46</u>

Rental expense for all operating leases during the year was \$141,984.78.

NOTE 9 - REVENUES

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

	<u>Revenues</u>	<u>Eliminations</u>	<u>Discounts</u>	<u>Uncollectibles</u>	<u>Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 4,853,350.90</u>	<u>\$ 0.00</u>	<u>\$ 1,385,557.57</u>	<u>\$ 28,213.12</u>	<u>\$ 3,439,580.21</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Childcare	\$ 391,707.11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 391,707.11
Dining	203,703.23	12,485.82			191,217.41
Fire Training	245,505.43				245,505.43
Textile Testing	115,075.77				115,075.77
Bookstore	2,693,772.34	55,025.55	875,669.46	11,745.68	1,751,331.65
Parking				245.65	(245.65)
Print Shop	414,401.60	383,810.14			30,591.46
Vending	68,186.43				68,186.43
Sales and Services of Education and Related Activities	<u>45,795.65</u>				<u>45,795.65</u>
Total Sales and Services	<u>\$ 4,178,147.56</u>	<u>\$ 451,321.51</u>	<u>\$ 875,669.46</u>	<u>\$ 11,991.33</u>	<u>\$ 2,839,165.26</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 14,759,759.98	\$ 541,281.68	\$ 722,889.61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,023,931.27
Academic Support	2,921,498.04	77,979.58	206,498.35				3,205,975.97
Student Services	1,695,614.17	46,226.48	101,091.89				1,842,932.54
Institutional Support	3,262,276.25	244,192.17	823,215.13				4,329,683.55
Operations and Maintenance of Plant	1,879,424.50	1,169,262.38	482,576.60		1,051,216.70		4,582,480.18
Student Financial Aid	61,069.87			2,170,077.29			2,231,147.16
Auxiliary Enterprises	1,121,600.65	2,458,281.72	(43,047.82)				3,536,834.55
Depreciation						1,091,316.46	1,091,316.46
Total Operating Expenses	<u>\$ 25,701,243.46</u>	<u>\$ 4,537,224.01</u>	<u>\$ 2,293,223.76</u>	<u>\$ 2,170,077.29</u>	<u>\$ 1,051,216.70</u>	<u>\$ 1,091,316.46</u>	<u>\$ 36,844,301.68</u>

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$21,699,111.92, of which \$17,543,006.97 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,052,580.42 and \$466,643.99, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$466,643.99, \$378,979.08, and \$322,372.82, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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, 2007, were \$12,454.42. The voluntary contributions by employees amounted to \$364,431.00 for the year ended June 30, 2007.

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 \$76,740.28 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007, the College's total contribution to the Plan was \$666,634.26. 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. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$91,223.64. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$75,000 deductible. Losses from employee dishonesty and computer fraud for employees paid from County and Special Funds are covered by a private company policy with coverage of \$1,000,000 per occurrence and a \$1,000 deductible for dishonesty and no deductible for computer fraud.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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. The employer contribution rate was .16% 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$433,657.65 at June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - RELATED PARTIES

Foundation - The North Carolina Center for Applied Textile Technology Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the Textile Center of Gaston College through which individuals, corporations, and other organizations support Textile programs by providing unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. No distributions were received nor benefits provided in the current year ended June 30, 2007.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows;

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 34,066,713.10
Restatement	
Error in Establishing Useful Lived of Capital Assets	<u>4,027,108.12</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 38,093,821.22</u></u>



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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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 19, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Gaston College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Gaston College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability

**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)**

to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal controls over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described finding 3 in the Audit Findings and Responses section of this report.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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



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

May 19, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. DEFICIENCY IN FINANCIAL REPORTING

The College overstated special item revenues and understated beginning capital assets by \$3,714,476.33 when the entry to correct the estimated useful lives of buildings was recorded to current year revenue. The beginning capital assets balance for equipment was understated by \$312,631.79 due to a failure to reevaluate the useful lives of assets which were fully depreciated and still in use. Various other misstatements were made in the financial statements, notes to the financial statements, and management's discussion and analysis.

Recommendation: The College should place greater emphasis on the year end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

College's Response: The College incorrectly recorded the adjustment to correct the error in accounting estimate for depreciation recapture related to useful lives of assets to Special Items rather than Prior Period Adjustment. Finance personnel will take greater care to use the prescribed accounts in the future.

The College did not reevaluate the useful lives of 59 equipment items with a purchase price of \$777,485.12 per the depreciation policy issued by the Office of the State Controller. Rather, these items were shown as fully depreciated. The useful lives of these assets were subsequently reevaluated and the net book value of assets was increased by \$312,631.79. The fully depreciated equipment comprised 1.74% of the total depreciable asset acquisition cost of \$44,636,169.29.

Finance personnel will continue to reevaluate the useful lives of capital assets which become fully depreciated in the future.

2. DEFICIENCY IN INTERNAL CONTROLS OVER STUDENT FINANCIAL AID FUNDS

The College did not have internal controls in place to periodically reconcile Federal Pell Grant expenditures per Student Financial Aid Office with the disbursements recorded in the general ledger. This increases the risk of undetected error in the recording of payments. For fiscal year June 30, 2007, there was an unreconciled difference of \$1,422.94.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: Federal awards should be reconciled to the actual disbursements per the general ledger periodically.

College's Response: The College will periodically reconcile Financial Aid Federal awards to the actual disbursements per the general ledger.

The difference of \$1,422.94 was a journal entry made to void prior year Pell award checks to students who were in repayment and had not cashed their checks.

3. NONCOMPLIANCE WITH STATE GRANT REQUIREMENTS AND QUESTIONABLE GRANT AWARDS

The College did not follow requirements related to the State Child Care Grant and made questionable awards to employees of the College. A total of \$12,354.25 or 30% of the grant funds received was paid to student-parents without required supporting documentation. \$6,220.75 or 15% of the total grant funds received was awarded to employees under questionable circumstances. The College received \$39,890 to be used to assist student-parents with their child care needs. Child care coordinators and financial aid officers were designated to determine the need for child care assistance. However, seven out of 21 recipients of the grant did not apply for financial aid or have income verified as required by the grant. Five of the seven were College employees who were students because they took a one-hour yoga or child development class scheduled during work hours or after the operating hours of the Gaston College Child Development Center. One of these employees was the Director/Child Care Coordinator. Awarding funds to these employees appears to be outside the purpose of the grant.

Recommendation: The College should strengthen internal control over the awarding grant funds to ensure that grant requirements are met and awards are for the intended purpose of the grant. Special procedures, such as upper management review, may be needed for awards to employees.

College's Response: The College became aware of the issue associated with the child care grants during the audit period and conducted its own investigation and at the same time, sought advice from the Vice President for Business and Finance at NCCCS. We determined that improvement in the internal controls was necessary and the responsibility for this grant administration has already been moved to the Student Financial Aid Office.

Although the College did not follow some of internal policies for the administration of this grant, the NCCCS guidelines for the grant were adhered to. The guidelines did not prohibit college employees from participation in this grant process. However, as a result of this investigation this practice was immediately discontinued.

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