



STATE OF NORTH CAROLINA

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2008, 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 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 the finding.

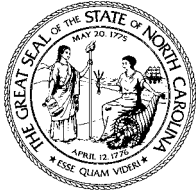
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gaston College
Dallas, North Carolina

We have audited the accompanying basic financial statements of Gaston College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, 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 12 percent, 12 percent, and 3 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 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, 2008, 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.

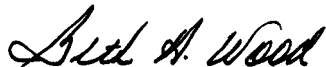
As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by*

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Employers for Postemployment Benefits Other Than Pensions, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2010, 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.



Beth A. Wood, CPA
State Auditor

March 24, 2010

GASTON COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Gaston College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2008. The College's financial statements are blended or combined with the Gaston College Foundation (Foundation) because the Foundation exists only to assist the college and its students and they share common board members which control the Foundation.

Overview of the Financial Statements

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

College Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenditures and Change 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.

Statement of Net Assets - The Statement of Net Assets includes the assets, liabilities and net assets of both the College and Gaston College Foundation. The total net assets increased by \$1,167,855.86. This increase is attributable, for the most part, to the decrease in the amount of State capital aid receivable by \$3,763,477.08, the refund of prior year State capital aid, a

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

decrease in cash balances of \$368,178.15 and increases in net capital assets of \$6,711,078.63. This activity was due primarily to completion of construction projects and the return of excess capital funding to the State.

Condensed Statement of Net Assets For the Fiscal Years Ended June 30, 2008 and June 30, 2007

	2008	2007 As Restated	Change
ASSETS:			
Current & Other Noncurrent Assets	\$ 6,176,222.98	\$ 15,072,861.56	\$ (8,896,638.58)
Capital Assets, Net	44,340,901.01	32,925,446.13	11,415,454.88
Total Assets	50,517,123.99	47,998,307.69	2,518,816.30
LIABILITIES:			
Long-Term Liabilities	1,649,355.72	1,386,814.03	262,541.69
Other Liabilities	3,373,250.54	2,284,831.79	1,088,418.75
Total Liabilities	5,022,606.26	3,671,645.82	1,350,960.44
NET ASSETS:			
Invested in Capital Assets	39,636,524.76	32,890,121.05	6,746,403.71
Restricted	3,859,359.42	9,582,073.85	(5,722,714.43)
Unrestricted	1,998,633.55	1,854,466.97	144,166.58
Total Net Assets	\$ 45,494,517.73	\$ 44,326,661.87	\$ 1,167,855.86

Total assets increased by \$2,518,816.30 or 5.25%. This increase is due primarily to an increase in capital assets of \$6,711,078.63 as a result of continuing construction projects. The continuing construction also caused a decrease in restricted cash and cash equivalents of \$1,809,633.33 and the restricted due from primary government for State construction bond funds in the amount of \$3,763,477.08.

Capital assets total \$ 39,636,524.76 and are the largest component (78.28 %) of the College's total assets. Included in this category are land, art collections, construction in progress, buildings, machinery and equipment, and general infrastructure, less accumulated depreciation. Net capital assets increased by \$6,711,078.63 as a result of net additions of \$7,713,938.32, less current year depreciation of \$1,002,859.69.

Total liabilities increased by \$1,350,960.44. Accounts payable and accrued liabilities increased by \$1,910,607.67 primarily because of construction project payables. Funds held for others decreased by \$1,004,169.35 because construction funds of \$1,000,000 were expended for a building at the Lincoln Campus. These funds were provided by Lincoln County and were used to construct a building which will be owned by 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 \$27,344,010.47 as compared to the fiscal year 2007 operating loss of \$26,366,459.77. This is an increased loss of \$977,550.70. Colleges will show an operating loss because students do

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 to be nonoperating income. The detailed changes are reflected in the condensed statement below.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2008 and June 30, 2007

	6/30/2008	6/30/2007 As Restated	Change
REVENUES:			
Operating Revenues:			
Student Tuition and Fees, Net	\$ 3,814,084.41	\$ 3,439,580.21	\$ 374,504.20
Grants and Contracts	4,427,837.07	4,170,872.79	256,964.28
Sales and Services, Net	3,269,616.65	2,839,165.26	430,451.39
Other Operating Revenue	108,337.06	28,223.65	80,113.41
Total Operating Revenues	11,619,875.19	10,477,841.91	1,142,033.28
EXPENSES:			
Operating Expenses			
Personal Services	27,282,533.03	25,701,243.46	1,581,289.57
Supplies and Materials	4,927,696.59	4,537,224.01	390,472.58
Services	2,769,394.17	2,293,223.76	476,170.41
Scholarships and Fellowships	1,934,752.71	2,170,077.29	(235,324.58)
Utilities	1,046,649.47	1,051,216.70	(4,567.23)
Depreciation	1,002,859.69	1,091,316.46	(88,456.77)
Total Operating Expenses	38,963,885.66	36,844,301.68	2,119,583.98
Operating Loss	(27,344,010.47)	(26,366,459.77)	(977,550.70)
Nonoperating Revenues (Expenses):			
State Aid and County Appropriations	24,553,184.11	24,596,687.09	(43,502.98)
Noncapital Grants and Gifts	990,069.00	753,386.79	236,682.21
Investment and Other Revenues	365,638.39	252,116.10	113,522.29
State Capital Aid Expense	(3,128,906.00)		(3,128,906.00)
Total Nonoperating Revenues	22,779,985.50	25,602,189.98	(2,822,204.48)
Loss Before Other Revenues	(4,564,024.97)	(764,269.79)	(3,799,755.18)
Capital Aid, Grants, and Gifts	5,693,423.17	5,769,802.57	(76,379.40)
Additions to Endowment	38,457.66	1,227,307.87	(1,188,850.21)
Increase in Net Assets	1,167,855.86	6,232,840.65	(5,064,984.79)
NET ASSETS			
Net Assets - Beginning of Year (As Restated)	44,326,661.87	38,093,821.22	6,232,840.65
Net Assets - End of Year	\$ 45,494,517.73	\$ 44,326,661.87	\$ 1,167,855.86

Tuition and fees increased slightly because of an increase in number of students attending in the current year. Federal grants and contracts also increased slightly because of change in the number of eligible students attending the college.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating expenses increased by \$2,119,583.98 or 5.75%. Personal services increased by \$1,581,289.57 (6.15%) reflecting the board of trustees approved 5 percent salary increases for faculty and professional staff as well as a 4 percent increase for all other employees. Additionally, a 1 percent board approved salary increase for non-faculty and non-professional staff was awarded. Supplies and materials increased by \$390,472.58 reflecting additional machinery and equipment purchases.

Capital Activities

The College continues to complete extensive building improvements to meet increased student enrollment. In fiscal year 2007-08, the College completed projects valued at \$897,000. These projects included a driving track, energy management additions and renovations. Construction in progress totaled \$7,408,944.16, an increase of over \$6 million over fiscal year 2006-07. Construction costs related to the Belk Health Building, Lincoln Science Building and East Campus account for \$6,839,708.86 or 93% of total construction in progress. Outstanding commitments on construction contracts were \$7,922,273.67.

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 \$1,167,855.86. This increase is due primarily to the receipt of State, county and contributed capital revenues of \$5,693,423.17 which was reduced by the refund of capital appropriations of \$3,128,906. These funds were used for building construction projects and equipment purchases. The refund of capital appropriations resulted from postponing State bond revenue received in the prior year to a future period for alternative construction projects. The College chose to use County bond construction funding and postpone the use of State bond construction funding.

Unless a college receives funds to construct buildings, as it did this year, there would have been a net decrease in net assets each year because of depreciation expense.

Currently Known Facts – Gaston Community College has experienced a slight increase in enrollment growth. 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 appropriations for the upcoming year have been affected by a slowdown in the economy. The final impact of the local and national economy on the appropriation for the College is uncertain. However, the College has a positive outlook that growth will continue.

Gaston College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,547,668.94
Restricted Cash and Cash Equivalents	2,086,353.30
Receivables (Note 4)	1,097,488.56
Inventories	443,712.18
Prepaid Items	1,000.00
	<hr/>
Total Current Assets	6,176,222.98

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,119,434.79
Receivables (Note 4)	190,815.58
Restricted Due from Primary Government	2,359,420.88
Restricted Investments	34,705.00
Capital Assets - Nondepreciable (Note 5)	8,256,161.16
Capital Assets - Depreciable, Net (Note 5)	31,380,363.60
	<hr/>
Total Noncurrent Assets	44,340,901.01

Total Assets	<hr/> <hr/> 50,517,123.99
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,400,979.51
Unearned Revenue	852,730.46
Funds Held for Others	40,338.86
Long-Term Liabilities - Current Portion (Note 7)	79,201.71
	<hr/>
Total Current Liabilities	3,373,250.54

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,649,355.72
	<hr/>

Total Liabilities	<hr/> <hr/> 5,022,606.26
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NET ASSETS

Invested in Capital Assets	39,636,524.76
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,002,177.80
Expendable:	
Scholarships and Fellowships	821,441.53
Capital Projects	2,035,740.09
Unrestricted	<hr/> 1,998,633.55
Total Net Assets	<hr/> <hr/> <hr/> \$ 45,494,517.73

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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 3,814,084.41
Federal Grants and Contracts	4,178,857.45
State and Local Grants and Contracts	248,979.62
Sales and Services, Net (Note 9)	3,269,616.65
Other Operating Revenues	108,337.06

Total Operating Revenues	11,619,875.19
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EXPENSES

Operating Expenses:

Personal Services	27,282,533.03
Supplies and Materials	4,927,696.59
Services	2,769,394.17
Scholarships and Fellowships	1,934,752.71
Utilities	1,046,649.47
Depreciation	1,002,859.69

Total Operating Expenses	38,963,885.66
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Operating Loss	(27,344,010.47)
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NONOPERATING REVENUES (EXPENSES)

State Aid	20,744,667.11
County Appropriations	3,808,517.00
Noncapital Grants	243,612.02
Noncapital Gifts	746,456.98
Investment Income, Net	346,213.27
Other Nonoperating Revenues	19,425.12
State Capital Aid Expense	(3,128,906.00)

Net Nonoperating Revenues	22,779,985.50
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Income Before Other Revenues and Expenses	(4,564,024.97)
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State Capital Aid	838,632.76
County Capital Aid	4,510,171.19
Capital Grants	206,513.00
Capital Gifts	138,106.22
Additions to Endowments	38,457.66

Increase in Net Assets	1,167,855.86
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NET ASSETS

Net Assets, July 1, 2007	43,963,516.89
Restatement, Note 17	363,144.98

Net Assets, June 30, 2008	\$ 45,494,517.73
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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, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 11,805,704.48
Payments to Employees and Fringe Benefits	(27,146,185.60)
Payments to Vendors and Suppliers	(8,758,223.91)
Payments for Scholarships and Fellowships	(2,062,156.63)
Other Payments	(843,870.57)
	<hr/>
Net Cash Used by Operating Activities	(27,004,732.23)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	20,744,667.11
County Appropriations	3,808,517.00
Noncapital Grants Received	647,821.12
Noncapital Gifts and Endowments Received	620,626.40
	<hr/>
Cash Provided by Noncapital Financing Activities	25,821,631.63

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,473,203.84
County Capital Aid	4,510,171.19
Capital Grants Received	189,649.64
Capital Gifts Received	471,080.94
Acquisition and Construction of Capital Assets	(6,136,941.69)
Principal Paid on Capital Leases	(35,325.08)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	471,838.84

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	343,083.53
	<hr/>

Net Decrease in Cash and Cash Equivalents	(368,178.23)
Cash and Cash Equivalents, July 1, 2007	7,121,635.26
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 6,753,457.03
	<hr/> <hr/>

Gaston College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3
Page 2

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

Operating Loss	\$ (27,344,010.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,002,859.69
Miscellaneous Nonoperating Income	160,298.78
Changes in Assets and Liabilities:	
Receivables, Net	(20,922.77)
Inventories	(25,424.90)
Prepaid Items	(1,000.00)
Accounts Payable and Accrued Liabilities	45,143.77
Unearned Revenue	79,348.14
Funds Held for Others	(1,004,169.35)
Compensated Absences	103,144.88
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (27,004,732.23)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,547,668.94
Restricted Cash and Cash Equivalents	2,086,353.30
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/> 2,119,434.79
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 6,753,457.03</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 1,729,680.03
Change in Fair Value of Investments	3,129.74
Increase in Receivables Related to Nonoperating Income	21,890.29
Capital Asset Write-Offs	352,999.46

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Blended Component Unit - Although legally separate, 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 of a life insurance policy. Investments generally are reported at fair value, as determined by quoted market prices or an estimated 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

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 the first-in, first-out, method for Current Unrestricted General Funds and moving weighted average for Current Proprietary Funds. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

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

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 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 - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 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 - This represents the College's total investment in capital assets.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 centers 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 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 \$4,534.00, and deposits in private financial institutions with a carrying value of \$1,273,715.15, and a bank balance of \$1,490,181.84.

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, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,475,207.88, 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 2.9 years as of June 30, 2008. 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.

At June 30, 2008, the \$34,705.00 shown as investments on the Statement of Net Assets represents the cash-surrender value of a life insurance policy.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on Hand	\$	4,534.00
Carrying Amount of Deposits with Private Financial Institutions		1,273,715.15
Investments in the Short Term Investment Fund		5,475,207.88
Cash Value of Life Insurance		34,705.00
		<u>34,705.00</u>
Total Deposits and Investments	\$	<u>6,788,162.03</u>
Current:		
Cash and Cash Equivalents	\$	2,547,668.94
Restricted Cash and Cash Equivalents		2,086,353.30
Noncurrent:		
Restricted Cash and Cash Equivalents		2,119,434.79
Restricted Investments		34,705.00
		<u>34,705.00</u>
Total	\$	<u>6,788,162.03</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 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, 2008, net appreciation of \$110,627.72 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 919,573.87	\$ 664,700.00	\$ 254,873.87
Accounts	245,929.53		245,929.53
Intergovernmental	252,889.16		252,889.16
Pledges	343,796.00		343,796.00
	<u>1,762,188.56</u>	<u>664,700.00</u>	<u>1,097,488.56</u>
Total Current Receivables	<u>\$ 1,762,188.56</u>	<u>\$ 664,700.00</u>	<u>\$ 1,097,488.56</u>
Noncurrent Receivables:			
Pledges	\$ 190,815.58	\$ 0.00	\$ 190,815.58
	<u>190,815.58</u>	<u>0.00</u>	<u>190,815.58</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
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	1,129,041.35	7,177,568.44	897,665.63	7,408,944.16
Total Capital Assets, Nondepreciable	1,976,258.35	7,177,568.44	897,665.63	8,256,161.16
Capital Assets, Depreciable:				
Buildings	38,522,298.62	65,800.00	16,973.68	38,571,124.94
Machinery and Equipment	4,127,403.27	669,876.54	233,285.50	4,563,994.31
General Infrastructure	1,986,467.31	839,232.63	102,740.28	2,722,959.66
Total Capital Assets, Depreciable	44,636,169.20	1,574,909.17	352,999.46	45,858,078.91
Less Accumulated Depreciation:				
Buildings	11,301,830.38	813,296.75	9,736.09	12,105,391.04
Machinery and Equipment	1,773,339.58	145,071.75	136,685.61	1,781,725.72
General Infrastructure	611,811.46	44,491.19	65,704.10	590,598.55
Total Accumulated Depreciation	13,686,981.42	1,002,859.69	212,125.80	14,477,715.31
Total Capital Assets, Depreciable, Net	30,949,187.78	572,049.48	140,873.66	31,380,363.60
Capital Assets, Net	\$ 32,925,446.13	\$ 7,749,617.92	\$ 1,038,539.29	\$ 39,636,524.76

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 1,637,580.58
Accrued Payroll	262,400.89
Contract Retainage	326,885.87
Intergovernmental Payables	174,112.17
Total Accounts Payable and Accrued Liabilities	\$ 2,400,979.51

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Capital Leases Payable	\$ 35,325.08	\$ 0.00	\$ 35,325.08	\$ 0.00	\$ 0.00
Compensated Absences	1,614,231.55	840,382.27	726,056.39	1,728,557.43	79,201.71
Annuities Payable	11,181.00		11,181.00		
Total Long-Term Liabilities	\$ 1,660,737.63	\$ 840,382.27	\$ 772,562.47	\$ 1,728,557.43	\$ 79,201.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	\$ 117,703.80
2010	105,703.80
2011	68,738.76
2012	4,843.61
Total Minimum Lease Payments	\$ 296,989.97

Rental expense for all operating leases during the year was \$117,703.80.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 5,288,682.09	\$ 0.00	\$ 1,435,997.68	\$ 38,600.00	\$ 3,814,084.41
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 209,704.16	\$ 17,584.44	\$ 0.00	\$ 0.00	\$ 192,119.72
Fire Training	258,554.15				258,554.15
Childcare	374,843.95			(100.00)	374,943.95
Bookstore	3,114,884.41	73,332.57	962,689.65	(47,000.00)	2,125,862.19
Print Shop	397,383.51	387,452.89			9,930.62
Textile Testing	241,881.06				241,881.06
Vending	66,324.96				66,324.96
Total Sales and Services	\$ 4,663,576.20	\$ 478,369.90	\$ 962,689.65	\$ (47,100.00)	\$ 3,269,616.65

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	\$ 14,941,773.96	\$ 863,386.57	\$ 620,318.26	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,425,478.79
Academic Support	3,979,018.21	78,276.77	341,326.98				4,398,621.96
Student Services	1,882,995.61	34,595.72	109,830.53				2,027,421.86
Institutional Support	3,154,025.91	241,211.38	836,222.87				4,231,460.16
Operations and Maintenance of Plant	1,940,797.41	896,297.26	547,486.58				3,384,581.25
Student Financial Aid	60,677.82			1,934,752.71			1,995,430.53
Auxiliary Enterprises	1,323,244.11	2,813,928.89	314,208.95		1,046,649.47		5,498,031.42
Depreciation						1,002,859.69	1,002,859.69
Total Operating Expenses	<u>\$ 27,282,533.03</u>	<u>\$ 4,927,696.59</u>	<u>\$ 2,769,394.17</u>	<u>\$ 1,934,752.71</u>	<u>\$ 1,046,649.47</u>	<u>\$ 1,002,859.69</u>	<u>\$ 38,963,885.66</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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members

For the current fiscal year, the College had a total payroll of \$18,635,003.83, of which \$18,420,179.04 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$561,815.46 and \$1,105,210.74, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$561,815.46, \$466,643.99, and \$378,979.08, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.ncosc.net/> 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, 2008, were \$13,061.16. The voluntary contributions by employees amounted to \$372,148.00 for the year ended June 30, 2008.

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 \$75,360.28 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$755,227.34, \$666,634.26, and \$615,436.11, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$95,784.93, \$91,223.64, and \$84,217.57, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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 \$1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the deductible. Losses from employee dishonesty and computer fraud for employees paid from County and institutional 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. The College purchased School Leaders Errors and Omissions Liability Coverage which covers Equal Employment Opportunity Commission complaints. The policy carries a \$2,500 deductible for each occurrence. 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. The significant encumbrances outstanding at June 30, 2008 were commitments on construction contracts of \$7,922,273.67.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - RELATED PARTIES

The North Carolina Center for Applied Textile Technology, Inc. (NCCATT) is a separately incorporated nonprofit organization associated with the College. This organization serves as the primary fundraising arm of the 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 NCCATT, except for the distributions made and benefits provided to the College. No distributions were received nor benefits provided in the fiscal year ended June 30, 2008.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 50, Pension Disclosures.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50 aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

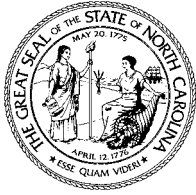
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 43,963,516.89
Correction of Error in Recording Unearned Revenue	<u>363,144.98</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 44,326,661.87</u></u>

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Beth A. Wood, CPA
State Auditor

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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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 24, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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

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ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 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 deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control 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, we do not believe that the significant deficiency described above is 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

**INDEPENDENT AUDITOR'S REPORT
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This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, 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.



Beth A. Wood, CPA
State Auditor

March 24, 2010

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control. A financial reporting finding was also reported in the prior year audit.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements contained several misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

- a. The College overstated the restricted nonexpendable portion of its blended foundation's net assets by \$1,651,149, with corresponding understatements of \$1,259,426 in unrestricted net assets and \$391,723 in restricted expendable net assets.
- b. The College overstated nondepreciable capital assets by \$1,000,000.00 when expenses funded by Lincoln County (County) were capitalized in error. These expenses were incurred as part of a construction project for a building that is owned by the County. The College will lease this building from the County at the end of construction and will record leasehold improvements for the portion of the construction that the College is funding. Invested in capital assets was also overstated by the \$1,000,000.00 and supplies and materials expenses were understated by same amount.
- c. The College understated unearned revenue and understated the receivables by \$231,769.41. The receivable was netted into the liability account in error.

Management's discussion and analysis and the notes to the financial statements were also adjusted for these misstatements.

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 personnel should review authoritative guidance related to accounting for restricted funds.

Response: The College concurs with the audit finding and recommendation. College personnel will modify the year-end financial reporting process and implement more effective internal controls in order to ensure the completeness and accuracy of the financial statements. Also, the college has recently hired two accounting professionals in positions that have been vacant for over a year which should help implement these controls and eliminate these recommendations in the future.

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