

# STATE OF NORTH CAROLINA

**GASTON COLLEGE**

**DALLAS, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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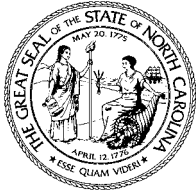
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. 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, 2010, 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 a deficiency that is 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.

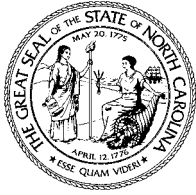
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets .....	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	8
A-3 Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	29
AUDIT FINDINGS AND RESPONSES .....	31
ORDERING INFORMATION .....	33



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**INDEPENDENT AUDITOR'S REPORT**

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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, 2010, 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 represents 12.5 percent, 12.9 percent, and 5.8 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, 2010, 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.

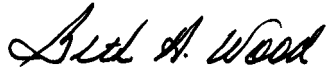
As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

February 23, 2011

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

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The following is a discussion and analysis of Gaston College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2010. The College's financial statements are blended with the Gaston College Foundation Inc. (Foundation). The Foundation exists to assist the College and its students.

### **Overview of the Financial Statements**

This discussion and analysis is an introduction to the College's basic financial statements. The College's basic financial statements include Statement of Net Assets, Statement of Revenues, Expenses, and Change in Net Assets, and Statement of Cash Flows. The financial statements are accompanied by Notes to the Financial Statements that explain and provide more detail on the information in the statements.

The Statement of Net Assets presents information on the College's assets, liabilities and net assets with the difference between the two reported as net assets. Over time, increases or 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 describe changes in the College's net assets during the fiscal year. Revenues and expenses are presented in a format that distinguishes between operating and nonoperating revenues and expenses.

The Statement of Cash Flows provides detail on the College's cash activity for the year. The direct method is used to present cash flows.

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**

As noted earlier, net assets serve as a useful indicator of the College's financial position. In the case of Gaston College, net assets increased by \$11,858,223.15. The increase represents approximately a 21 percent (21.10%) increase over the prior reporting period. There are several contributing factors that can explain this change. There was an increase in capital assets of \$6,975,129.65 primarily due to the completion of the Robinson General Classroom Building, the cash balance increased by \$2,251,940.82, and receivables increased by \$2,642,412.86. Cash and receivables increased as a result of a three million dollar contribution to the Foundation as well as an increase in lab, technology and transcript fee income and an increase in proprietary activity net income due to bookstore sales.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets For the Fiscal Years Ended June 30, 2010 and June 30, 2009

	2010	Restated 2009	Change	% Change
<b>ASSETS:</b>				
Current & Other Noncurrent Assets	\$ 17,942,365.56	\$ 13,048,011.88	\$ 4,894,353.68	37.51%
Capital Assets, Net	54,248,124.50	47,272,994.85	6,975,129.65	14.75%
<b>Total Assets</b>	<b>72,190,490.06</b>	<b>60,321,006.73</b>	<b>11,869,483.33</b>	<b>19.68%</b>
<b>LIABILITIES:</b>				
Long-Term Liabilities	1,500,900.69	1,629,930.19	(129,029.50)	-7.92%
Other Liabilities	2,644,053.06	2,503,763.38	140,289.68	5.60%
<b>Total Liabilities</b>	<b>4,144,953.75</b>	<b>4,133,693.57</b>	<b>11,260.18</b>	<b>0.27%</b>
<b>NET ASSETS:</b>				
Invested in Capital Assets	54,248,124.50	47,272,994.85	6,975,129.65	14.75%
Restricted	6,773,733.90	8,278,454.52	(1,504,720.62)	-18.18%
Unrestricted	7,023,677.91	635,863.79	6,387,814.12	1004.59%
<b>Total Net Assets</b>	<b>\$ 68,045,536.31</b>	<b>\$ 56,187,313.16</b>	<b>\$ 11,858,223.15</b>	<b>21.10%</b>

The value of capital assets of \$54,248,124.50 is the largest component, eighty percent (79.7%) of the College's total net assets. Included in this category are land, art collection, buildings, machinery and equipment, and general infrastructure, less accumulated depreciation. The investment in capital assets increased by \$6,975,129.65 primarily as a result of net additions of \$7,927,186.44 for the Robinson General Classroom Building, less current year depreciation of \$952,056.79.

In addition ten percent (10.3%) of net assets are unrestricted (\$7,023,677.91) and may be used to meet the College's ongoing obligations to citizens and creditors. Unrestricted net assets have increased as a result of Foundation contributions, accumulated fees and net income from proprietary activities. The remaining ten percent (10%) of Gaston College's net assets (restricted net assets \$6,773,733.90) represent resources that are subject to external restrictions as to how they may be used.

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

Total operating revenues increased by thirty-eight percent (38.36%) due to an eighty-nine percent increase in student tuition and fees caused by increased student enrollment and a tuition increase of eight dollars per credit hour. Nonoperating revenues had an increase of twenty-three percent (23.19%). Noncapital gifts increased as a result of a substantial gift to the Foundation of \$2,924,282.46 from the W. Duke Kimbrell Foundation. Operating expenses increased by thirteen percent (13.48%). The contributing factors were personnel services which increased by \$1,186,431.70, reflecting the cost of additional teaching personnel; supplies and materials costs increased by \$893,024.42 due to an increase in Bookstore merchandise purchases to accommodate the increased enrollment; and services increased by \$689,112.05 because of facility maintenance and an increase in other contracted services of \$480,843.91 and project costs of \$150,804.17. Scholarships and Fellowships costs



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

rose by \$3,175,083.74 due to an increase in students receiving Federal Grants, primarily Pell grants. Depreciation expense decreased by \$124,312.27 because the expected useful lives of some buildings were extended.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2010 and June 30, 2009

	2010	Restated 2009	Change	% Change
<b>REVENUES</b>				
Operating Revenues:				
Student Tuition & Fees	\$ 6,565,884.41	\$ 3,478,570.70	\$ 3,087,313.71	88.75%
Grants and Contracts	394,257.28	385,669.08	8,588.20	2.23%
Sales and Services	3,942,985.06	3,950,168.94	(7,183.88)	-0.18%
Other Operating Revenue	99,579.41	137,852.95	(38,273.54)	-27.76%
<b>Total Operating Revenue</b>	<b>11,002,706.16</b>	<b>7,952,261.67</b>	<b>3,050,444.49</b>	<b>38.36%</b>
<b>EXPENSES</b>				
Operating Expenses:				
Personal Services	30,189,805.10	29,003,373.40	1,186,431.70	4.09%
Supplies and Materials	7,618,109.17	6,725,084.75	893,024.42	13.28%
Services	3,628,709.95	2,939,597.90	689,112.05	23.44%
Scholarships & Fellowships	6,298,817.67	3,123,733.93	3,175,083.74	101.64%
Utilities	1,124,142.97	1,025,455.60	98,687.37	9.62%
Depreciation	952,056.79	1,076,369.06	(124,312.27)	-11.55%
<b>Total Operating Expenses</b>	<b>49,811,641.65</b>	<b>43,893,614.64</b>	<b>5,918,027.01</b>	<b>13.48%</b>
<b>Operating Loss</b>	<b>(38,808,935.49)</b>	<b>(35,941,352.97)</b>	<b>(2,867,582.52)</b>	<b>7.98%</b>
<b>Nonoperating Revenues:</b>				
State Aid and County Appropriations	25,051,019.63	25,684,501.66	(633,482.03)	-2.47%
Noncapital Grants and Gifts	14,964,089.18	6,708,129.88	8,255,959.30	123.07%
Other Nonoperating Expenses	(4,734.12)	(30,606.63)	25,872.51	-84.53%
Investment and Other Income	84,812.12	184,275.63	(99,463.51)	-53.98%
<b>Total Nonoperating Revenues</b>	<b>40,095,186.81</b>	<b>32,546,300.54</b>	<b>7,548,886.27</b>	<b>23.19%</b>
<b>Gain/(Loss) before Other Revenues, Expenses, Gains or Losses</b>	<b>1,286,251.32</b>	<b>(3,395,052.43)</b>	<b>4,681,303.75</b>	<b>-137.89%</b>
State and County Capital Aid	9,769,266.58	11,824,333.14	(2,055,066.56)	-17.38%
Capital Grants & Gifts	414,989.70	794,612.18	(379,622.48)	-47.77%
Additions to Endowment	387,715.55	9,036.42	378,679.13	4190.59%
<b>Increase in Net Assets</b>	<b>11,858,223.15</b>	<b>9,232,929.31</b>	<b>2,625,293.84</b>	<b>28.43%</b>
<b>NET ASSETS</b>				
Net Assets - Beginning of Year, as Restated	56,187,313.16	46,954,383.85	9,232,929.31	19.66%
<b>Net Assets - End of Year</b>	<b>\$ 68,045,536.31</b>	<b>\$ 56,187,313.16</b>	<b>\$ 11,858,223.15</b>	<b>21.10%</b>

The following is a comparative analysis of the condensed Statement of Cash Flows for fiscal years ended June 30, 2009 and 2010. The Statement of Cash Flows provides information about cash receipts and cash payments made during the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Condensed Statement of Cash Flow For the Fiscal Years Ended June 30, 2010 and June 30, 2009

	<u>2010</u>	<u>Restated 2009</u>	<u>Change</u>	<u>% Change</u>
<b>Cash Provided (Used) by</b>				
Operating Activities	\$ (37,745,128.83)	\$ (34,572,966.67)	\$ (3,172,162.16)	9.18%
Noncapital Financing Activities	38,662,337.96	32,009,290.85	6,653,047.11	20.78%
Capital Financing Activities	1,250,525.35	2,581,718.27	(1,331,192.92)	-51.56%
Investing Activities	84,206.34	183,720.21	(99,513.87)	-54.17%
Net Change in Cash	2,251,940.82	201,762.66	2,050,178.16	1016.13%
Cash, Beginning of Year	6,955,219.69	6,753,457.03	201,762.66	2.99%
Cash, End of Year	<u>\$ 9,207,160.51</u>	<u>\$ 6,955,219.69</u>	<u>\$ 2,251,940.82</u>	32.38%

### Cash Flow Analysis

Capital financing activities decreased by \$1,331,192.92 as state capital aid, including bond funds, decreased \$1,649,984.28 and capital grants and gifts decreased by \$935,080.34. These decreases were partially offset by an increase in county capital aid of \$1,233,032.16. Noncapital financing activities increased by \$6,653,047.11 which is due to an increase in the amount of Pell funds and Foundation gifts received in the current year.

### Capital Assets

Gaston College's investment in capital assets as of June 30, 2010 amounts to \$54,248,124.50 (net of depreciation). The investments include land, buildings, art, machinery/equipment and general infrastructure. Gaston College's investment in capital assets experienced a net increase of fifteen percent (14.75%) for the current fiscal year. The increase was due to the addition of the Robinson Classroom building.

### Final Analysis

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 was an increase in net assets of \$11,858,223.15. This increase is due primarily to the receipt of state, county and contributed capital revenues of \$9,769,266.58. These funds were used for primarily for construction and equipment related to the Belk Health Institute, \$1,059,550.58, and the Robinson General Classroom Building, \$6,284,290.

Tuition and fees increased due to an increase in student enrollment and an increase in the cost per credit hour. Operating expenses increased by \$5,918,027.01 or thirteen percent because scholarships doubled in amount from the previous year.

Gaston College has experienced an increase in enrollment growth during the fall 2010 term. The economic position of the College is closely tied to that of the State of North Carolina and the counties of Lincoln and Gaston. State appropriations for the 2011-2012 fiscal years are likely to decrease due to a state budget shortfall and this will impact support received from the State. The College anticipates enrollment growth to slow in the coming year.

***Gaston College***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,659,349.81
Restricted Cash and Cash Equivalents	1,404,741.97
Receivables, Net (Note 4)	3,343,774.76
Due from State of North Carolina Component Units	78,794.00
Inventories	593,739.39
	<hr/>
Total Current Assets	9,080,399.93
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,143,068.73
Receivables (Note 4)	974,282.46
Restricted Due from Primary Government	3,708,748.24
Restricted Investments	35,866.20
Capital Assets - Nondepreciable (Note 5)	8,443,220.57
Capital Assets - Depreciable, Net (Note 5)	45,804,903.93
	<hr/>
Total Noncurrent Assets	63,110,090.13
	<hr/>
Total Assets	72,190,490.06
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,324,868.83
Unearned Revenue	1,038,841.10
Funds Held for Others	103,177.15
Long-Term Liabilities - Current Portion (Note 7)	177,165.98
	<hr/>
Total Current Liabilities	2,644,053.06
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,500,900.69
	<hr/>
Total Liabilities	4,144,953.75
	<hr/>

**NET ASSETS**

Invested in Capital Assets	54,248,124.50
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,393,510.31
Expendable:	
Scholarships and Fellowships	491,460.99
Capital Projects	4,436,534.69
Other	452,227.91
	<hr/>
Unrestricted	7,023,677.91
	<hr/>
Total Net Assets	\$ 68,045,536.31
	<hr/> <hr/>

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

***Gaston College***  
***Statement of Revenues, Expenses, and***  
***Changes in Net Assets***  
***For the Fiscal Year Ended June 30, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 6,565,884.41
State and Local Grants and Contracts	394,257.28
Sales and Services, Net (Note 9)	3,942,985.06
Other Operating Revenues	99,579.41

Total Operating Revenues	11,002,706.16
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	30,189,805.10
Supplies and Materials	7,618,109.17
Services	3,628,709.95
Scholarships and Fellowships	6,298,817.67
Utilities	1,124,142.97
Depreciation	952,056.79

Total Operating Expenses	49,811,641.65
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Operating Loss	(38,808,935.49)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	20,862,296.63
County Appropriations	4,188,723.00
Noncapital Grants - Federal Student Financial Aid	11,113,095.93
Noncapital Grants	752,853.55
Noncapital Gifts	3,098,139.70
Investment Income	84,812.12
Other Nonoperating Expenses	(4,734.12)

Net Nonoperating Revenues	40,095,186.81
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Income Before Other Revenues, Expenses, Gains, and Losses	1,286,251.32
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State Capital Aid	1,249,583.53
County Capital Aid	8,519,683.05
Capital Grants	381,442.29
Capital Gifts	33,547.41
Additions to Endowments	387,715.55

Increase in Net Assets	11,858,223.15
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**NET ASSETS**

Net Assets, July 1, 2009 as Restated (Note 17)	56,187,313.16
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Net Assets, June 30, 2010	\$ 68,045,536.31
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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, 2010***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 10,053,476.51
Payments to Employees and Fringe Benefits	(30,182,155.26)
Payments to Vendors and Suppliers	(11,927,301.89)
Payments for Scholarships and Fellowships	(5,761,647.18)
Other Receipts	72,498.99
	<hr/>
Net Cash Used by Operating Activities	<u>(37,745,128.83)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	20,862,296.63
County Appropriations	4,188,723.00
Noncapital Grants - Federal Student Financial Aid	11,056,626.82
Noncapital Grants Received	905,925.61
Noncapital Gifts and Endowments Received	1,648,765.90
	<hr/>
Cash Provided by Noncapital Financing Activities	<u>38,662,337.96</u>

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

State Capital Aid Received	1,607,722.19
County Capital Aid	8,092,192.66
Capital Grants Received	133,582.29
Capital Gifts Received	19,949.18
Proceeds from Sale of Capital Assets	5,750.00
Acquisition and Construction of Capital Assets	(8,608,670.97)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	<u>1,250,525.35</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	84,206.34
	<hr/>
Cash Provided by Investing Activities	<u>84,206.34</u>

Net Increase in Cash and Cash Equivalents	2,251,940.82
Cash and Cash Equivalents, July 1, 2009	6,955,219.69
	<hr/>
Cash and Cash Equivalents, June 30, 2010	<u>\$ 9,207,160.51</u>

***Gaston College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2010***

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

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

Operating Loss	\$ (38,808,935.49)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	952,056.79
Miscellaneous Nonoperating Income	16,175.97
Changes in Assets and Liabilities:	
Receivables, Net	(454,356.83)
Inventories	(136,774.08)
Accounts Payable and Accrued Liabilities	655,937.46
Unearned Revenue	42,297.67
Funds Held for Others	56,323.02
Compensated Absences	(67,853.34)
	<u>(67,853.34)</u>
Net Cash Used by Operating Activities	<u>\$ (37,745,128.83)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,659,349.81
Restricted Cash and Cash Equivalents	1,404,741.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>4,143,068.73</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 9,207,160.51</u>

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

Assets Acquired through Assumption of a Liability	\$ 158,290.65
Assets Acquired through a Gift	59,207.49
Change in Fair Value of Investments	605.78
Increase in Receivables Related to Nonoperating Income	2,550,020.83
Capital Asset Write-Offs	51,269.18

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

**GASTON COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 College's component unit is blended in the College's financial statements. 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 Units** - Although legally separate, The Gaston College Foundation, Inc. is reported as if it was part of the College. The Foundation is governed by a twelve member board all of whom are appointed by the College's Board of Trustees but a majority of whom must be non-trustee 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 appointed 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 704-922-6309. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- 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.
- 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)

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

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the moving weighted average 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 method over the estimated useful lives of the assets, generally 40 to 75 years for general infrastructure, 40 to 75 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

The Rauch 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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funding is transactional based within the departmental management system in place at the College.

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

**N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

**O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstore, copy 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,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 current appropriations revert at the end of the year. Lincoln County appropriations do not revert and are available for future use by the College as approved by the county commissioners.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$4,676.77, and deposits in private financial institutions with a carrying value of \$2,677,034.29, and a bank balance of \$2,692,228.22.

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, 2010, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$6,525,449.45, 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, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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At June 30, 2010 the \$35,866.20 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, 2010, is as follows:

Cash on Hand	\$	4,676.77
Carrying Amount of Deposits with Private Financial Institutions		2,677,034.29
Investments in the Short-Term Investment Fund		6,525,449.45
Cash Surrender Value of Life Insurance		<u>35,866.20</u>
Total Deposits and Investments	\$	<u>9,243,026.71</u>
Current:		
Cash and Cash Equivalents	\$	3,659,349.81
Restricted Cash and Cash Equivalents		1,404,741.97
Noncurrent:		
Restricted Cash and Cash Equivalents		4,143,068.73
Restricted Investments		<u>35,866.20</u>
Total	\$	<u>9,243,026.71</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, 2010, net appreciation of \$88,399.85 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, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,357,245.25	\$ 951,500.00	\$ 1,405,745.25
Accounts	137,009.89		137,009.89
Intergovernmental	740,418.50		740,418.50
Pledges	1,059,789.16		1,059,789.16
Other	811.96		811.96
<b>Total Current Receivables</b>	<b>\$ 4,295,274.76</b>	<b>\$ 951,500.00</b>	<b>\$ 3,343,774.76</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 974,282.46	\$ 0.00	\$ 974,282.46

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 914,605.00	\$ 60,000.00	\$ 0.00	\$ 974,605.00
Art, Literature, and Artifacts	54,729.00			54,729.00
Construction in Progress	11,811,767.79	7,570,687.26	11,968,568.48	7,413,886.57
<b>Total Capital Assets, Nondepreciable</b>	<b>12,781,101.79</b>	<b>7,630,687.26</b>	<b>11,968,568.48</b>	<b>8,443,220.57</b>
Capital Assets, Depreciable:				
Buildings	42,495,058.72	11,194,091.78		53,689,150.50
Machinery and Equipment	4,564,108.32	323,159.27	78,962.98	4,808,304.61
General Infrastructure	2,930,347.77	774,476.70		3,704,824.47
<b>Total Capital Assets, Depreciable</b>	<b>49,989,514.81</b>	<b>12,291,727.75</b>	<b>78,962.98</b>	<b>62,202,279.58</b>
Less Accumulated Depreciation				
Buildings	12,946,859.38	679,447.53		13,626,306.91
Machinery and Equipment	1,899,382.44	205,575.19	52,302.89	2,052,654.74
General Infrastructure	651,379.93	67,034.07		718,414.00
<b>Total Accumulated Depreciation</b>	<b>15,497,621.75</b>	<b>952,056.79</b>	<b>52,302.89</b>	<b>16,397,375.65</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>34,491,893.06</b>	<b>11,339,670.96</b>	<b>26,660.09</b>	<b>45,804,903.93</b>
<b>Capital Assets, Net</b>	<b>\$ 47,272,994.85</b>	<b>\$ 18,970,358.22</b>	<b>\$ 11,995,228.57</b>	<b>\$ 54,248,124.50</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 792,088.35
Accrued Payroll	358,397.35
Contract Retainage	158,290.65
Other	16,092.48
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,324,868.83</b>

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 1,745,920.01	\$ 918,359.73	\$ 986,213.07	\$ 1,678,066.67	\$ 177,165.98

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for facilities and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 108,459.86
2012	48,000.00
2013	48,480.00
2014	49,934.40
2015	33,948.80
Total Minimum Lease Payments	\$ 288,823.06

Rental expense for all operating leases during the year was \$155,453.27.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 9,734,941.73	\$ 0.00	\$ 3,112,157.32	\$ 56,900.00	\$ 6,565,884.41
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 233,792.16	\$ 18,193.19	\$ 0.00	\$ 0.00	\$ 215,598.97
Vending	81,106.33				81,106.33
Childcare	248,704.04			22,300.00	226,404.04
Bookstore	4,679,138.21	57,310.00	2,145,781.76	21,000.00	2,455,046.45
Fire Training	245,036.69			1,979.00	243,057.69
Textile Testing	717,371.61			7,921.00	709,450.61
Printshop	409,668.22	397,347.25			12,320.97
<b>Total Sales and Services</b>	<u>\$ 6,614,817.26</u>	<u>\$ 472,850.44</u>	<u>\$ 2,145,781.76</u>	<u>\$ 53,200.00</u>	<u>\$ 3,942,985.06</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 16,663,527.16	\$ 1,631,370.96	\$ 774,810.50	\$ 0.00	\$ 0.00	\$ 0.00	\$ 19,069,708.62
Academic Support	3,462,304.66	130,429.99	261,629.91				3,854,364.56
Student Services	2,159,880.30	168,489.71	112,342.92				2,440,712.93
Institutional Support	3,973,139.01	718,441.76	1,249,276.61				5,940,857.38
Operations & Maintenance of Plant	2,121,646.39	802,866.72	862,775.14		1,124,142.97		4,911,431.22
Student Financial Aid	127,130.00			6,298,817.67			6,425,947.67
Auxiliary Enterprises	1,682,177.58	4,166,510.03	367,874.87				6,216,562.48
Depreciation						952,056.79	952,056.79
<b>Total Operating Expenses</b>	<u>\$ 30,189,805.10</u>	<u>\$ 7,618,109.17</u>	<u>\$ 3,628,709.95</u>	<u>\$ 6,298,817.67</u>	<u>\$ 1,124,142.97</u>	<u>\$ 952,056.79</u>	<u>\$ 49,811,641.65</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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$25,050,841.28, of which \$19,605,361.43 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$699,911.40 and \$1,176,321.85, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$699,911.40, \$661,981.96, and \$561,815.46 respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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College. The voluntary contributions by employees amounted to \$47,660 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2010, were \$14,924.76. The voluntary contributions by employees amounted to \$412,392.00 for the year ended June 30, 2010.

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 \$58,435 for the year ended June 30, 2010.

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 of the 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$882,241.26, \$807,775.61, and \$755,227.34, 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$101,947.88, \$102,449.59, and \$95,784.93, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from employee dishonesty for employees paid from county and institutional funds are covered by private insurance company policy with coverage of \$100,000 per occurrence and \$1,000 deductible.

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 Opportunity occurrences. The policy carries a \$2,500 deductible for each occurrence.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 \$1,353,966.35 at June 30, 2010.

### **NOTE 15 - RELATED PARTIES**

The North Carolina Center for Applied Textile Technology, Inc. (NCCATT) is a separately incorporated nonprofit organization associated with the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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This organization serves as a fundraising arm of the College through which individuals, corporations, and other organization 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 operation transactions of NCCATT, except for the distributions made and benefits provided to the College. No distributions were received or benefits provided in the fiscal year ended June 30, 2010.

### NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.*

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

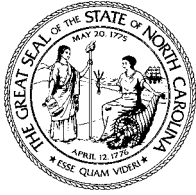
### NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 55,297,728.75
Prior Period Audit Adjustments to Correct Errors:	
Recognition of Tuition and Fees Revenue	462,882.00
Recognition of Restricted Foundation Income	<u>426,702.41</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 56,187,313.16</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**

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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, 2010, and have issued our report thereon dated February 23, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a

**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)**

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

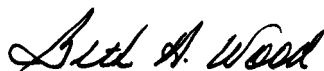
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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 response to the finding identified in our audit is 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

February 23, 2011

## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control.

#### INADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over the payroll and purchasing/accounts payable functions. Inadequate segregation of duties increases the risk of errors or fraud occurring without detection.

The Payroll Specialist entered the pay rates for all employees and had the ability to change pay rates for employees. She also performed a payroll reconciliation process to ensure that all changes were made correctly but there was not an independent review of the reconciliation.

The Accounts Payable Accountant had access to the accounting system that would allow her to create vendors, pay vouchers, and print checks. She also was responsible for preparing the bank reconciliation.

Adequate segregation of duties involves assigning access to computer systems and responsibility for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. Once notified of these deficiencies, the Controller took immediate action to mitigate the incompatible duties.

*Recommendation:* The College should strengthen internal control by ensuring that incompatible duties within its business processes are segregated.

*College Response:* The College concurs with the audit finding and recommendation. Internal controls have been modified to address both the Accounts Payable and Payroll Specialist concerns identified during the audit.

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## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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