STATE OF NORTH CAROLINA

GASTON COLLEGE

DALLAS, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

Gaston College

Dallas, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2012

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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.

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, 2012, 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, 13 percent, and 1 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gaston College Foundation, Inc., is based on the report of the other auditors.

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, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 13, 2013

The following is a discussion and analysis of Gaston College's (College) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2012. The financial statements of Gaston College Foundation, Inc. (Foundation) are blended with Gaston College's financial statements. 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 a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a 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 and liabilities 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 describes 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.

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 $2,682,863.41, or 3.69%, over the prior reporting period. Current assets increased by $2,068,914.07 from the prior year. This is primarily due to an increase in current cash and cash equivalents of $1,916,455.34 as a result of the Foundation collecting $1,050,000.00 in a pledged gift (eliminating pledges receivable) and overall reduced spending on supplies and materials as well as an increase in restricted cash and cash equivalents of $1,117,540.68 relating to state and county bond funds for construction projects.

Capital assets, along with invested in capital assets, increased 10.47% primarily due to an increase in construction in progress additions of $6,807,539.76 relating to the renovation of the Lena Sue Beam Building. Other noncurrent assets decreased by $3,793,326.86, a 38.82% decline. Noncurrent restricted cash and cash equivalents decreased by $2,907,327.39 as a result of the Foundation investing over a million dollars of endowed funds and a reclassification of $446,487.87 of money market funds from cash to restricted investments (increasing restricted investments) as well as a decrease of $1,054,000.00 relating to the Lena Sue Beam Building project. Restricted due from primary government decreased by $2,562,985.85 due to receiving funds during the fiscal year relating to construction projects.

Current liabilities increased 60.57%, and restricted net assets decreased 36.29%. The increase in current liabilities includes an $820,569.48 increase in construction payables and a $186,646.39 liability related to findings from the Department of Education audit of federal financial programs. The decrease in restricted net assets, $3,376,644.49, is also related to construction projects.

Condensed Statement of Net Assets
For the Fiscal Years Ended June 30, 2012 and June 30, 2011

	FY2011-2012	FY2010-2011 (as restated)	Change	% Change
Current Assets	$ 12,720,972.25	$ 10,652,058.18	$ 2,068,914.07	19.42%
Other Noncurrent Assets	5,977,377.47	9,770,704.33	(3,793,326.86)	(38.82%)
Capital Assets, Net	61,810,278.68	55,950,225.70	5,860,052.98	10.47%
Total Assets	80,508,628.40	76,372,988.21	4,135,640.19	5.42%
Current Liabilities	3,365,283.21	2,095,813.56	1,269,469.65	60.57%
Noncurrent Liabilities	1,817,574.48	1,634,267.35	183,307.13	11.22%
Total Liabilities	5,182,857.69	3,730,080.91	1,452,776.78	38.95%
Net Assets				
Invested in Capital Assets	61,810,278.68	55,950,225.70	5,860,052.98	10.47%
Restricted	5,927,424.07	9,304,068.56	(3,376,644.49)	(36.29%)
Unrestricted	7,588,067.96	7,388,613.04	199,454.92	2.70%
Total Net Assets	$ 75,325,770.71	$ 72,642,907.30	$ 2,682,863.41	3.69%

Statement of Revenues, Expenses, and Changes in Net Assets

The comparative Statement of Revenues, Expenses, and Changes in Net Assets reports several significant changes during the 2012 fiscal year. The College's enrollment peaked during the 2010 fiscal year and has since continued to decline. The financial impact of the enrollment decline is often delayed due to a time lag between the enrollment decline and the receipt of state funding. While the financial impact between fiscal years 2010 and 2011 was modest, the reduction from fiscal year 2011 to 2012 was more significant. The College anticipated this funding reduction and focused fiscal year 2011 funding on nonrecurring purchases like equipment, software, and minor equipment. As a result, supplies and materials and state capital aid were both significantly higher for fiscal year 2011.

Total operating revenues decreased by $414,483.93, or 4.35%. Student tuition and fees decreased by $370,805.88 over prior year due to declining enrollment. Other operating revenues decreased by $30,277.94, or 31.43%, due to a decrease in rental income from the childcare center of $33,026.09. The childcare center closed during the fiscal year.

Operating expenses decreased by $1,918,893.99, or 3.46% primarily due to reduced spending on supplies and materials of $1,606,178.83 (as previously explained). Scholarships and fellowships decreased 20.35% due to decreased enrollment and number of students awarded financial aid.

Nonoperating revenues decreased $1,358,853.47, a modest 3.17% decrease. Noncapital grants and gifts decreased 13.00% primarily due to a decrease in noncapital grants - student financial aid of $1,739,633.93 as a result of decreased enrollment. Investment income decreased by $67,347.78 as interest rates continued to remain at low levels and the ongoing shift into equity positions did not generate significant gains. Other nonoperating revenues increased by $124,822.54 primarily due to insurance proceeds received from roof damage.

State capital aid decreased by $2,929,665.83 while county capital aid increased by $2,555,153.67 as a result of county bonds funding construction projects. Capital gifts increased by $95,014.74, an 86.39% increase, primarily due to the donation by Ron and Katherine Harper of $150,000 for the Katherine Harper Testing Center.

The additions to endowments account varies each year as contributions to the Foundation's endowment fund fluctuate. Specifically, the Foundation received more endowed funds during the 2011 fiscal year, including gifts of $1,311,315.67 from Grier Lena Sue Beam and $464,975.85 from Janet W. Spear, which makes up the majority of the $1,801,277.48 variance from fiscal year 2011 to fiscal year 2012.

Comparative Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and June 30, 2011

	FY2011-2012	FY2010-2011 (as restated)	Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 5,322,925.11	$ 5,693,730.99	$ (370,805.88)	(6.51%)
Grants and contracts	263,212.67	265,239.84	(2,027.17)	(0.76%)
Sales and Services, Net	3,459,068.25	3,470,441.19	(11,372.94)	(0.33%)
Other Operating Revenues	66,053.50	96,331.44	(30,277.94)	(31.43%)
Total Operating Revenues	9,111,259.53	9,525,743.46	(414,483.93)	(4.35%)
Operating Expenses:				
Salaries and Benefits	33,700,700.47	32,886,112.57	814,587.90	2.48%
Supplies and Materials	7,338,743.29	8,944,922.02	(1,606,178.73)	(17.96%)
Services	4,928,238.21	4,437,132.39	491,105.82	11.07%
Scholarships and Fellowships	5,444,755.90	6,835,875.13	(1,391,119.23)	(20.35%)
Utilities	1,154,456.53	1,178,716.95	(24,260.42)	(2.06%)
Depreciation	1,041,165.53	1,244,194.86	(203,029.33)	(16.32%)
Total Operating Expenses	53,608,059.93	55,526,953.92	(1,918,893.99)	(3.46%)
Operating Loss	(44,496,800.40)	(46,001,210.46)	(1,504,410.06)	(3.27%)
Nonoperating Revenues:				
State Aid	23,729,516.70	23,229,958.06	499,558.64	2.15%
County Appropriations	4,365,328.96	4,288,723.00	76,605.96	1.79%
Noncapital Grants and Gifts	13,335,885.89	15,328,378.72	(1,992,492.83)	(13.00%)
Investment Income, Net	48,384.38	115,732.16	(67,347.78)	(58.19%)
Other Nonoperating Revenues (Expenses)	53,830.07	(70,992.47)	124,822.54	175.83%
Net Nonoperating Revenues	41,532,946.00	42,891,799.47	(1,358,853.47)	(3.17%)
Loss Before Other Revenues and Expenses	(2,963,854.40)	(3,109,410.99)	(145,556.59)	(4.68%)
State Capital Aid	1,118,826.91	4,048,492.74	(2,929,665.83)	(72.36%)
County Capital Aid	4,184,850.75	1,629,697.08	2,555,153.67	156.79%
Capital Grants	98,148.80	77,438.07	20,710.73	26.74%
Capital Gifts	205,000.00	109,985.26	95,014.74	86.39%
Additions to Endowments	39,891.35	1,841,168.83	(1,801,277.48)	(97.83%)
Increase in Net Assets	2,682,863.41	4,597,370.99	(1,914,507.58)	(41.64%)
Net Assets - Beginning of Year	72,642,907.30	68,045,536.31	4,597,370.99	6.76%
Net Assets - End of Year	$ 75,325,770.71	$ 72,642,907.30	$ 2,682,863.41	3.69%

Capital Asset Activity

Capital assets increased $5,860,052.98, or 10.47%, during the fiscal year. During the fiscal year, the College completed construction of the School of Cosmetology in the Jerry W. Cochrane Building on the Lincoln campus. The College also completed work on broadcast program renovations and an RESTC fuel system project. Four projects continue into the 2013 fiscal year. They include renovation of the Craig Building for the new Katherine Harper Testing Center, construction of a firing range training building, an exterior renovation of the boiler building, and the renovation and expansion of the Lena Sue Beam Building. The Lena Sue Beam renovation and expansion will become the new location of the College's Early College High School program. All of these projects should be complete before the end of the next fiscal year.

Final Analysis

During the 2012 fiscal year, College and Foundation Net Assets grew by $2,682,863.41. This increase is primarily the result of construction activities which enable the College to provide high-quality, relevant educational services to a broader audience.

As the economic recovery continues, the College continues to experience declining enrollment. The College's overall funding is closely tied to enrollment-based funding provided by the State of North Carolina. Consequently, funding for the 2013 fiscal year is likely to decrease due to State budget funding availability.

The College also receives funding from Gaston and Lincoln counties which is dependent upon the economic climate in each county.

Gaston College
Statement of Net Assets
June 30, 2012 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	7,429,619.13
Restricted Cash and Cash Equivalents		2,600,667.87
Receivables, Net (Note 4)		2,044,900.89
Inventories		645,784.36
Total Current Assets		12,720,972.25
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		738,012.01
Restricted Due from Primary Government		771,629.58
Restricted Investments		4,467,735.88
Capital Assets - Nondepreciable (Note 5)		6,291,993.51
Capital Assets - Depreciable, Net (Note 5)		55,518,285.17
Total Noncurrent Assets		67,787,656.15
Total Assets		80,508,628.40
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,867,261.60
Unearned Revenue		971,250.02
Funds Held for Others		117,629.67
Long-Term Liabilities - Current Portion (Note 7)		409,141.92
Total Current Liabilities		3,365,283.21
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,817,574.48
Total Liabilities		5,182,857.69
NET ASSETS		
Invested in Capital Assets		61,810,278.68
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,274,340.80
Expendable:		
Scholarships and Fellowships		685,070.48
Capital Projects		1,383,466.68
Other		584,546.11
Unrestricted		7,588,067.96
Total Net Assets	$	75,325,770.71

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, 2012

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	5,322,925.11
State and Local Grants and Contracts		263,212.67
Sales and Services, Net (Note 9)		3,459,068.25
Other Operating Revenues		66,053.50
Total Operating Revenues		9,111,259.53
EXPENSES		
Operating Expenses:		
Salaries and Benefits		33,700,700.47
Supplies and Materials		7,338,743.29
Services		4,928,238.21
Scholarships and Fellowships		5,444,755.90
Utilities		1,154,456.53
Depreciation		1,041,165.53
Total Operating Expenses		53,608,059.93
Operating Loss		(44,496,800.40)
NONOPERATING REVENUES		
State Aid		23,729,516.70
County Appropriations		4,365,328.96
Noncapital Grants - Student Financial Aid		12,174,801.81
Noncapital Grants		924,094.33
Noncapital Gifts		236,989.75
Investment Income, Net		48,384.38
Other Nonoperating Revenues		53,830.07
Nonoperating Revenues		41,532,946.00
Loss Before Other Revenues		(2,963,854.40)
State Capital Aid		1,118,826.91
County Capital Aid		4,184,850.75
Capital Grants		98,148.80
Capital Gifts		205,000.00
Additions to Endowments		39,891.35
Increase in Net Assets		2,682,863.41
NET ASSETS		
Net Assets, July 1, 2011		72,642,907.30
Net Assets, June 30, 2012	$	75,325,770.71

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

Gaston College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,921,179.66
Payments to Employees and Fringe Benefits	(33,771,649.66)
Payments to Vendors and Suppliers	(13,768,478.60)
Payments for Scholarships and Fellowships	(4,661,425.80)
Other Receipts	29,960.70
Net Cash Used by Operating Activities	(43,250,413.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	23,729,516.70
County Appropriations	4,365,328.96
Noncapital Grants - Student Financial Aid	12,547,027.31
Noncapital Grants Received	1,074,834.61
Noncapital Gifts and Endowments Received	1,326,728.35
Cash Provided by Noncapital Financing Activities	43,043,435.93
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,681,812.76
County Capital Aid	3,622,474.90
Capital Grants Received	132,359.20
Capital Gifts Received	205,000.00
Proceeds from Sale of Capital Assets	2,760.01
Proceeds from Insurance on Capital Assets	153,646.75
Acquisition and Construction of Capital Assets	(5,880,170.60)
Net Cash Provided by Capital and Related Financing Activities	1,917,883.02
CASH FLOWS FROM INVESTING ACTIVITIES	
Loss on Sales and Maturities of Investments	(22,967.97)
Investment Income	99,040.35
Purchase of Investments and Related Fees	(1,660,309.00)
Net Cash Used by Investing Activities	(1,584,236.62)
Net Increase in Cash and Cash Equivalents	126,668.63
Cash and Cash Equivalents, July 1, 2011	10,641,630.38
Cash and Cash Equivalents, June 30, 2012	$ 10,768,299.01

Gaston College
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2012

RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (44,496,800.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,041,165.53
Miscellaneous Nonoperating Income	25,396.59
Changes in Assets and Liabilities:	
Receivables, Net	152,189.57
Inventories	(160,419.49)
Accounts Payable and Accrued Liabilities	(219,535.33)
Unearned Revenue	(28,187.11)
Funds Held for Others	4,564.11
Federal Awards Payable	469,247.77
Compensated Absences	(38,034.94)
Net Cash Used by Operating Activities	$ (43,250,413.70)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 7,429,619.13
Restricted Cash and Cash Equivalents	2,600,667.87
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	738,012.01
Total Cash and Cash Equivalents - June 30, 2012	$ 10,768,299.01

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 1,153,541.49
Increase in Receivables Related to Nonoperating Income	121,053.51
Loss on Disposal of Capital Assets	(125,213.27)

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

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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 its 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 Unit - Although legally separate, Gaston College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 15-member board of directors, 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 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 Highway 321 South, Dallas, North Carolina 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 Government Accounting Standards Board (GASB).

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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, include 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** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the weighted moving 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment.

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 for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

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

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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 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. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. 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 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. County capital appropriations are drawn as needed.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2012 was $5,800.00. The carrying amount of the College's deposits not with the State Treasurer was $6,945,476.56, and the bank balance was $7,352,315.66.

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, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $3,817,022.45, 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 1.5 years as of June 30, 2012. 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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; asset-backed securities and corporate bonds/notes with specified ratings;

general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 273,694.64	$ 24,318.27	$ 22,118.80	$ 227,257.57	$ 0.00
U.S. Agencies	78,222.34		78,222.34		
Mortgage Pass Throughs	244,729.89				244,729.89
Collateralized Mortgage Obligations	67,094.46				67,094.46
Domestic Corporate Bonds	369,128.59	43,067.92	143,992.78	182,067.89	
Foreign Corporate Bonds	14,551.88		14,551.88		
Total Debt Securities	1,047,421.80	$ 67,386.19	$ 258,885.80	$ 409,325.46	$ 311,824.35
Other Securities					
Mutual Funds	891,614.81				
Domestic Stocks	1,658,336.86				
Foreign Stocks	387,247.68				
Money Market Funds	446,487.87				
Other: CSV Life Insurance Policy	36,626.86				
Total Investments	$ 4,467,735.88				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does have a formal policy that addresses credit risk. As of June 30, 2012, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	$ 78,222.00	$ 0.00	$ 78,222.00	$ 0.00	$ 0.00	$ 0.00
Mortgage Pass Throughs	244,729.89					244,729.89
Collateralized Mortgage Obligations	67,094.46	45,501.00	21,593.46			
Domestic Corporate Bonds	369,128.59		30,973.68	307,418.61	30,736.30	
Foreign Corporate Bonds	14,551.88			14,551.88		
Total	$ 773,726.82	$ 45,501.00	$ 130,789.14	$ 321,970.49	$ 30,736.30	$ 244,729.89

Rating Agency: Moody / S&P

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does have a formal policy for custodial credit risk. The College's investments were not exposed to custodial credit risk. All of the investments are with Wells Fargo Advisors and the College does not consider this as a custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. Other than securities of the United States Government or its agencies, the Foundation places a 5% limit on the amount that may be invested in any one domestic fixed income issuer.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does have a formal policy for foreign currency risk.

Investment	Currency	Fair Value (U.S. Dollars)
Barclays Book PLC Senior Notes	Euros	$ 14,552.00

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	$	5,800.00
Carrying Amount of Deposits with Private Financial Institutions		6,945,476.56
Investments in the Short-Term Investment Fund		3,817,022.45
Other Investments		4,467,735.88
Total Deposits and Investments	$	15,236,034.89
Current:		
Cash and Cash Equivalents	$	7,429,619.13
Restricted Cash and Cash Equivalents		2,600,667.87
Noncurrent:		
Restricted Cash and Cash Equivalents		738,012.01
Restricted Investments		4,467,735.88
Total	$	15,236,034.89

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. 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 investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Income availability for disbursement is determined by a total return calculation. Specifically, the fair market value of the endowment's five previous fiscal years (as adjusted for additions and withdrawals) is determined. Then a five year average is calculated. The generally accepted spending policy is a maximum of 5%. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the Foundation uses accumulated income and appreciation in the principal balance to make up the difference. At June 30, 2012, net appreciation of $93,860.38 was available to be spent, all of which was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,887,181.32	$ 1,015,335.00	$ 871,846.32
Student Sponsors	256,814.27	22,665.00	234,149.27
Accounts	415,256.00	83,000.00	332,256.00
Intergovernmental	601,313.59		601,313.59
Other	5,335.71		5,335.71
Total Current Receivables	$ 3,165,900.89	$ 1,121,000.00	$ 2,044,900.89

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	$ 974,605.00	$ 140,806.00	$ 6,176.59	$ 1,109,234.41
Art, Literature, and Artifacts	54,729.00			54,729.00
Construction in Progress	901,014.19	6,807,539.76	2,580,523.85	5,128,030.10
Total Capital Assets, Nondepreciable	1,930,348.19	6,948,345.76	2,586,700.44	6,291,993.51
Capital Assets, Depreciable:				
Buildings	61,847,961.10	1,879,552.06	74,887.72	63,652,625.44
Machinery and Equipment	5,867,022.94	221,652.03	142,263.37	5,946,411.60
General Infrastructure	3,795,225.92	560,165.79		4,355,391.71
Total Capital Assets, Depreciable	71,510,209.96	2,661,369.88	217,151.09	73,954,428.75
Less Accumulated Depreciation for:				
Buildings	14,490,817.09	786,318.67	2,277.52	15,274,858.24
Machinery and Equipment	2,205,681.54	174,549.33	93,076.88	2,287,153.99
General Infrastructure	793,833.82	80,297.53		874,131.35
Total Accumulated Depreciation	17,490,332.45	1,041,165.53	95,354.40	18,436,143.58
Total Capital Assets, Depreciable, Net	54,019,877.51	1,620,204.35	121,796.69	55,518,285.17
Capital Assets, Net	$ 55,950,225.70	$ 8,568,550.11	$ 2,708,497.13	$ 61,810,278.68

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	$ 1,337,912.23
Accrued Payroll	291,270.60
Contract Retainage	238,078.77
Total Accounts Payable and Accrued Liabilities	$ 1,867,261.60

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	$ 1,795,503.57	$ 1,055,609.82	$ 1,093,644.76	$ 1,757,468.63	$ 222,495.53
Federal Awards Payable		469,247.77		469,247.77	186,646.39
Total Long-Term Liabilities	$ 1,795,503.57	$ 1,524,857.59	$ 1,093,644.76	$ 2,226,716.40	$ 409,141.92

Federal Awards Payable are the result of an on-site review conducted by the Department of Education on October 21, 2011. The Department reviewed the College's administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended. The review resulted in findings related to Federal Work Study and the Satisfactory Academic Progress Standards. The liability will be repaid over a three year period.

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, 2012:

Fiscal Year	Amount
2013	$ 85,145.58
2014	50,676.00
2015	8,487.20
Total Minimum Lease Payments	$ 144,308.78

Rental expense for all operating leases during the year was $139,801.81.

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
Operating Revenues:					
Student Tuition and Fees	$ 10,145,918.77	$ 8,093.16	$ 4,552,900.50	$ 262,000.00	$ 5,322,925.11
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	$ 246,071.97	$ 21,953.78	$ 0.00	$ 0.00	$ 224,118.19
Bookstore	4,554,308.11	185,977.12	2,649,129.25	88,000.00	1,631,201.74
Fire Training	400,087.82			(2,500.00)	402,587.82
Textile Testing	1,197,120.25			42,000.00	1,155,120.25
Printing	448,016.71	443,065.70			4,951.01
Childcare				(1,000.00)	1,000.00
Sales and Services of Education and Related Activities	40,089.24				40,089.24
Total Sales and Services	$ 6,885,694.10	$ 650,996.60	$ 2,649,129.25	$ 126,500.00	$ 3,459,068.25

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	$ 18,258,016.01	$ 2,036,242.00	$ 696,830.46	$ 0.00	$ 0.00	$ 0.00	$ 20,991,088.47
Academic Support	4,282,380.73	212,643.58	489,539.01				4,984,563.32
Student Services	3,191,476.92	402,587.38	349,980.97				3,944,045.27
Institutional Support	4,081,316.78	697,578.95	1,796,341.02				6,575,236.75
Operations and Maintenance of Plant	2,363,818.50	148,436.83	1,125,334.67		1,154,456.53		4,792,046.53
Student Financial Aid				5,444,755.90			5,444,755.90
Auxiliary Enterprises	1,523,691.53	3,841,254.55	470,212.08				5,835,158.16
Depreciation						1,041,165.53	1,041,165.53
Total Operating Expenses	$ 33,700,700.47	$ 7,338,743.29	$ 4,928,238.21	$ 5,444,755.90	$ 1,154,456.53	$ 1,041,165.53	$ 53,608,059.93

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 (Plan) 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.

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, 2012, these rates were set at 7.44% of covered payroll for employers and 6.0% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $27,123,679.09, of which $21,727,169.99 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $1,616,501.45 and $1,303,630.20, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6.0% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were $1,616,501.45, $1,056,823.88, and $699,911.40, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code 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 College. The voluntary contributions by employees amounted to $97,375.00 for the year ended June 30, 2012.

Internal Revenue Code 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 5.0% 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, 2012, were $14,773.70. The voluntary contributions by employees amounted to $360,581.98 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are Valic, Lincoln Financial Group, New York Life, and Northern Life. No costs are incurred by the College. The voluntary contributions by employees amounted to $83,981.00 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were $1,086,358.50, $1,050,392.90, and $882,241.26, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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, 2012, the College made a statutory contribution of 0.52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were 0.52% and 0.52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $112,981.28, $111,470.27, and $101,947.88, 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.

The risk of tort claims of up to $1,000,000 per claimant is 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. The North Carolina Community College System

Office is charged a premium by the private insurance company. Coverage limit is $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 a 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 Error 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 discretely presented component unit 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 0.16% 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. Outstanding commitments on construction contracts were $1,150,467.99 at June 30, 2012.

NOTE 15 - RELATED PARTY

The North Carolina Center for Applied Textile Technology Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the textile mission of the College through which individuals, corporations, and other organizations support College programs by providing unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support provided to the College from the Foundation. The College received no support from the Foundation for the year ended June 30, 2012.

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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, 2012, and have issued our report thereon dated May 13, 2013. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Gaston College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Gaston College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective 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 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.

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)**

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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies 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 deficiencies described in the finding in the Audit Findings and Responses section of this report to be significant deficiencies.

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

Beth A. Wood, CPA
State Auditor

May 13, 2013

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

FINANCIAL STATEMENTS CONTAINED MISSTATEMENTS AND MISCLASSIFICATIONS

The financial statements prepared by Gaston College contained misstatements and misclassifications that were corrected as a result of our audit, which indicate that the College's internal control over financial reporting was not effective. Without our corrections, the financial statements could have been misleading to users. Misstatements and misclassifications noted in our audit included the following:

- The College misclassified nonexchange transactions as operating revenues. As a result, federal grants and contracts was overstated by $552,662.51 and noncapital grants was understated by the same amount.
- The College misclassified Foundation investments of $446,487.87 as cash and cash equivalents.
- The College misclassified cash and cash equivalents due to not properly considering the effect of interfund borrowing on the financial statements and incorrectly classifying restricted plant funds as unrestricted cash. As a result, unrestricted cash and cash equivalents was overstated by $385,324.40 and restricted cash and cash equivalents was understated by the same amount.
- Multiple nonoperating revenues were incorrectly recorded on the Statement of Revenues, Expenses, and Changes in Net Assets. The College made errors in recording noncapital grants, noncapital gifts, investment income, and other nonoperating revenues/expenses and erroneously recorded interest and fees on debt of $181,803.34. As a result, noncapital grants were overstated by $236,989.75 and noncapital gifts, investment income, and nonoperating revenues were understated by $188,605.37, $48,384.38, and $181,803.34 respectively.
- The financial statements did not agree to the applicable note disclosures and supporting documentation. Multiple changes were made to note disclosures based on testwork performed.
- The College did not include all requirements in the Management Discussion and Analysis. Examples include the lack of explanations for significant variances and the omission of significant capital asset activity. Additionally, the Management Discussion and Analysis contained multiple inconsistent or erroneous amounts.

These misstatements occurred, in part, because management's review of the financial statements was ineffective. The review was not adequate or detailed enough to identify obvious or otherwise material misstatements on the financial statements and note disclosures.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and design and implement procedures to strengthen internal controls over financial reporting to ensure the completeness and accuracy of the financial statements and related note disclosures. An adequate and detailed review should be performed to ensure that the financial statements and note disclosures are free from material misstatements.

College's Response: The College concurs with the findings. The College will place greater emphasis on the year-end financial reporting process and design and implement procedures to strengthen internal controls over financial reporting. The increased emphasis will address both the general and specific items noted during the audit. Details related to specific findings follow:

- **Nonexchange Transactions**: The College classified two grants as operating revenue rather than as nonoperating revenue. Exchange transactions are classified as operating revenues, while nonexchange transactions are classified as nonoperating revenue. While the College did submit statistical information to the grantor, that submission, which could constitute an exchange transaction, was not the primary purpose of the grant. The College will classify these grants as nonoperating revenue in the future.
- **Foundation Investments**: The investment of $446,487.87 which the College classified as Cash and Cash Equivalents represents Foundation funds held in a money market account. The Financial Accounting and Reporting Manual for Higher Education provided by NACUBO lists examples of Cash and Cash Equivalents; the list of examples includes money market accounts. The College blends the audited Foundation financial statements with its financial statements. The Foundation audit reported the money market account as an investment. The money market account is maintained by an investment firm and is reported as part of a monthly investment report. When the College blended the Foundation financial statements with the College financial statements, the money market account was classified as Cash and Cash Equivalents rather than as an Investment. The College will work closely with the Foundation auditor to address the classification of this account in the future.
- **Interfund Borrowing**: Over the last several years, the College has consistently accounted for interfund borrowing between unrestricted and restricted funds. The College will include construction and agency accounts in future interfund borrowing calculations.
- **Financial Statement Misclassifications and Footnote and Management Discussion and Analysis variances**: The College will implement greater management oversight and adopt detailed review procedures to ensure that errors of this nature are detected prior to finalizing the audit statements.

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This audit required 723 audit hours at a cost of $52,056.