

## **GASTON COLLEGE**

**(A Component Unit of the State of North  
Carolina)**

## **FINANCIAL STATEMENTS**

***As of and for the Year Ended June 30, 2015***

***And Report of Independent Auditor***

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## **Report of Independent Auditor**

Members of the Board of Trustees  
Gaston College  
Dallas, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Gaston College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 17 to the financial statements, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, net position as of July 1, 2014, has been restated. Our opinion is not modified with respect to this matter.

The accompanying financial statements represent the financial position of the College. These financial statements are not intended to be a complete presentation of the financial position of the State of North Carolina, taken as a whole. Our opinion is not modified with respect to this matter.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 this 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 our audit of the basic financial statements. 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2015, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
November 15, 2015

## **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 the fiscal year ended June 30, 2015. The College's financial statements are blended with the Gaston College Foundation, Inc. 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 Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The Financial Statements are accompanied by Notes to the Financial Statements that explain and provide more detailed information.

The Statement of Net Position presents information about the College's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position describes changes in the College's net position during the fiscal year. Revenue and expense are presented in a format that distinguishes between operating and nonoperating revenue and expense.

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

Net position serves as a useful indicator of the College's financial position. In the case of Gaston College, net position decreases by \$5,823,417.17. The decrease represents a 7.54% decrease compared to the prior year's total net position. Significant year-to-year differences reported on the Statement of Net Position are the result of construction activity and a \$7,311,753.00 pension accounting standards implementation restatement.

*Noncapital Assets* which include cash and cash equivalents, investments, accounts receivable, prepaid expenses, and inventory, decreased \$958,180.22 during FY2014-15. A majority of this decrease in noncapital assets comes from a decline in overall cash balances of \$915,212.50.

**Gaston College**  
**Management's Discussion and Analysis**

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*Capital Assets* utilizes the cash balance to fund a \$1,150,005.83 increase in new construction and equipment. *Net Position Invested in Capital Assets* mirrors the balance reported as *Capital Assets*.

*Deferred Outflows Related to Pensions* appears for the first time this year as a result of the College's implementation of the new GASB 68 pension reporting standards. The pension liability calculation lags financial reporting by one year. As a result of the lag, recognition of the cash contribution made by the College during FY2014-15 is deferred. This deferred outflow will be recognized as an expense during FY2015-16.

*Current Liabilities* decrease by \$301,622.09. The current liabilities group includes unearned revenue, funds held for others, and the current portion of long-term liabilities. The unearned revenue decrease is largely the result of recognition and expenditure of a \$249,800 welding equipment grant from The Duke Energy Community College Grant Program.

Typically, the primary account in *Noncurrent Liabilities* is compensated absences. Noncurrent compensated absences increases during FY2014-15, while its current counterpart decreases. Overall, the compensated absences liability grew \$254,466.42 as the legislature awarded state employees a week of bonus leave which can be carried forward into future years. In addition to compensated absences, a net pension liability is now included in Noncurrent Liabilities. The FY2014-15 Noncurrent Liability includes a \$1,769,887.00 net pension liability.

*Deferred Inflows Related to Pensions* reports the cumulative difference between expected performance and actual performance. Cumulative differences between expected and actual pension plan experience totals \$412,551. The cumulative difference between projected and actual pension plan investment returns totals \$5,979,800. The deferred inflows will reduce net pension expense over the next four fiscal years.

**Gaston College**  
**Management's Discussion and Analysis**

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**Condensed Statement of Net Position**  
**For the Fiscal Years Ended June 30, 2015 and June 30, 2014**

|                                       | <b>FY2014-2015</b>     | <b>FY2013-2014</b>     | <b>Change</b>           | <b>% Change</b> |
|---------------------------------------|------------------------|------------------------|-------------------------|-----------------|
| Noncapital Assets                     | \$17,921,962.96        | \$18,880,143.18        | \$ (958,180.22)         | (5.08%)         |
| Capital Assets, Net                   | 63,487,748.68          | 62,337,742.85          | 1,150,005.83            | 1.84%           |
| <b>Total Assets</b>                   | <b>81,409,711.64</b>   | <b>81,217,886.03</b>   | <b>191,825.61</b>       | 0.24%           |
| Deferred Outflows Related to Pensions | 2,120,486.00           | -                      | 2,120,486.00            | 100.00%         |
| <b>Total Deferred Outflows</b>        | <b>2,120,486.00</b>    | <b>-</b>               | <b>2,120,486.00</b>     | 100.00%         |
| Current Liabilities                   | 1,988,362.49           | 2,289,984.58           | (301,622.09)            | (13.17%)        |
| Noncurrent Liabilities                | 3,727,936.24           | 1,682,936.37           | 2,044,999.87            | 121.51%         |
| <b>Total Liabilities</b>              | <b>5,716,298.73</b>    | <b>3,972,920.95</b>    | <b>1,743,377.78</b>     | 43.88%          |
| Deferred Inflows Related to Pensions  | 6,392,351.00           | -                      | 6,392,351.00            | 100.00%         |
| <b>Total Deferred Inflows</b>         | <b>6,392,351.00</b>    | <b>-</b>               | <b>6,392,351.00</b>     | 100.00%         |
| Net Position:                         |                        |                        |                         |                 |
| Investment in Capital Assets          | 63,487,748.68          | 62,337,742.85          | 1,150,005.83            | 1.84%           |
| Restricted                            | 4,881,392.77           | 5,343,938.04           | (462,545.27)            | (8.66%)         |
| Unrestricted                          | 3,052,406.46           | 9,563,284.19           | (6,510,877.73)          | (68.08%)        |
| <b>Total Net Position</b>             | <b>\$71,421,547.91</b> | <b>\$77,244,965.08</b> | <b>(\$5,823,417.17)</b> | (7.54%)         |

*Restricted Net Position* decreases \$462,545.27 as the College expends the remaining \$400,000 of the NC Golden Leaf grant which was recognized and added to net position during a prior year. Golden Leaf provided support to complete the Pharr building renovation of the welding and machining areas.

The College's *Unrestricted Net Position* decreases by \$6,510,877.73 or 68.08%. This decrease is largely the result of changes to pension-related accounts. Implementation of the new pension accounting standards reallocates \$6,392,351.00 from *Unrestricted Net Position* to *Deferred Inflows Related to Pensions*.

#### **Statement of Revenues, Expenses, and Changes in Net Position**

The comparative Statement of Revenues, Expenses, and Changes in Net Position reports a net increase of \$1,488,335.83 for FY2014-15. This net increase represents a 43.06% increase from the previous fiscal year's net increase of \$1,040,376.80.

**Gaston College**  
**Management's Discussion and Analysis**

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Continuing, but slowing, declines in enrollment, construction activity, and new pension reporting drive most of the year-to-year changes on the Condensed Statement of Revenue, Expenses, and Changes in Net Position. *Student Tuition and Fees* and *Sales and Services and Other* decline despite routine rate increases. As tuition and book rates increase and enrollment declines, the amount of *Scholarship and Fellowship* expense decreases.

*State Aid* increased 1.93% during FY2014-15. The State allots a specific amount of funds to the College for the year. This allotment is recognized as *State Aid*, *Student Tuition*, *State Capital Aid*, and *Capital Grants*. As tuition receipts decline with enrollment, the total allotment remains unchanged; the decline in tuition is offset by an increase in *State Aid*.

*Salaries and Benefits* decrease 2.22% as a result of pension adjustments. During FY 2014-15 the net effect of the new pension adjustments is a decrease of Salaries and Benefits expense of \$1,270,001. No pension adjustment is included in the FY13-14 Salaries and Benefits expense. Excluding the pension adjustment from the FY2014-15 expense, Salaries and Benefits expense increases 1.56% compared to FY2013-14. This increase in expense is consistent with the \$1,000 staff pay increase provided by the legislature during FY2014-15.

*Supplies and Materials* and *Services* both experience small increases in expenditures.

*County Appropriations* grow 3.40%, as both Gaston and Lincoln counties increase College support.

*Investment Income* totals \$117,863.44 as Gaston College Foundation investments experience a more subdued year.

*Depreciation Expense* decreases 0.30% as new, long-lived facility depreciation is offset by short-lived equipment disposals. *Other Nonoperating Expenses* include \$135,554.76 for disposal of equipment.

*County Capital Aid* provides some funds for routine maintenance; however, a majority of the funds for both of the reported fiscal years are spent on construction projects. The 122.94% increase in County Capital Aid during FY2014-15 supports construction activity for the Center for Advanced Manufacturing and the Pharr building renovation of the welding and machining areas. *State Capital Aid* also increases 60.85% during FY2014-15 as state equipment funds equip the welding classrooms after rolling forward from FY2013-14.

**Gaston College**  
**Management's Discussion and Analysis**

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**Condensed Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Years Ended June 30, 2015 and June 30, 2014**

|   | <b>FY 2014-15</b>      | <b>FY 2013-14</b>      | <b>Change</b>            | <b>% Change</b> |
|---|------------------------|------------------------|--------------------------|-----------------|
| <b>Operating Revenues</b>                           |                        |                        |                          |                 |
| Student Tuition & Fees, Net                         | \$ 4,603,648.38        | \$ 4,837,753.20        | \$ (234,104.82)          | (4.84%)         |
| Sales and Services and Other, Net                   | 3,416,718.29           | 3,498,277.54           | (81,559.25)              | (2.33%)         |
| <b>Total Operating Revenue</b>                      | <u>8,020,366.67</u>    | <u>8,336,030.74</u>    | <u>(315,664.07)</u>      | <u>(3.79%)</u>  |
| <b>Operating Expenses</b>                           |                        |                        |                          |                 |
| Salaries and Benefits                               | 32,884,826.28          | 33,630,070.93          | (745,244.65)             | (2.22%)         |
| Supplies and Materials                              | 5,574,660.65           | 5,467,840.08           | 106,820.57               | 1.95%           |
| Services  | 4,358,817.35           | 4,293,351.35           | 65,466.00                | 1.52%           |
| Scholarships and Fellowships                        | 4,357,131.07           | 4,625,840.72           | (268,709.65)             | (5.81%)         |
| Utilities   | 1,235,885.15           | 1,277,246.78           | (41,361.63)              | (3.24%)         |
| Depreciation  | 1,369,111.18           | 1,373,279.64           | (4,168.46)               | (0.30%)         |
| <b>Total Operating Expenses</b>                     | <u>49,780,431.68</u>   | <u>50,667,629.50</u>   | <u>(887,197.82)</u>      | <u>(1.75%)</u>  |
| <b>Operating Loss</b>                               | (41,760,065.01)        | (42,331,598.76)        | 571,533.75               | (1.35%)         |
| <b>Nonoperating Revenues (Expenses)</b>             |                        |                        |                          |                 |
| State Aid   | 23,207,580.50          | 22,768,838.74          | 438,741.76               | 1.93%           |
| County Appropriations                               | 4,896,923.00           | 4,735,723.04           | 161,199.96               | 3.40%           |
| Noncapital Grants and Gifts                         | 12,577,115.97          | 13,873,924.26          | (1,296,808.29)           | (9.35%)         |
| Investment Income, Net                              | 117,863.44             | 868,683.09             | (750,819.65)             | (86.43%)        |
| Other Nonoperating Expense                          | (80,154.97)            | (82,381.03)            | 2,226.06                 | (2.70%)         |
| <b>Total Nonoperating Revenues</b>                  | <u>40,719,327.94</u>   | <u>42,164,788.10</u>   | <u>(1,445,460.16)</u>    | <u>(3.43%)</u>  |
| <b>Loss before Other Revenues and Expenses</b>      | (1,040,737.07)         | (166,810.66)           | (873,926.41)             | 523.90%         |
| <b>Capital Aid and Gifts</b>                        |                        |                        |                          |                 |
| State Capital Aid                                   | 811,714.89             | 504,628.95             | 307,085.94               | 60.85%          |
| County Capital Aid                                  | 1,244,843.76           | 558,376.91             | 686,466.85               | 122.94%         |
| Capital Grants                                      | 225,256.05             | 102,114.28             | 123,141.77               | 120.59%         |
| Capital Gifts                                       | 109,000.00             | 35,000.00              | 74,000.00                | 211.43%         |
| Additions to Endowment                              | 138,258.20             | 7,067.32               | 131,190.88               | 1,856.30%       |
| <b>Increase in Net Position</b>                     | <u>1,488,335.83</u>    | <u>1,040,376.80</u>    | <u>447,959.03</u>        | <u>43.06%</u>   |
| Net Position - Beginning of Year                    | 77,244,965.08          | 76,204,588.28          | 1,040,376.80             | 1.37%           |
| Cumulative Effect of Change in Accounting Principle | (7,311,753.00)         | -                      | (7,311,753.00)           | 100.00%         |
| Net Position - Beginning of Year - as Restated      | <u>69,933,212.08</u>   | <u>76,204,588.28</u>   | <u>(6,271,376.20)</u>    | <u>(8.23%)</u>  |
| <b>Net Position - End of Year</b>                   | <u>\$71,421,547.91</u> | <u>\$77,244,965.08</u> | <u>\$ (5,823,417.17)</u> | <u>(7.54%)</u>  |

**Gaston College**  
**Management's Discussion and Analysis**

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The *Capital Grants* line increases by \$123,141.77 during FY2014-15. This increase reflects the expenditure of the Duke Energy Community College Grant to purchase welding equipment. *Capital Gifts* during FY2014-15 support construction of the Center for Advanced Manufacturing. A majority of the *Additions to Endowment* for the year establish the Farmer Endowment.

**Capital Asset Activity**

The College completed a number of construction projects during the year. The projects include the Pharr building renovation of the welding and machining areas, conversion of the Myers Center Auditorium to a multi-purpose conference space, and the addition of an elevator to the Craig building. Two projects continue through the end of the fiscal year – phase two of the Pharr building renovation and the Center for Advanced Manufacturing. The College also completed smaller renovation projects during the fiscal year. Construction in progress decreases from \$953,899.71 at the beginning of the year, to \$352,499.60 at the end of the FY2014-15.

**Final Analysis**

During the 2014-15 fiscal year, the College and Foundation net positions decreased \$5,823,417.17. This decrease, in comparison to FY2013-14's net position growth of \$1,040,376.80, reflects ongoing construction activities which are offset by the effect of new pension reporting standards.

As the economic recovery continues during FY2014-15, the College continues to experience declining enrollment. The College's overall funding is closely tied to the State's enrollment-based funding model. State funding for FY2015-16 decreases as a function of enrollment. The College also receives funding from Gaston and Lincoln Counties; County funding is dependent upon the economic climate in each county.

**Request for Information**

This report provides an overview of the College's finances for those with an interest in this area. For questions concerning any of the information in this report or requests for additional information contact the Vice President for Finance, Operations and Facilities, Gaston College, 201 Highway 321 South, Dallas, NC 28034.

**Gaston College**  
**Statement of Net Position**  
**June 30, 2015**

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**ASSETS**

Current Assets:

|                                      |                   |
|--------------------------------------|-------------------|
| Cash and Cash Equivalents            | \$ 6,420,581.33   |
| Restricted Cash and Cash Equivalents | 811,920.74        |
| Short-Term Investments               | 3,208,045.13      |
| Receivables, Net (Note 4)            | 1,853,050.43      |
| Inventories                          | 721,349.60        |
| Prepaid Items                        | 190,131.00        |
| <br>Total Current Assets             | <br>13,205,078.23 |

Noncurrent Assets:

|  |                   |
|--|-------------------|
| Restricted Cash and Cash Equivalents       | 131,727.04        |
| Receivables, Net (Note 4)                  | 33,000.00         |
| Restricted Due from Primary Government     | 2.82              |
| Restricted Investments                     | 4,515,150.24      |
| Other Investments                          | 37,004.63         |
| Capital Assets - Nondepreciable (Note 5)   | 1,733,602.18      |
| Capital Assets - Depreciable, Net (Note 5) | 61,754,146.50     |
| <br>Total Noncurrent Assets                | <br>68,204,633.41 |
| <br>Total Assets                           | <br>81,409,711.64 |

**DEFERRED OUTFLOWS OF RESOURCES**

|   |              |
|---|--------------|
| Deferred Outflows Related to Pensions (Note 11) | 2,120,486.00 |
| Total Deferred Outflows of Resources            | 2,120,486.00 |

**LIABILITIES**

Current Liabilities:

|   |                  |
|---|------------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 597,464.11       |
| Unearned Revenue                                  | 1,067,720.52     |
| Funds Held for Others                             | 134,243.28       |
| Long-Term Liabilities - Current Portion (Note 7)  | 188,934.58       |
| <br>Total Current Liabilities                     | <br>1,988,362.49 |

Noncurrent Liabilities:

|                                |              |
|--------------------------------|--------------|
| Long-Term Liabilities (Note 7) | 3,727,936.24 |
| Total Noncurrent Liabilities   | 3,727,936.24 |
| Total Liabilities              | 5,716,298.73 |

**DEFERRED INFLOWS OF RESOURCES**

|  |              |
|--|--------------|
| Deferred Inflows Related to Pensions (Note 11) | 6,392,351.00 |
| Total Deferred Inflows of Resources            | 6,392,351.00 |

**NET POSITION**

|                              |                  |
|------------------------------|------------------|
| Investment in Capital Assets | 63,487,748.68    |
| Restricted for:              |                  |
| Nonependable:                |                  |
| Scholarships and Fellowships | 3,416,695.27     |
| Expendable:                  |                  |
| Scholarships and Fellowships | 1,115,547.44     |
| Capital Projects             | 46,380.83        |
| Other                        | 302,769.23       |
| Unrestricted                 | 3,052,406.46     |
| Total Net Position           | \$ 71,421,547.91 |

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

**Gaston College**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

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**REVENUES**

Operating Revenues:

|  |                         |
|--|-------------------------|
| Student Tuition and Fees, Net (Note 9) | \$ 4,603,648.38         |
| State and Local Grants and Contracts   | 19,057.02               |
| Sales and Services, Net (Note 9)       | 3,272,677.39            |
| Other Operating Revenues               | 124,983.88              |
| <br>Total Operating Revenues           | <br><u>8,020,366.67</u> |

**EXPENSES**

Operating Expenses:

|                              |                            |
|------------------------------|----------------------------|
| Salaries and Benefits        | 32,884,826.28              |
| Supplies and Materials       | 5,574,660.65               |
| Services                     | 4,358,817.35               |
| Scholarships and Fellowships | 4,357,131.07               |
| Utilities                    | 1,235,885.15               |
| Depreciation/ Amortization   | 1,369,111.18               |
| <br>Total Operating Expenses | <br><u>49,780,431.68</u>   |
| <br>Operating Loss           | <br><u>(41,760,065.01)</u> |

**NONOPERATING REVENUES (EXPENSES)**

|  |                           |
|--|---------------------------|
| State Aid  | 23,207,580.50             |
| County Appropriations  | 4,896,923.00              |
| Noncapital Grants - Student Financial Aid                    | 11,206,812.61             |
| Noncapital Grants  | 999,309.29                |
| Noncapital Gifts   | 370,994.07                |
| Investment Income (Net of Investment Expense of \$39,410.49) | 117,863.44                |
| Other Nonoperating Expenses                                  | (80,154.97)               |
| <br>Net Nonoperating Revenues                                | <br><u>40,719,327.94</u>  |
| <br>Loss Before Other Revenues, Expenses, Gains, and Losses  | <br><u>(1,040,737.07)</u> |

**CAPITAL AID AND GIFTS**

|                              |                  |
|------------------------------|------------------|
| State Capital Aid            | 811,714.89       |
| County Capital Aid           | 1,244,843.76     |
| Capital Grants               | 225,256.05       |
| Capital Gifts, Net           | 109,000.00       |
| Additions to Endowments      | 138,258.20       |
| <br>Increase in Net Position | <br>1,488,335.83 |

**NET POSITION**

|  |                         |
|--|-------------------------|
| Net Position, July 1, 2014 (as restated - Note 17) | <u>69,933,212.08</u>    |
| Net Position, June 30, 2015                        | <u>\$ 71,421,547.91</u> |

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, 2015**

**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                 |
|---|-----------------|
| Received from Customers                   | \$ 7,881,922.80 |
| Payments to Employees and Fringe Benefits | (34,061,572.97) |
| Payments to Vendors and Suppliers         | (11,161,249.47) |
| Payments for Scholarships and Fellowships | (4,369,756.49)  |
| Other Receipts                            | 43,764.80       |
|   | <hr/>           |
| Net Cash Used by Operating Activities     | (41,666,891.33) |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|  |               |
|--|---------------|
| State Aid Received                                   | 23,207,580.50 |
| County Appropriations                                | 4,896,923.00  |
| Noncapital Grants - Student Financial Aid            | 11,201,664.86 |
| Noncapital Grants                                    | 1,135,851.14  |
| Noncapital Gifts and Endowments                      | 522,883.18    |
|  | <hr/>         |
| Net Cash Provided by Noncapital Financing Activities | 40,964,902.68 |

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

|   |                |
|---|----------------|
| State Capital Aid Received                                | 811,714.89     |
| County Capital Aid  | 1,245,764.95   |
| Capital Grants  | 436,503.01     |
| Capital Gifts   | 62,500.00      |
| Proceeds from Sale of Capital Assets                      | 22,301.25      |
| Acquisition and Construction of Capital Assets            | (2,677,463.50) |
|   | <hr/>          |
| Net Cash Used by Capital and Related Financing Activities | (98,679.40)    |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                 |
|---|-----------------|
| Proceeds from Sales and Maturities of Investments | 1,666,641.97    |
| Investment Income                                 | 185,176.54      |
| Purchase of Investments and Related Fees          | (1,966,362.92)  |
|   | <hr/>           |
| Net Cash Used by Investing Activities             | (114,544.41)    |
|   | <hr/>           |
| Net Decrease in Cash and Cash Equivalents         | (915,212.46)    |
| Cash and Cash Equivalents, July 1, 2014           | 8,279,441.57    |
|   | <hr/>           |
| Cash and Cash Equivalents, June 30, 2015          | \$ 7,364,229.11 |

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, 2015**

**Page 2 of 2**

**RECONCILIATION OF OPERATING LOSS**

**TO NET CASH USED BY OPERATING ACTIVITIES**

|   |                           |
|---|---------------------------|
| Operating Loss  | \$ (41,760,065.01)        |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: |                           |
| Depreciation/ Amortization Expense  | 1,369,111.18              |
| Pension Expense   | 776,993.00                |
| Nonoperating Other Income   | 33,098.54                 |
| Changes in Assets, Liabilities, and Deferred Outflows of Resources:               |                           |
| Receivables, Net  | (58,865.96)               |
| Inventories   | 93,084.60                 |
| Prepaid Items   | (186,381.00)              |
| Accounts Payable and Accrued Liabilities  | 87,525.31                 |
| Unearned Revenue  | (92,203.33)               |
| Funds Held for Others   | 10,666.26                 |
| Deferred Outflows - Contributions After Measurement Date                          | (2,046,994.00)            |
| Compensated Absences  | 107,139.08                |
| Net Cash Used by Operating Activities   | <u>\$ (41,666,891.33)</u> |

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

|   |                        |
|---|------------------------|
| Current Assets:                                 |                        |
| Cash and Cash Equivalents                       | \$ 6,420,581.33        |
| Restricted Cash and Cash Equivalents            | 811,920.74             |
| Noncurrent Assets:                              |                        |
| Restricted Cash and Cash Equivalents            | <u>131,727.04</u>      |
| Total Cash and Cash Equivalents - June 30, 2015 | <u>\$ 7,364,229.11</u> |

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

|  |              |
|--|--------------|
| Assets Acquired through Assumption of a Liability      | \$ 12,115.71 |
| Change in Fair Value of Investments                    | (202,613.16) |
| Increase in Receivables Related to Nonoperating Income | 50,275.42    |
| Loss on Disposal of Capital Assets                     | (113,253.51) |

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

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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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 with 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, The Gaston College Foundation is reported as 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. Gaston College has operational responsibility for the Foundation. 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, the College has operational responsibility, 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 28054, 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.

Condensed information regarding the blended component unit is provided in Note 16.

**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 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.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**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** – Cash and cash equivalents include petty cash, cash on deposit in private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF 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, vendor credits, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

**G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method. Bookstore merchandise is valued with a weighted moving average cost 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.

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.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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Depreciation/amortization is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

| <u>Asset Class</u>     | <u>Estimated Useful Life</u> |
|------------------------|------------------------------|
| Buildings              | 10-75 years                  |
| Machinery & Equipment  | 5-75 years                   |
| General Infrastructure | 10-75 years                  |

The Rauch collection is capitalized at fair value at the date of donation. The 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. **Deferred Outflows/Inflows of Resources** – Deferred outflows and inflows of resources relate to the pension plan as further described in Note 11.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, net pension liability, and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- L. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar 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.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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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.

**M. Net Position** - The College's net position is classified as follows:

**Investment in Capital Assets** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

**Restricted Net Position - Nonexpendable** - Nonexpendable restricted net position includes 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 Position - Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

**N. Scholarship Discounts** - Student tuition and fee 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

**O. 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 Position. 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

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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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.

- P. 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 and copy center. 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.
- Q. 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 fiscal year. Unexpended Lincoln County current appropriations and Gaston County capital appropriations do not revert and are available for future use. Gaston County capital appropriations and capital bond funds are drawn as needed.
- R. Unearned Revenue** - Unearned revenue includes the portion of student tuition and fees for summer programs which have been received as of June 30 of the year, but not earned; scholarship and grant income that has been received but not expended; and unearned revenue for certain ongoing projects.
- S. New Pronouncements** - During the fiscal year ended June 30, 2015, the College adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The cumulative effect of these pronouncements is further disclosed in Notes 11 and 17.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**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, 2015 was \$5,600.00. The carrying amount of the College's deposits not with the State Treasurer was \$7,252,445.55, and the bank balance was \$ 7,469,807.08.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2015, 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.

## **Gaston College**

### **Notes to the Financial Statements**

**June 30, 2015**

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At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$11,740.77, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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, 2015. Assets and shares of the STIF 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 STIF) 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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments and obligations of certain entities with specific ratings.

Investments of the College's component unit, The Gaston College 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, 2015, 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 Foundation investment policy provides domestic fixed income managers with latitude to adjust the overall duration of their portfolio within +/- 50% of their specific benchmark.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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| Investment Type              | Fair Value             | Investment Maturities (in Years) |                      |                      |                     |
|------------------------------|------------------------|----------------------------------|----------------------|----------------------|---------------------|
|                              |                        | Less Than 1                      | 1 to 5               | 6 to 10              | More than 10        |
| Debt Securities              |                        |                                  |                      |                      |                     |
| U.S. Treasuries              | \$ 130,330.27          | \$ -                             | \$ 19,642.50         | \$ 110,687.77        | \$ -                |
| U.S. Agencies                | 60,871.90              | 60,871.90                        | -                    | -                    | -                   |
| Mortgage Pass Throughs       | 54,813.75              | -                                | -                    | 19,900.39            | 34,913.36           |
| Asset-Backed Securities      | 78,565.84              | -                                | 53,922.41            | 21,549.36            | 3,094.07            |
| Domestic Corporate Bonds     | 301,755.19             | 13,032.76                        | 288,722.43           | -                    | -                   |
| <b>Total Debt Securities</b> | <b>626,336.95</b>      | <b>\$ 73,904.66</b>              | <b>\$ 362,287.34</b> | <b>\$ 152,137.52</b> | <b>\$ 38,007.43</b> |
| Other Securities             |                        |                                  |                      |                      |                     |
| Mutual Funds                 | 5,349,922.81           |                                  |                      |                      |                     |
| Domestic Stocks              | 1,345,362.27           |                                  |                      |                      |                     |
| Foreign Stocks               | 401,573.34             |                                  |                      |                      |                     |
| Other                        | 37,004.63              |                                  |                      |                      |                     |
| <b>Total Investments</b>     | <b>\$ 7,760,200.00</b> |                                  |                      |                      |                     |

Investment Income of \$117,863.44 is reported on the basic financial statements net of investment expense. Investment expense for the fiscal year ending June 30, 2015 is \$39,410.49.

In addition to the maturity-related interest rate risk disclosed above, the College's investments include investments with fair values highly sensitive to interest rate changes. Investments in Asset-Backed Securities and Mortgage Pass-Throughs are sensitive to prepayments which may result from a decline in interest rates.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College Foundation does have a formal policy that addresses credit risk. The policy stipulates that corporate debt issues should have a rating no lower than BBB; Investment in BBB rated securities is limited to 15% of the manager's portfolio. As of June 30, 2015, the College's investments with related credit risk were rated as follows:

|                          | Fair Value           | AAA<br>Aaa           | AA<br>Aa            | A                    | BBB<br>Baa          |
|--------------------------|----------------------|----------------------|---------------------|----------------------|---------------------|
| U.S. Agencies            | \$ 60,871.90         | \$ 60,871.90         | \$ -                | \$ -                 | \$ -                |
| Mortgage Pass Throughs   | 54,813.75            | 54,813.75            | -                   | -                    | -                   |
| Asset-Backed Securities  | 78,565.84            | 78,565.84            | -                   | -                    | -                   |
| Domestic Corporate Bonds | 301,755.19           | -                    | 16,666.08           | 241,589.78           | 43,499.33           |
| <b>Totals</b>            | <b>\$ 496,006.68</b> | <b>\$ 194,251.49</b> | <b>\$ 16,666.08</b> | <b>\$ 241,589.78</b> | <b>\$ 43,499.33</b> |

Rating Agency: Moody's

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**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 not have a formal policy for custodial credit risk. All investments are held in the name of the College or its Foundation. Foundation cash and money market accounts of \$94,442.79 are reported as cash and cash equivalents. The College is not party to any swap or derivative contracts.

**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's investment policy permits it to invest in foreign-currency denominated securities. The College does not currently hold any foreign-currency denominated securities. The College holds foreign debt and foreign equities through American Depository Receipts and dollar-denominated mutual funds.

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

|   |                                |
|---|--------------------------------|
| Cash on Hand  | \$ 5,600.00                    |
| Carrying Amount of Deposits with Private Financial Institutions | 7,252,445.55                   |
| Investments in the Short-Term Investment Fund (STIF)            | 11,740.77                      |
| Money Market Accounts with Private Financial Institutions       | 94,442.79                      |
| Investments with Private Financial Institutions                 | 7,723,195.37                   |
| Other Investments   | 37,004.63                      |
| <b>Total Deposits and Investments</b>                           | <b><u>\$ 15,124,429.11</u></b> |
|   |                                |
| Current:  |                                |
| Cash and Cash Equivalents                                       | \$ 6,420,581.33                |
| Short-term Investments  | 3,208,045.13                   |
| Restricted Cash and Cash Equivalents                            | 811,920.74                     |
| <b>Total Deposits and Investments</b>                           | <b><u>\$ 15,124,429.11</u></b> |
|   |                                |
| Noncurrent:   |                                |
| Restricted Cash and Cash Equivalents                            | 131,727.04                     |
| Restricted Investments  | 4,515,150.24                   |
| Other Investments   | 37,004.63                      |
| <b>Total Deposits and Investments</b>                           | <b><u>\$ 15,124,429.11</u></b> |

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**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 available 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, 2015, net appreciation of \$728,815.61 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, 2015, were as follows:

|                                     | <u>Gross Receivables</u> | <u>Less Allowance for Doubtful Accounts</u> | <u>Net Receivables</u> |
|-------------------------------------|--------------------------|---|------------------------|
| <b>Current Receivables:</b>         |                          |   |                        |
| Students                            | \$ 2,858,897.53          | \$ 1,476,000.00                             | \$ 1,382,897.53        |
| Student Sponsors                    | 66,030.62                | 0.00  | 66,030.62              |
| Vendors                             | 92,502.15                | 0.00  | 92,502.15              |
| Sales and Service                   | 439,699.30               | 180,000.00                                  | 259,699.30             |
| Intergovernmental                   | 22,759.33                | 0.00  | 22,759.33              |
| Pledges                             | 31,297.36                | 2,135.86                                    | 29,161.50              |
| <b>Total Current Receivables</b>    | <b>\$ 3,511,186.29</b>   | <b>\$ 1,658,135.86</b>                      | <b>\$ 1,853,050.43</b> |
| <b>Noncurrent Receivables:</b>      |                          |   |                        |
| Intergovernmental                   | \$ 0.00                  | \$ 0.00                                     | \$ 0.00                |
| Pledges                             | 33,000.00                | 0.00  | 33,000.00              |
| <b>Total Noncurrent Receivables</b> | <b>\$ 33,000.00</b>      | <b>\$ 0.00</b>                              | <b>\$ 33,000.00</b>    |

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**NOTE 5 – CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

|  | Balance<br>July 1, 2014 | Increases              | Decreases              | Balance<br>June 30, 2015 |
|--|-------------------------|------------------------|------------------------|--------------------------|
| <b>Capital Assets, Nondepreciable:</b>                 |                         |                        |                        |                          |
| Land and Permanent Easements                           | \$ 1,109,234.41         | \$ 217,139.11          | \$ -                   | \$ 1,326,373.52          |
| Art, Literature, and Artifacts                         | 54,729.00               | -                      | -                      | 54,729.00                |
| Construction in Progress                               | 953,899.71              | 1,767,615.60           | 2,369,015.65           | 352,499.66               |
| <b>Total Capital Assets, Nondepreciable</b>            | <b>2,117,863.12</b>     | <b>1,984,754.71</b>    | <b>2,369,015.65</b>    | <b>1,733,602.18</b>      |
| <b>Capital Assets, Depreciable:</b>                    |                         |                        |                        |                          |
| Buildings  | 70,562,729.54           | 2,151,876.54           | -                      | 72,714,606.08            |
| Machinery and Equipment                                | 5,686,511.03            | 887,056.17             | 308,411.01             | 6,265,156.19             |
| General Infrastructure                                 | 4,355,391.71            | -                      | -                      | 4,355,391.71             |
| <b>Total Capital Assets, Depreciable</b>               | <b>80,604,632.28</b>    | <b>3,038,932.71</b>    | <b>308,411.01</b>      | <b>83,335,153.98</b>     |
| <b>Less Accumulated Depreciation/Amortization for:</b> |                         |                        |                        |                          |
| Buildings  | 17,136,850.07           | 991,306.68             | -                      | 18,128,156.75            |
| Machinery and Equipment                                | 2,187,223.81            | 284,530.85             | 172,856.25             | 2,298,898.41             |
| General Infrastructure                                 | 1,060,678.67            | 93,273.65              | -                      | 1,153,952.32             |
| <b>Total Accumulated Depreciation/Amortization</b>     | <b>20,384,752.55</b>    | <b>1,369,111.18</b>    | <b>172,856.25</b>      | <b>21,581,007.48</b>     |
| <b>Total Capital Assets, Depreciable, Net</b>          | <b>60,219,879.73</b>    | <b>1,669,821.53</b>    | <b>135,554.76</b>      | <b>61,754,146.50</b>     |
| <b>Capital Assets, Net</b>                             | <b>\$ 62,337,742.85</b> | <b>\$ 3,654,576.24</b> | <b>\$ 2,504,570.41</b> | <b>\$ 63,487,748.68</b>  |

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

|  | Amount               |
|--|----------------------|
| <b>Current Accounts Payable and Accrued Liabilities:</b> |                      |
| Accounts Payable   | \$ 370,696.79        |
| Accrued Payroll  | <u>226,767.32</u>    |
| <b>Total</b>   | <b>\$ 597,464.11</b> |

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**NOTE 7 – LONG-TERM LIABILITIES**

- A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented below. Noncurrent, long-term liabilities total \$3,727,936.24.

|                                    | Balance<br>July 1, 2014<br>(as restated) | Additions              | Reductions             | Balance<br>June 30, 2015 | Current<br>Portion   |
|------------------------------------|--|------------------------|------------------------|--------------------------|----------------------|
| Compensated Absences               | \$ 1,892,517.40                          | \$ 1,402,854.60        | \$ 1,148,388.18        | \$ 2,146,983.82          | \$ 188,934.58        |
| Net Pension Liability              | 9,227,949.00                             | -                      | 7,458,062.00           | 1,769,887.00             | -                    |
| Notes Payable                      | <u>147,327.34</u>                        | <u>-</u>               | <u>147,327.34</u>      | <u>-</u>                 | <u>-</u>             |
| <b>Total Long-Term Liabilities</b> | <b>\$ 11,267,793.74</b>                  | <b>\$ 1,402,854.60</b> | <b>\$ 8,753,777.52</b> | <b>\$ 3,916,870.82</b>   | <b>\$ 188,934.58</b> |

Additional information regarding the net pension liability is included in Note 11

- B. Notes Payable** - The College was indebted for notes payable for the purposes shown in the following table:

| Purpose                    | Financial<br>Institution | Interest<br>Rate/<br>Ranges | Final<br>Maturity<br>Date | Original<br>Amount<br>of Issue | Principal<br>Paid Through<br>June 30, 2015 | Principal<br>Outstanding<br>June 30, 2015 |
|----------------------------|--------------------------|-----------------------------|---------------------------|--------------------------------|--|---|
| Federal Award Repayment    | Dept of Education        | 1.00%                       | 09/01/2015                | \$ 469,247.77                  | \$ 469,247.77                              | \$ 0.00                                   |
| <b>Total Notes Payable</b> |                          |                             |                           | <b>\$ 469,247.77</b>           | <b>\$ 469,247.77</b>                       | <b>\$ 0.00</b>                            |

The Federal Award Repayment is the result of an onsite review conducted by the Department of Education during 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 the Federal Work Study Program and Satisfactory Academic Progress Standards. The College completed repayment of the note during the 2014-15 fiscal year.

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**NOTE 8 - LEASE OBLIGATIONS**

**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, 2015:

| Fiscal Year                         | Amount                      |
|-------------------------------------|-----------------------------|
| 2016                                | \$ 114,352.81               |
| 2017                                | 107,145.67                  |
| 2018                                | 104,039.92                  |
| 2019                                | <u>66,923.03</u>            |
| <b>Total Minimum Lease Payments</b> | <b>\$ <u>392,461.43</u></b> |

Rental expense for all operating leases during the year was \$130,006.94.

**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 Change in Allowance for Uncollectibles* | Net Revenues           |
|--|------------------------|-----------------------------|----------------------------|--|------------------------|
| <b>Operating Revenues:</b>                             |                        |                             |                            |  |                        |
| <b>Student Tuition and Fees</b>                        | <u>\$ 9,487,006.37</u> | <u>\$ 6,173.36</u>          | <u>\$ 4,801,184.63</u>     | <u>\$ 76,000.00</u>                          | <u>\$ 4,603,648.38</u> |
| <b>Sales and Services:</b>                             |                        |                             |                            |  |                        |
| Sales and Services of Auxiliary Enterprises:           |                        |                             |                            |  |                        |
| Dining   | \$ 8,900.43            | \$ -                        | \$ -                       | \$ -   | \$ 8,900.43            |
| Bookstore  | 3,925,657.19           | 38,978.70                   | \$ 2,410,890.24            | 118,000.00                                   | 1,357,788.25           |
| Fire Training  | 345,336.68             | -                           | -                          | -  | 345,336.68             |
| Printing   | 249,836.68             | 237,161.41                  | -                          | -  | 12,675.27              |
| Textile  | 1,424,099.77           | -                           | -                          | (10,000.00)                                  | 1,434,099.77           |
| Vending  | 48,422.69              | -                           | -                          | -  | 48,422.69              |
| Sales and Services of Education and Related Activities | 65,454.30              | -                           | -                          | -  | 65,454.30              |
| <b>Total Sales and Services</b>                        | <u>\$ 6,067,707.74</u> | <u>\$ 276,140.11</u>        | <u>\$ 2,410,890.24</u>     | <u>\$ 108,000.00</u>                         | <u>\$ 3,272,677.39</u> |
| <b>Nonoperating - Noncapital Gifts</b>                 | <u>\$ 370,539.93</u>   | <u>\$ -</u>                 | <u>\$ -</u>                | <u>\$ (454.14)</u>                           | <u>\$ 370,994.07</u>   |
| <b>Capital Gifts</b>                                   | <u>\$ 109,000.00</u>   | <u>\$ -</u>                 | <u>\$ -</u>                | <u>\$ -</u>                                  | <u>\$ 109,000.00</u>   |

\* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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**NOTE 10 - OPERATING EXPENSES BY FUNCTION**

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

|                                     | Salaries<br>and<br>Benefits | Supplies<br>and<br>Materials | Services               | Scholarships<br>and<br>Fellowships | Utilities              | Depreciation/<br>Amortization | Total                   |
|-------------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|------------------------|-------------------------------|-------------------------|
| Instruction                         | \$ 16,884,397.49            | \$ 1,004,915.35              | \$ 975,537.26          | \$ -                               | \$ -                   | \$ -                          | \$ 18,864,850.10        |
| Academic Support                    | 4,291,639.65                | 192,748.53                   | 619,804.11             | -                                  | -                      | -                             | 5,104,192.29            |
| Student Services                    | 3,043,508.92                | 53,781.73                    | 345,966.12             | -                                  | -                      | -                             | 3,443,256.77            |
| Institutional Support               | 4,189,325.55                | 186,954.92                   | 1,486,239.88           | -                                  | -                      | -                             | 5,862,520.35            |
| Operations and Maintenance of Plant | 2,243,068.20                | 666,989.05                   | 670,764.54             | -                                  | 1,235,885.15           | -                             | 4,816,706.94            |
| Student Financial Aid               | -                           | -                            | -                      | 4,357,131.07                       | -                      | -                             | 4,357,131.07            |
| Auxiliary Enterprises               | 1,455,893.47                | 3,469,271.07                 | 260,505.44             | -                                  | -                      | -                             | 5,185,669.98            |
| Depreciation/ Amortization          | -                           | -                            | -                      | -                                  | -                      | 1,369,111.18                  | 1,369,111.18            |
| Pension Expense                     | 776,993.00                  | -                            | -                      | -                                  | -                      | -                             | 776,993.00              |
| <b>Total Operating Expenses</b>     | <b>\$ 32,884,826.28</b>     | <b>\$ 5,574,660.65</b>       | <b>\$ 4,358,817.35</b> | <b>\$ 4,357,131.07</b>             | <b>\$ 1,235,885.15</b> | <b>\$ 1,369,111.18</b>        | <b>\$ 49,780,431.68</b> |

**NOTE 11 - PENSION PLANS**

**Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life

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or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**Contributions:** Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were \$2,046,994.42, and employee contributions were \$1,342,294.04 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

**TSERS Basis of Accounting:** The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

**Methods Used to Value TSERS Investment:** Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

**Net Pension Liability:** At June 30, 2015, the College reported a liability of \$1,769,887.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was

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determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was 0.15096%, which was a decrease of 0.00104% from its 0.15200% proportion measured as of June 30, 2013.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

|                             |               |
|-----------------------------|---------------|
| Valuation Date              | 12/31/2013    |
| Inflation                   | 3%            |
| Salary Increases*           | 4.25% - 9.10% |
| Investment Rate of Return** | 7.25%         |

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to

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produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

| <b>Asset Class</b>   | <b>Long-Term<br/>Expected Real Rate<br/>of Return</b> |
|----------------------|---|
| Fixed Income         | 2.5%  |
| Global Equity        | 6.1%  |
| Real Estate          | 5.7%  |
| Alternatives         | 10.5%   |
| Credit               | 6.8%  |
| Inflation Protection | 3.7%  |

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| <b>Net Pension Liability (Asset)</b> |                       |                     |
|--------------------------------------|-----------------------|---------------------|
| 1% Decrease (6.25%)                  | Current Discount Rate | 1% Increase (8.25%) |
| \$ 12,705,474                        | \$ 1,769,887          | \$ (7,463,624)      |

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*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the College recognized pension expense of \$776,993.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Difference between actual and expected experience  | \$ -                                      | \$ 412,551.00                            |
| Net difference between projected and actual earnings on pension plan investments                             | -   | 5,979,800.00                             |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 73,492.00                                 | -  |
| Contributions subsequent to the measurement date   | 2,046,994.00                              | -  |
| <b>Total</b>   | <b><u>\$ 2,120,486.00</u></b>             | <b><u>\$ 6,392,351.00</u></b>            |

\$2,046,994.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:**

| Year ended June 30: | <u>Amount</u>                |
|---------------------|------------------------------|
| 2016                | \$ (1,584,413)               |
| 2017                | (1,584,413)                  |
| 2018                | (1,584,413)                  |
| 2019                | (1,565,620)                  |
| 2020                | -                            |
| <b>Total</b>        | <b><u>\$ (6,318,859)</u></b> |

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**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 (TSERS). 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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS 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 established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$1,228,196.64, \$1,190,815.13, and \$1,189,719.55, 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 TSERS. 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.

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Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of 0.41% of covered payroll under the TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were 0.44% and 0.44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$91,723.25, \$97,029.38, and \$98,769.17, 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.

**A. Employee Benefit Plans**

**1. State Health Plan**

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.

**2. Death Benefit Plan of North Carolina**

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.

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**B. Other Risk Management and Insurance Activities**

**1. Public Officers' and Employees' Liability Insurance**

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.

**2. Automobile, Fire, and Other Property Losses**

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 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.

**3. Employee Dishonesty and Computer Fraud**

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.

**4. Statewide Workers' Compensation Program**

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.

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.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**5. Other Insurance Held by the College**

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.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$1,587,453.87 at June 30, 2015.
- B. Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

**NOTE 15 – RELATED PARTIES**

**Foundation** - The North Carolina Center for Applied Textile Technology Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as a fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing textile equipment. The College's financial statements do not include the assets, liabilities, net position, or operational transactions of the Foundation, except for support from the Foundation. The College received no support from the Foundation for the year ended June 30, 2015.

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 16 - BLENDED COMPONENT UNIT**

Condensed information for the College's blended component unit for the year ended June 30, 2015, is presented as follows:

***Condensed Statement of Net Position***  
**June 30, 2015**

|                                       | College                 | Foundation             | Eliminations | Total                   |
|---------------------------------------|-------------------------|------------------------|--------------|-------------------------|
| <b>ASSETS</b>                         |                         |                        |              |                         |
| Current Assets                        | \$ 9,389,690.01         | \$ 3,815,388.22        | \$ -         | \$ 13,205,078.23        |
| Capital Assets                        | 63,427,748.68           | 60,000.00              | -            | 63,487,748.68           |
| Other Noncurrent Assets               | 2.82                    | 4,716,881.91           | -            | 4,716,884.73            |
| Total Assets                          | <u>72,817,441.51</u>    | <u>8,592,270.13</u>    | <u>-</u>     | <u>81,409,711.64</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> | <u>2,120,486.00</u>     | <u>-</u>               | <u>-</u>     | <u>2,120,486.00</u>     |
| <b>LIABILITIES</b>                    |                         |                        |              |                         |
| Current Liabilities                   | 1,674,462.75            | 313,899.74             | -            | 1,988,362.49            |
| Noncurrent Liabilities                | 3,727,936.24            | -                      | -            | 3,727,936.24            |
| Total Liabilities                     | <u>5,402,398.99</u>     | <u>313,899.74</u>      | <u>-</u>     | <u>5,716,298.73</u>     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  | <u>6,392,351.00</u>     | <u>-</u>               | <u>-</u>     | <u>6,392,351.00</u>     |
| <b>NET POSITION</b>                   |                         |                        |              |                         |
| Net Investment in Capital Assets      | 63,427,748.68           | 60,000.00              | -            | 63,487,748.68           |
| Restricted - Nonexpendable            | -                       | 3,416,695.27           | -            | 3,416,695.27            |
| Restricted - Expendable               | 137,660.06              | 1,327,037.44           | -            | 1,464,697.50            |
| Unrestricted                          | (422,231.22)            | 3,474,637.68           | -            | 3,052,406.46            |
| Total Net Position                    | <u>\$ 63,143,177.52</u> | <u>\$ 8,278,370.39</u> | <u>\$ -</u>  | <u>\$ 71,421,547.91</u> |

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**Condensed Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2015**

|   | College          | Foundation       | Eliminations | Total            |
|---|------------------|------------------|--------------|------------------|
| <b>OPERATING REVENUES</b>               |                  |                  |              |                  |
| Student Tuition and Fees, Net           | \$ 4,603,648.38  | \$ -             | \$ -         | \$ 4,603,648.38  |
| State and Local Contracts and Grants    | 19,057.02        | -                | -            | 19,057.02        |
| Sales and Services                      | 3,272,677.39     | -                | -            | 3,272,677.39     |
| Other Operating Revenue                 | 124,983.88       | -                | -            | 124,983.88       |
| <br>Total Operating Revenues            | <br>8,020,366.67 | <br>-            | <br>-        | <br>8,020,366.67 |
| <b>OPERATING EXPENSES</b>               |                  |                  |              |                  |
| Operating Expenses                      | 48,981,358.72    | 924,798.85       | 125,725.89   | 49,780,431.68    |
| Total Operating Expenses                | 48,981,358.72    | 924,798.85       | 125,725.89   | 49,780,431.68    |
| Operating Loss                          | (40,960,992.05)  | (924,798.85)     | (125,725.89) | (41,760,065.01)  |
| <br><b>NONOPERATING REVENUES</b>        | <br>             | <br>             | <br>         | <br>             |
| Noncapital Aid and Gifts                | 40,230,470.43    | 370,994.07       | -            | 40,601,464.50    |
| Investment Income, Net                  | 55.87            | 117,807.57       | -            | 117,863.44       |
| Capital Aid and Gifts                   | 2,407,540.59     | 109,000.00       | 125,725.89   | 2,390,814.70     |
| Net Nonoperating Revenues               | 42,638,066.89    | 597,801.64       | 125,725.89   | 43,110,142.64    |
| <br>Additions to Endowments             | <br>-            | <br>138,258.20   | <br>-        | <br>138,258.20   |
| <br>Increase (Decrease) in Net Position | <br>1,677,074.84 | <br>(188,739.01) | <br>-        | <br>1,488,335.83 |
| <br><b>NET POSITION</b>                 | <br>             | <br>             | <br>         | <br>             |
| Net Position, July 1, 2014              | 61,466,102.68    | 8,467,109.40     | -            | 69,933,212.08    |
| Net Position, June 30, 2015             | \$ 63,143,177.52 | \$ 8,278,370.39  | \$ -         | \$ 71,421,547.91 |

**Condensed Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

|  | College            | Foundation      | Eliminations  | Total              |
|--|--------------------|-----------------|---------------|--------------------|
| Net Cash Used by Operating Activities            | \$ (40,843,323.72) | \$ (949,293.50) | \$ 125,725.89 | \$ (41,666,891.33) |
| Cash Provided by Noncapital Financing Activities | 40,442,019.50      | 522,883.18      | -             | 40,964,902.68      |
| Net Cash Provided (Used) by Capital and Related  | (35,453.51)        | 62,500.00       | (125,725.89)  | (98,679.40)        |
| Net Cash Provided (Used) by Investing Activities | 55.87              | (114,600.28)    | -             | (114,544.41)       |
| Net Decrease in Cash and Cash Equivalents        | (436,701.86)       | (478,510.60)    | -             | (915,212.46)       |
| Cash and Cash Equivalents, July 1, 2014          | 7,108,813.08       | 1,170,628.49    | -             | 8,279,441.57       |
| Cash and Cash Equivalents, June 30, 2015         | \$ 6,672,111.22    | \$ 692,117.89   | \$ -          | \$ 7,364,229.11    |

**Gaston College**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 17 –NET POSITION RESTATEMENT**

As of July 1, 2014, net position as previously reported was restated as follows:

|  | Amount                  |
|--|-------------------------|
| July 1, 2014 Net Position as Previously Reported   | \$ 77,244,965.08        |
| Restatements:  |                         |
| Record the College's net pension liability and pension related deferred outflows of resources per GASB 68 requirements | (7,311,753.00)          |
| <b>July 1, 2014 Net Position as Restated</b>   | <b>\$ 69,933,212.08</b> |

**NOTE 18 – SUBSEQUENT EVENTS**

The College has evaluated subsequent events through November 15, 2015, which is the date the financial statements were available to be issued.

**NOTE 19 – AUDIT HOURS AND COST**

This audit required 202 audit hours at an approximate cost of \$36,600. The cost represents 0.04% of the College's total assets and 0.07% of total expenses subjected to audit.

**Gaston College**

**Required Supplementary Information**

**Schedule of Proportionate Net Pension Liability**

**Teachers' and State Employees' Retirement System**

**Last Two Fiscal Years**

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|  | <b>2014</b>   | <b>2013</b>   |
|--|---------------|---------------|
| (1) Proportionate share percentage of collective net pension liability         | 0.15096%      | 0.15200%      |
| (2) Proportionate Share of TSERS collective net pension liability              | \$ 1,769,887  | \$ 9,227,949  |
| (3) Covered-employee payroll   | \$ 22,052,132 | \$ 22,447,539 |
| (4) Net pension liability as a percentage of covered-employee payroll          | 8.03%         | 41.11%        |
| (5) Plan fiduciary net position as a percentage of the total pension liability | 98.24%        | 90.60%        |

**Gaston College**  
**Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

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|  | <b>2015</b>      | <b>2014</b>      | <b>2013</b>      |
|--|------------------|------------------|------------------|
| (1) Contractually required contribution                                    | \$ 2,046,994.42  | \$ 1,916,330.28  | \$ 1,869,879.97  |
| (2) Contributions in relation to the contractually determined contribution | 2,046,994.42     | 1,916,330.28     | 1,869,879.97     |
| (3) Contribution deficiency (excess)                                       | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| (4) Covered-employee payroll   | \$ 22,371,523.60 | \$ 22,052,132.12 | \$ 22,447,538.64 |
| (5) Contributions as a percentage of covered-employee payroll              | 9.15%            | 8.69%            | 8.33%            |
| <hr/>  |                  |                  |                  |
|  | <b>2012</b>      | <b>2011</b>      | <b>2010</b>      |
| (1) Contractually required contribution                                    | \$ 1,616,501.45  | \$ 1,056,823.88  | \$ 699,911.40    |
| (2) Contributions in relation to the actuarially determined contribution   | 1,616,501.45     | 1,056,823.88     | 699,911.40       |
| (3) Contribution deficiency (excess)                                       | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| (4) Covered-employee payroll   | \$ 21,727,169.99 | \$ 21,436,589.81 | \$ 19,605,361.43 |
| (5) Contributions as a percentage of covered-employee payroll              | 7.44%            | 4.93%            | 3.57%            |
| <hr/>  |                  |                  |                  |
|  | <b>2009</b>      | <b>2008</b>      | <b>2007</b>      |
| (1) Contractually required contribution                                    | \$ 661,981.96    | \$ 561,815.46    | \$ 466,643.99    |
| (2) Contributions in relation to the actuarially determined contribution   | 661,981.96       | 561,815.46       | 466,643.99       |
| (3) Contribution deficiency (excess)                                       | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| (4) Covered-employee payroll   | \$ 19,701,844.04 | \$ 18,420,179.04 | \$ 17,543,006.97 |
| (5) Contributions as a percentage of covered-employee payroll              | 3.36%            | 3.05%            | 2.66%            |
| <hr/>  |                  |                  |                  |
|  | <b>2006</b>      |                  |                  |
| (1) Contractually required contribution                                    | \$ 378,979.08    |                  |                  |
| (2) Contributions in relation to the actuarially determined contribution   | 378,979.08       |                  |                  |
| (3) Contribution deficiency (excess)                                       | <u>\$ -</u>      |                  |                  |
| (4) Covered-employee payroll   | \$ 16,195,335.62 |                  |                  |
| (5) Contributions as a percentage of covered-employee payroll              | 2.34%            |                  |                  |

**Gaston College**

**Notes to Required Supplementary Information**

**Schedule of College Contributions**

**Teachers' and State Employees' Retirement System**

**Last Nine Fiscal Years**

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*Changes of Benefit Terms:*

**Cost of Living Increase**

| <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| N/A         | 1.00%       | N/A         | N/A         | N/A         | 2.20%       | 2.20%       | 3.00%       | 2.00%       |

*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

**Report of Independent Auditor 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***

Members of the Board of Trustees  
Gaston College  
Gastonia, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gaston College (the "College") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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 that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
November 15, 2015