

GASTON COLLEGE

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
COLLEGE EXHIBITS	
A-1 STATEMENT OF NET POSITION.....	8
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION....	9
A-3 STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	34

Report of Independent Auditor

Members of the Board of Trustees
Gaston College
Gastonia, 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, 2014 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 audits. 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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 December 10, 2014, 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
December 10, 2014

GASTON COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Gaston College's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2014. 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 increased by \$1,040,376.80. The increase represents a 1.37% increase 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 net positive investment returns and construction activity.

Noncapital Assets which include cash and cash equivalents, investments, accounts receivable, and inventory, increased \$936,409.30 during FY2013-14. Overall cash balances decreased \$320,957.79 as accounts receivable, due from State, and inventory grew \$312,008.26. Investments grew \$868,683.09, producing most of the growth in noncapital assets.

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

Capital Assets decreased by \$98,404.83 as depreciation expense and disposals narrowly exceed new construction activity and equipment purchases. *Net Position Invested in Capital Assets* mirrors the balance reported in the *Capital Assets*.

Current Liabilities increased by \$77,559.13. Within the current liabilities group, unearned revenue, funds held for others, and the current portion of long-term liabilities all increased during FY2013-14. The unearned revenue increase is largely the result of a \$249,800 welding equipment grant from The Duke Energy Community College Grant Program. Increases in unearned revenue, funds held for others, and the current portion of long-term liabilities are offset by a \$240,639.61 decrease in accrued payables.

The primary account in *noncurrent liabilities* is compensated absences. Noncurrent compensated absences decreased during FY2013-14, while its current counterpart increased. The FY2013-14 compensated absences shift from noncurrent to current is the result of an increase in the use of accumulated vacation hours. Accumulated vacation hours used in FY2013-14 forecasts the use of accumulated vacation hours during FY2014-15. The forecasted FY2014-15 use of accumulated vacation hours is recorded as a current liability at the end of FY2013-14; the balance of the liability is recorded as noncurrent. The College also reduced long-term notes payable by \$124,920.27.

**Condensed Statement of Net Position
June 30, 2014 and June 30, 2013**

	<u>FY2013-2014</u>	<u>FY2012-2013</u>	<u>Change</u>	<u>% Change</u>
Noncapital Assets	\$ 18,880,143.18	\$ 17,943,733.88	\$ 936,409.30	5.22%
Capital Assets, Net	62,337,742.85	62,436,147.68	(98,404.83)	(0.16%)
Total Assets	<u>81,217,886.03</u>	<u>80,379,881.56</u>	<u>838,004.47</u>	1.04%
Current Liabilities	2,289,984.58	2,212,425.45	77,559.13	3.51%
Noncurrent Liabilities	1,682,936.37	1,962,867.83	(279,931.46)	(14.26%)
Total Liabilities	<u>3,972,920.95</u>	<u>4,175,293.28</u>	<u>(202,372.33)</u>	(4.85%)
Net Position:				
Investment in Capital Assets	62,337,742.85	62,436,147.68	(98,404.83)	(0.16%)
Restricted	5,343,938.04	5,388,574.10	(44,636.06)	(0.83%)
Unrestricted	9,563,284.19	8,379,866.50	1,183,417.69	14.12%
Total Net Position	<u>\$ 77,244,965.08</u>	<u>\$ 76,204,588.28</u>	<u>\$ 1,040,376.80</u>	1.37%

The College's *Restricted Net Position* decreased by less than one percent. Construction project spending and scholarship awards offset investment earnings for the fiscal year.

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

Unrestricted Net Position is the residual balance in net position after attributing net position to capital and restricted activities. While a variety of items influence the balance of unrestricted net position, the majority of its increase came from auxiliary activities like the bookstore, as well as self-supporting tuition, student fees, and investment earnings.

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 \$1,040,376.80 for the 2013-14 fiscal year. This net increase represents a 18.38% increase from the previous fiscal year's net increase of \$878,817.57.

Continuing, but slowing, declines in enrollment drive many of the year-to-year changes reflected on the Comparative Statement of Revenue, Expenses, and Changes in Net Position. *Student Tuition and Fees* and *Sales and Services* declined despite routine rate increases. As tuition and book rates increased and enrollment declined, the amount of *Scholarship and Fellowship* cash disbursed to students decreased.

State Aid decreased 5.35% during FY2013-14, while *Salaries and Benefits* only decreased 3.70%. The College also reduced spending on *Supplies and Materials* by 17.50% and *Services* by 10.35% to balance spending with State Aid.

County Appropriations grew 3.72%, catching up with prior year expense growth and funding ongoing *utility* increases.

Investment Income totaled \$868,683.09 as Foundation investments, led by a strong equities market, grew during the year.

Depreciation Expense increased 5.10% as new facilities began to depreciate during FY2013-14. This increased depreciation base was offset minimally by asset disposals, which drove *Other Nonoperating Expense* of \$52,653.06 in FY2012-13 to \$82,381.03 in FY2013-14.

County Capital Aid provides some funds for routine maintenance; however, a majority of the funds received during both of the reported fiscal years were spent on construction projects. The 57.68% decrease in County Capital Aid during FY2013-14 comes with the completion of construction projects which were ongoing during FY2012-13. *State Capital Aid* also decreased 64.32% during FY2013-14; a reduction in State-funded equipment purchases supported efforts to balance the College's State funded operating budget.

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

**Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and June 30, 2013**

	<u>FY 2013-14</u>	<u>FY 2012-13</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Student Tuition & Fees, Net	\$ 4,837,753.20	\$ 5,196,430.97	\$ (358,677.77)	(6.90%)
Grants and Contracts	151,684.07	182,311.73	(30,627.66)	(16.80%)
Sales and Services, Net	3,309,131.92	3,396,112.02	(86,980.10)	(2.56%)
Other Operating Revenue	<u>37,461.55</u>	<u>57,246.97</u>	<u>(19,785.42)</u>	<u>(34.56%)</u>
Total Operating Revenue	<u>8,336,030.74</u>	<u>8,832,101.69</u>	<u>(496,070.95)</u>	<u>(5.62%)</u>
Operating Expenses				
Salaries and Benefits	33,630,070.93	34,920,721.62	(1,290,650.69)	(3.70%)
Supplies and Materials	5,467,840.08	6,627,513.61	(1,159,673.53)	(17.50%)
Services	4,293,351.35	4,788,865.85	(495,514.50)	(10.35%)
Scholarships and Fellowships	4,625,840.72	5,029,483.39	(403,642.67)	(8.03%)
Utilities	1,277,246.78	1,247,494.73	29,752.05	2.38%
Depreciation	<u>1,373,279.64</u>	<u>1,306,690.31</u>	<u>66,589.33</u>	<u>5.10%</u>
Total Operating Expenses	<u>50,667,629.50</u>	<u>53,920,769.51</u>	<u>(3,253,140.01)</u>	<u>(6.03%)</u>
Operating Loss	(42,331,598.76)	(45,088,667.82)	2,757,069.06	(6.11%)
Nonoperating Revenues				
State Aid	22,768,838.74	24,056,751.02	(1,287,912.28)	(5.35%)
County Appropriations	4,735,723.04	4,565,723.00	170,000.04	3.72%
Noncapital Grants Financial Aid	12,510,373.34	12,359,608.58	150,764.76	1.22%
Noncapital Grants and Gifts	1,363,550.92	1,340,840.29	22,710.63	1.69%
Investment Income, Net	868,683.09	324,953.16	543,729.93	167.33%
Other Nonoperating Revenue (Expense)	<u>(82,381.03)</u>	<u>(52,653.06)</u>	<u>(29,727.97)</u>	<u>56.46%</u>
Total Nonoperating Revenues	<u>42,164,788.10</u>	<u>42,595,222.99</u>	<u>(430,434.89)</u>	<u>(1.01%)</u>
Loss before Other Revenues and Expenses	(166,810.66)	(2,493,444.83)	2,326,634.17	(93.31%)
Capital Aid and Gifts				
State Capital Aid	504,628.95	1,414,196.07	(909,567.12)	(64.32%)
County Capital Aid	558,376.91	1,319,326.08	(760,949.17)	(57.68%)
Capital Grants	102,114.28	613,085.97	(510,971.69)	(83.34%)
Capital Gifts	35,000.00	-	35,000.00	100.00%
Additions to Endowment	<u>7,067.32</u>	<u>25,654.28</u>	<u>(18,586.96)</u>	<u>(72.45%)</u>
Increase in Net Position	1,040,376.80	878,817.57	161,559.23	18.38%
Net Position - Beginning of Year	<u>76,204,588.28</u>	<u>75,325,770.71</u>	<u>878,817.57</u>	1.17%
Net Position - End of Year	<u>\$77,244,965.08</u>	<u>\$76,204,588.28</u>	<u>\$1,040,376.80</u>	1.37%

GASTON COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Capital Grants* line reports a decrease of \$510,971.69 during FY2013-14. This decrease is almost entirely attributable to a \$500,000.00 Golden Leaf Foundation Grant awarded to the College during FY2012-13 to renovate and expand the Pharr Building. FY2013-14 Capital Grants reflect the beginning of spending related to a \$1,500,000 grant from the United States Department of Commerce, Economic Development Administration for the construction of the Center for Advanced Manufacturing. The College received one *Capital Gift* of \$35,000 to complete the Myers Center auditorium renovation.

Capital Asset Activity

The College completed a number of construction projects during the year. The completed projects included renovation of space for the Esthetics program and for campus police. The College also completed renovations of the student café seating area. A number of projects began during the year, including renovation of space in Pharr and Myers Center, and the Center for Advanced Manufacturing. The College also completed smaller renovation projects during the fiscal year. Construction in progress increased from \$60,240.45 at the beginning of the year, to \$953,899.71 at the end of the 2013-14 fiscal year.

Final Analysis

During the 2013-14 fiscal year, College and Foundation net positions grew \$1,040,376.80. This increase compared to FY2012-13's Net Position growth of \$878,817.57 reflects ongoing construction activities as well as favorable investment returns.

As the economic recovery continued during 2013-14, the College continued to experience declining enrollment. The College's overall funding is closely tied to an enrollment-based funding model used by the State of North Carolina. State funding for the 2014-15 fiscal year will decrease 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 is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should 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, 2014

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 6,852,740.12
Restricted Cash and Cash Equivalents	1,015,299.75
Short-Term Investments	3,122,107.61
Receivables, Net (Note 4)	1,854,722.44
Inventories	814,434.20
Prepaid Items	3,750.00
	<hr/>
Total Current Assets	13,663,054.12
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	411,401.70
Restricted Due from Primary Government	2.82
Restricted Due from State of North Carolina Component Units	400,000.00
Restricted Investments (Note 2)	4,368,744.07
Other Investments	36,940.47
Capital Assets - Nondepreciable (Note 5)	2,117,863.12
Capital Assets - Depreciable, Net (Note 5)	60,219,879.73
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Total Noncurrent Assets	67,554,831.91
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Total Assets	81,217,886.03

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources	0.00
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LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	532,730.53
Unearned Revenue	1,276,768.66
Funds Held for Others	123,577.02
Long-Term Liabilities - Current Portion (Note 7)	356,908.37
	<hr/>
Total Current Liabilities	2,289,984.58
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	1,682,936.37
	<hr/>
Total Liabilities	3,972,920.95

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources	0.00
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NET POSITION

Investment in Capital Assets	62,337,742.85
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,308,372.91
Expendable:	
Scholarships and Fellowships	1,171,788.07
Capital Projects	469,677.10
Other	394,099.96
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Unrestricted	9,563,284.19
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Total Net Position	\$ 77,244,965.08

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, 2014

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 4,837,753.20
State and Local Grants and Contracts	151,684.07
Sales and Services, Net (Note 9)	3,309,131.92
Other Operating Revenues	37,461.55
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Total Operating Revenues	8,336,030.74
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EXPENSES

Operating Expenses:	
Salaries and Benefits	33,630,070.93
Supplies and Materials	5,467,840.08
Services	4,293,351.35
Scholarships and Fellowships	4,625,840.72
Utilities	1,277,246.78
Depreciation/ Amortization	1,373,279.64
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Total Operating Expenses	50,667,629.50
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Operating Loss	(42,331,598.76)
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NONOPERATING REVENUES (EXPENSES)

State Aid	22,768,838.74
County Appropriations	4,735,723.04
Noncapital Grants - Student Financial Aid	12,510,373.34
Noncapital Grants	1,028,500.97
Noncapital Gifts (Note 9)	335,049.95
Investment Income (Net of Investment Expense of \$41,958.21)	868,683.09
Other Nonoperating Expenses	(82,381.03)
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Net Nonoperating Revenues	42,164,788.10
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Loss Before Other Revenues, Expenses, Gains, and Losses	(166,810.66)
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CAPITAL AID AND GIFTS

State Capital Aid	504,628.95
County Capital Aid	558,376.91
Capital Grants	102,114.28
Capital Gifts, Net (Note 9)	35,000.00
Additions to Endowments	7,067.32
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Increase in Net Position	1,040,376.80
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NET POSITION

Net Position, July 1, 2013	76,204,588.28
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Net Position, June 30, 2014	\$ 77,244,965.08
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The accompanying notes to the financial statements are an integral part of this statement.

Gaston College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 8,373,931.91
Payments to Employees and Fringe Benefits	(33,876,556.60)
Payments to Vendors and Suppliers	(11,388,267.54)
Payments for Scholarships and Fellowships	(4,802,047.18)
Other Receipts	47,044.17

Net Cash Used by Operating Activities	(41,645,895.24)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	22,768,838.74
County Appropriations	4,735,723.04
Noncapital Grants - Student Financial Aid	12,510,373.34
Noncapital Grants	940,640.83
Noncapital Gifts and Endowments	325,417.95

Net Cash Provided by Noncapital Financing Activities	41,280,993.90
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	504,628.95
County Capital Aid	551,948.25
Capital Grants	390,867.32
Capital Gifts	35,000.00
Proceeds from Sale of Capital Assets	11,643.08
Acquisition and Construction of Capital Assets	(1,377,218.31)

Net Cash Provided by Capital and Related Financing Activities	116,869.29
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,643,034.99
Investment Income	174,126.76
Purchase of Investments and Related Fees	(2,890,087.67)

Net Cash Used by Investing Activities	(72,925.92)
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Net Decrease in Cash and Cash Equivalents	(320,957.97)
Cash and Cash Equivalents, July 1, 2013	8,600,399.54

Cash and Cash Equivalents, June 30, 2014	\$ 8,279,441.57
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The accompanying notes to the financial statements are an integral part of this statement.

Gaston College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Page 2 of 2

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

Operating Loss	\$ (42,331,598.76)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	1,373,279.64
Nonoperating Other Income	36,740.58
Changes in Assets and Liabilities:	
Receivables, Net	(218,444.04)
Inventories	(124,410.30)
Prepaid Items	(3,750.00)
Accounts Payable and Accrued Liabilities	(269,060.80)
Unearned Revenue	81,054.77
Funds Held for Others	10,303.59
Compensated Absences	(200,009.92)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (41,645,895.24)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	6,852,740.12
Restricted Cash and Cash Equivalents	1,015,299.75
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	411,401.70
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Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 8,279,441.57</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 34,904.44
Change in Fair Value of Investments	443,830.90
Increase in Receivables Related to Nonoperating Income	69,153.92
Loss on Disposal of Capital Assets	(119,121.61)

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 units for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. The blended component unit, although legally separate, is in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit - Although legally separate, 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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.

- 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 5 to 75 years for equipment.

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

I. Deferred Outflows and Inflows of Resources - Deferred Outflows of Resources represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The College has no deferred outflows or inflows of resources at June 30, 2014.

J. 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.

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 inflows and outflows 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 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

- 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, copy center, and food service sales. 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.

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, 2014 was \$6,300.00. The carrying amount of the College's deposits not with the State Treasurer was \$7,353,569.95, and the bank balance was \$ 7,689,019.17.

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$809,934.95, 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 1.3 years as of June 30, 2014. 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, 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.

Investment Type	Investments				
	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 328,118.35	\$ -	\$ 60,363.08	\$ 257,094.15	\$ 10,661.12
U.S. Agencies	60,646.20	-	60,646.20	-	-
Mortgage Pass Throughs	159,996.93	-	-	-	159,996.93
Asset-Backed Securities	84,699.35	-	22,138.80	59,054.35	3,506.20
Domestic Corporate Bonds	311,189.29	-	266,461.61	44,727.68	-
Total Debt Securities	944,650.12	<u>\$ -</u>	<u>\$ 409,609.69</u>	<u>\$ 360,876.18</u>	<u>\$ 174,164.25</u>
Other Securities					
Mutual Funds	3,909,847.74				
Domestic Stocks	2,251,886.34				
Foreign Stocks	384,467.48				
Other	36,940.47				
Total Investments	<u>\$ 7,527,792.15</u>				

Investment income of \$868,683.09 is reported on the basic financial statements net of investment expense. Investment expense for the fiscal year ending June 30, 2014 is \$41,958.21.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, the College's investments with related credit risk were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 60,646.20	\$ 60,646.20	\$ -	\$ -	\$ -
Mortgage Pass Throughs	159,996.93	159,996.93	-	-	-
Asset-Backed Securities	84,699.35	84,699.35	-	-	-
Domestic Corporate Bonds	311,189.29	-	69,250.03	194,293.26	47,646.00
Totals	<u>\$ 616,531.77</u>	<u>\$ 305,342.48</u>	<u>\$ 69,250.03</u>	<u>\$ 194,293.26</u>	<u>\$ 47,646.00</u>

Rating Agency: Moody's

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 \$109,636.67 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	6,300.00
Carrying Amount of Deposits with Private Financial Institutions		7,353,569.95
Investments in the Short-Term Investment Fund (STIF)		809,934.95
Money Market Accounts with Private Financial Institutions		109,636.67
Investments with Private Financial Institutions		7,490,851.68
Other Investments		36,940.47
Total Deposits and Investments		\$ 15,807,233.72
Current:		
Cash and Cash Equivalents	\$	6,852,740.12
Short-term Investments		3,122,107.61
Restricted Cash and Cash Equivalents		1,015,299.75
Noncurrent:		
Restricted Cash and Cash Equivalents		411,401.70
Restricted Investments		4,368,744.07
Other Investments		36,940.47
Total Deposits and Investments		\$ 15,807,233.72

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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, net appreciation of \$782,559.26 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, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,437,859.82	\$ 1,282,000.00	\$ 1,155,859.82
Student Sponsors	103,733.52	0.00	103,733.52
Vendors	225,848.96	0.00	225,848.96
Sales and Service	441,189.13	190,000.00	251,189.13
Intergovernmental	106,204.93	0.00	106,204.93
Pledges	14,476.08	2,590.00	11,886.08
Total Current Receivables	<u>\$ 3,329,312.44</u>	<u>\$ 1,474,590.00</u>	<u>\$ 1,854,722.44</u>

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,109,234.41	\$ -	\$ -	\$ 1,109,234.41
Art, Literature, and Artifacts	54,729.00	-	-	54,729.00
Construction in Progress	60,240.45	1,201,879.15	308,219.89	953,899.71
Total Capital Assets, Nondepreciable	1,224,203.86	1,201,879.15	308,219.89	2,117,863.12
Capital Assets, Depreciable:				
Buildings	70,334,251.61	298,873.93	70,396.00	70,562,729.54
Machinery and Equipment	6,146,558.31	213,106.31	673,153.59	5,686,511.03
General Infrastructure	4,355,391.71	-	-	4,355,391.71
Total Capital Assets, Depreciable	80,836,201.63	511,980.24	743,549.59	80,604,632.28
Less Accumulated Depreciation/Amortization for:				
Buildings	16,225,238.10	982,007.97	70,396.00	17,136,850.07
Machinery and Equipment	2,431,614.71	297,998.00	542,388.90	2,187,223.81
General Infrastructure	967,405.00	93,273.67	-	1,060,678.67
Total Accumulated Depreciation/Amortization	19,624,257.81	1,373,279.64	612,784.90	20,384,752.55
Total Capital Assets, Depreciable, Net	61,211,943.82	(861,299.40)	130,764.69	60,219,879.73
Capital Assets, Net	\$ 62,436,147.68	\$ 340,579.75	\$ 438,984.58	\$ 62,337,742.85

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 257,171.00
Accrued Payroll	240,652.09
Contract Retainage	34,907.44
Total	\$ 532,730.53

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, is presented below. Noncurrent, long-term liabilities total \$1,682,936.37.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 1,967,607.05	\$ 1,057,489.54	\$ 1,132,579.19	\$ 1,892,517.40	\$ 241,295.97
Notes Payable	272,247.61	-	124,920.27	147,327.34	115,612.40
Total Long-Term Liabilities	\$ 2,239,854.66	\$ 1,057,489.54	\$ 1,257,499.46	\$ 2,039,844.74	\$ 356,908.37

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Federal Award Repayment	Dept of Education	1.00%	09/01/2015	\$ 469,247.77	\$ 321,920.43	\$ 147,327.34
Total Notes Payable				\$ 469,247.77	\$ 321,920.43	\$ 147,327.34

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 liability will be repaid over a three year period.

The annual requirements to pay principal and interest on notes payable at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements Notes Payable	
	Principal	Interest
2015	\$ 115,612.40	\$ 869.57
2016	31,714.94	52.88
Total Requirements	\$ 147,327.34	\$ 922.45

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014:

Fiscal Year	Amount
2015	\$ 112,366.92
2016	105,532.81
2017	107,145.67
2018	104,039.92
2019	66,923.03
Total Minimum Lease Payments	\$ 496,008.35

Rental expense for all operating leases during the year was \$132,466.16.

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
Operating Revenues:					
Student Tuition and Fees	\$ 10,113,838.72	\$ 4,092.50	\$ 5,181,993.02	\$ 90,000.00	\$ 4,837,753.20
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 156,521.33	\$ 16,811.88	\$ -	\$ -	\$ 139,709.45
Bookstore	4,504,064.97	32,552.80	\$2,836,630.81	61,000.00	1,573,881.36
Fire Training	226,853.67	-	-	(37,000.00)	263,853.67
Printing	379,479.77	369,665.77	-	-	9,814.00
Textile	1,272,209.39	-	-	71,000.00	1,201,209.39
Vending	50,393.19	-	-	-	50,393.19
Radio Station	15,182.99	-	-	-	15,182.99
Childcare Fees	-	-	-	(1,000.00)	1,000.00
Sales and Services of Education and Related Activities	54,087.87	-	-	-	54,087.87
Total Sales and Services	\$ 6,658,793.18	\$ 419,030.45	\$ 2,836,630.81	\$ 94,000.00	\$ 3,309,131.92
Nonoperating - Noncapital Gifts	\$ 337,639.95	\$ -	\$ -	\$ 2,590.00	\$ 335,049.95
Capital Gifts	\$ 35,000.00	\$ -	\$ -	\$ -	\$ 35,000.00

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

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 17,960,636.07	\$ 885,568.10	\$ 931,507.19	\$ -	\$ -	\$ -	\$ 19,777,711.36
Academic Support	4,582,413.98	104,672.62	499,270.31	-	-	-	5,186,356.91
Student Services	3,041,198.53	42,740.95	452,431.06	-	-	-	3,536,370.54
Institutional Support	4,133,601.90	373,613.27	1,441,511.68	-	-	-	5,948,726.85
Operations and Maintenance of Plant	2,365,812.26	307,483.97	796,549.29	-	1,277,246.78	-	4,747,092.30
Student Financial Aid	-	-	-	4,625,840.72	-	-	4,625,840.72
Auxiliary Enterprises	1,546,408.19	3,753,761.17	172,081.82	-	-	-	5,472,251.18
Depreciation/ Amortization	-	-	-	-	-	1,373,279.64	1,373,279.64
Total Operating Expenses	\$ 33,630,070.93	\$ 5,467,840.08	\$ 4,293,351.35	\$ 4,625,840.72	\$ 1,277,246.78	\$ 1,373,279.64	\$ 50,667,629.50

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The Plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6.00% of covered payroll for members.

For the current fiscal year, 2014, the College had a total payroll of \$26,480,292.40, of which \$22,052,132.12 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,916,330.28 and \$1,323,127.93, respectively.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6.00% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,916,330.28, \$1,869,879.97, and \$1,616,501.45, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by 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 the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.3% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$1,190,815.13, \$1,189,719.55, and \$1,086,358.50, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the College made a statutory contribution of 0.44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were 0.44% and 0.52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$97,029.38, \$98,769.17, and \$112,981.28, 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*.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from employee dishonesty for employees paid from County and Institutional funds are covered by a private insurance company policy with coverage of \$100,000 per occurrence and \$1,000 deductible.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The College purchased School Leaders Error and Omissions Liability Coverage which covers Equal Opportunity occurrences. The policy carries a \$2,500 deductible for each occurrence.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 14 - COMMITMENTS 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 \$1,288,097.08 at June 30, 2014.
- 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.

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

NOTE 16 - BLENDED COMPONENT UNIT

Condensed information for the College's blended component unit for the year ended June 30, 2014, is presented as follows:

Condensed Statement of Net Position
June 30, 2014

ASSETS	<u>College</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets	\$ 9,521,066.97	\$ 4,141,987.15	\$ -	\$ 13,663,054.12
Capital Assets	62,277,742.85	60,000.00	-	62,337,742.85
Other Noncurrent Assets	645,019.49	4,572,069.57	-	5,217,089.06
 Total Assets	 <u>72,443,829.31</u>	 <u>8,774,056.72</u>	 <u>-</u>	 <u>81,217,886.03</u>
 Deferred Outflows of Resources	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 LIABILITIES				
Current Liabilities	1,983,037.26	306,947.32	-	2,289,984.58
Noncurrent Liabilities	1,682,936.37	-	-	1,682,936.37
 Total Liabilities	 <u>3,665,973.63</u>	 <u>306,947.32</u>	 <u>-</u>	 <u>3,972,920.95</u>
 Deferred Inflows of Resources	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 NET POSITION				
Investment in Capital Assets	62,277,742.85	60,000.00	-	62,337,742.85
Restricted - Nonexpendable	-	3,308,372.91	-	3,308,372.91
Restricted - Expendable	577,676.96	1,457,888.17	-	2,035,565.13
Unrestricted	5,922,435.87	3,640,848.32	-	9,563,284.19
 Total Net Position	 <u>\$ 68,777,855.68</u>	 <u>\$ 8,467,109.40</u>	 <u>\$ -</u>	 <u>\$ 77,244,965.08</u>

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

	College	Foundation	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 4,837,753.20	\$ -	\$ -	\$ 4,837,753.20
State and Local Contracts and Grants	151,684.07	-	-	151,684.07
Sales and Services	3,293,948.93	15,182.99	-	3,309,131.92
Other Operating Revenue	37,461.55	-	-	37,461.55
Total Operating Revenues	<u>8,320,847.75</u>	<u>15,182.99</u>	<u>-</u>	<u>8,336,030.74</u>
OPERATING EXPENSES				
Operating Expenses	49,982,313.23	1,158,612.93	473,296.66	50,667,629.50
Total Operating Expenses	<u>49,982,313.23</u>	<u>1,158,612.93</u>	<u>473,296.66</u>	<u>50,667,629.50</u>
Operating Loss	<u>(41,661,465.48)</u>	<u>(1,143,429.94)</u>	<u>(473,296.66)</u>	<u>(42,331,598.76)</u>
NONOPERATING REVENUES				
Noncapital Gifts	40,961,055.06	335,049.95	-	41,296,105.01
Investment Income, Net	50.97	868,632.12	-	868,683.09
Capital Gifts	<u>1,638,416.80</u>	<u>35,000.00</u>	<u>473,296.66</u>	<u>1,200,120.14</u>
Net Nonoperating Revenues	<u>42,599,522.83</u>	<u>1,238,682.07</u>	<u>473,296.66</u>	<u>43,364,908.24</u>
Additions to Endowments	<u>-</u>	<u>7,067.32</u>	<u>-</u>	<u>7,067.32</u>
Decrease in Net Position	<u>938,057.35</u>	<u>102,319.45</u>	<u>-</u>	<u>1,040,376.80</u>
NET POSITION				
Net Position, July 1, 2013	<u>67,839,798.33</u>	<u>8,364,789.95</u>	<u>-</u>	<u>76,204,588.28</u>
Net Position, June 30, 2014	<u>\$ 68,777,855.68</u>	<u>\$ 8,467,109.40</u>	<u>\$ -</u>	<u>\$ 77,244,965.08</u>

Condensed Statement of Cash Flows
June 30, 2014

	College	Foundation	Eliminations	Total
Net Cash Used by Operating Activities	\$ (40,980,153.16)	\$ (1,139,038.74)	\$ 473,296.66	\$ (41,645,895.24)
Cash Provided by Noncapital Financing Activities	40,955,575.95	325,417.95	-	41,280,993.90
Net Cash Provided by Capital and Related Financing Activities	555,165.95	35,000.00	(473,296.66)	116,869.29
Net Cash Provided (Used) by Investing Activities	<u>50.97</u>	<u>(72,976.89)</u>	<u>-</u>	<u>(72,925.92)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	530,639.71	(851,597.68)	-	(320,957.97)
Cash and Cash Equivalents, July 1, 2013	<u>6,578,173.37</u>	<u>2,022,226.17</u>	<u>-</u>	<u>8,600,399.54</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 7,108,813.08</u>	<u>\$ 1,170,628.49</u>	<u>\$ -</u>	<u>\$ 8,279,441.57</u>

GASTON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 17 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through December 10, 2014, which is the date the financial statements were available to be issued.

NOTE 18 - AUDIT HOURS AND COST

This audit required 225 audit hours at an approximate cost of \$35,500. The cost represents 0.04% of the College's total assets and 0.07% of total expenses subjected to audit.

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, 2014, and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated December 10, 2014.

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
December 10, 2014