

***GASTON COLLEGE
FOUNDATION, INC.***
(A Component Unit of Gaston College)

FINANCIAL STATEMENTS

June 30, 2017

And Report of Independent Auditor

GASTON COLLEGE FOUNDATION, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3-7
FINANCIAL STATEMENTS	
Statement of Net Position.....	8
Statement of Revenues, Expenses, and Changes in Net Position.....	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-23
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>.....	24-25

Report of Independent Auditor

Members of the Board of Trustees
Gaston College Foundation, Inc.
Dallas, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Gaston College Foundation, Inc. (the "Foundation"), a component unit of Gaston College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Foundation'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 Foundation'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 Foundation'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, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, 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 August 29, 2017, on our consideration of the Foundation'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 Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Charlotte, North Carolina
August 29, 2017

Gaston College Foundation, Inc.
Management's Discussion and Analysis

The following is a discussion and analysis of Gaston College Foundation's (the "Foundation") financial performance, providing an overview of the activities for fiscal year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes. The Foundation exists to assist Gaston College and its students. The Foundation encourages and secures financial support to further the work of Gaston College. The Foundation receives and administers both restricted and unrestricted contributions in support of Gaston College needs. To accomplish this goal it is not uncommon for Foundation expenditures to exceed receipts in any one year.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Foundation's basic financial statements. The Foundation'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 which provide more detailed information about the financial statements.

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

The Statement of Revenues, Expenses, and Changes in Net Position describes changes in the Foundation'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 Foundation's cash activity for the year. The direct method is used to present cash flows. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Foundation's financial statements.

Statement of Net Position

Net position serves as a useful indicator of the Foundation's financial position. The net position of the Foundation increased \$824,022.15 or 10.33% during fiscal year 2016-17. A summary of the Foundation's assets, liabilities, and net position as of June 30, 2017 and June 30, 2016 follows.

Gaston College Foundation, Inc.
Management's Discussion and Analysis

Condensed Statement of Net Position
For the Fiscal Years Ended June 30, 2017 and June 30, 2016

	<u>FY2016-17</u>	<u>FY2015-16</u>	<u>Change</u>	<u>% Change</u>
Cash	\$ 712,316.29	\$ 670,895.31	\$ 41,420.98	6.17%
Accounts Receivable	284,043.54	1,013,810.80	(729,767.26)	-71.98%
Investments	8,098,794.99	6,768,965.69	1,329,829.30	19.65%
Prepaid Expenses	9,996.35	22,838.23	(12,841.88)	-56.23%
Capital Assets	60,000.00	60,000.00	-	0.00%
Total Assets	<u>9,165,151.17</u>	<u>8,536,510.03</u>	<u>628,641.14</u>	<u>7.36%</u>
Accounts Payable	6,932.68	3,768.06	3,164.62	83.99%
Unearned Revenue	360,365.32	558,910.95	(198,545.63)	-35.52%
Total Liabilities	<u>367,298.00</u>	<u>562,679.01</u>	<u>(195,381.01)</u>	<u>-34.72%</u>
Net Position:				
Invested in Capital Assets	60,000.00	60,000.00	-	0.00%
Restricted Nonexpendable:				
Scholarships and Fellowships	3,472,069.44	3,450,716.50	21,352.94	0.62%
Restricted Expendable:				
Scholarships and Fellowships	1,448,313.05	1,011,515.78	436,797.27	43.18%
Capital Projects	351,482.73	151,500.00	199,982.73	132.00%
Restricted for Specific Programs	156,053.44	195,857.72	(39,804.28)	-20.32%
Unrestricted	3,309,934.51	3,104,241.02	205,693.49	6.63%
Total Net Position	<u>\$ 8,797,853.17</u>	<u>\$ 7,973,831.02</u>	<u>\$ 824,022.15</u>	<u>10.33%</u>

Total assets increased by \$628,641.14 or 7.36% during fiscal year 2016-17 mainly due to an increase in investments and a decrease in accounts receivable and prepaid expenses. Investments increased \$1,329,829.30 or 19.65% during the year due to an additional \$750,000.00 being invested in the portfolio and due to the \$806,767.29 or 3,896.74% increase in investment income over the prior year. Accounts receivable decreased \$729,767.26 or 71.98% during the year due to an \$830,748.77 reimbursement from the College being received and offset by \$170,000.00 in new pledges for the Center of Advanced Manufacturing. Prepaid expenses decreased during the year due to fewer invoices being paid in advance.

Gaston College Foundation, Inc.
Management's Discussion and Analysis

Total Liabilities decreased by \$195,381.01 or 34.72% during fiscal year 2016-17. Current year accounts payable increased by \$3,164.62 and unearned revenues decreased by \$198,545.63. Accounts payable increased due to \$3,431.97 in Radio Station part-time salaries being accrued in 2017 that were not accrued in 2016. Unearned revenue increases as contributions are received and decreases as scholarships and grants are awarded or spent. The Foundation spent \$221,624.92 for equipment using monies previously recorded as unearned revenue. In addition, the Foundation received \$32,365.00 new scholarships during the year which increased unearned revenue.

Net assets increased \$824,022.15 or 10.33% during fiscal year 2017. This increase occurred largely due to additional investments, the increase in investment income over the prior year, a decrease in spending, and an increase in capital gifts. Investment income increased 3896.74% or \$806,767.29 during fiscal year 2017. Spending decreased 10.39% or \$103,856.39 and capital gifts increased 86.11% or \$240,245.54 during fiscal year 2017. Total assets increased by \$628,641.14 or 7.36% during fiscal year 2017 mainly due to an increase in investments.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of operations for the Foundation. A comparative Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2017 and June 30, 2016 shows a net increase of \$824,022.15 or 10.33% for the 2016-17 fiscal year as follows.

Gaston College Foundation, Inc.
Management's Discussion and Analysis

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and June 30, 2016

	<u>FY2016-17</u>	<u>FY2015-16</u>	<u>Change</u>	<u>% Change</u>
Expenses				
Operating Expenses:				
Salaries and Benefits	\$ 174,581.53	\$ 137,926.92	\$ 36,654.61	26.58%
Services, Supplies and Materials	525,593.38	620,408.36	(94,814.98)	-15.28%
Scholarships	195,720.82	241,416.84	(45,696.02)	-18.93%
Total Expenses	<u>895,895.73</u>	<u>999,752.12</u>	<u>(103,856.39)</u>	<u>-10.39%</u>
Operating Loss	(895,895.73)	(999,752.12)	103,856.39	-10.39%
Nonoperating Revenues				
Non-capital Grants and Gifts	351,860.04	361,555.74	(9,695.70)	-2.68%
Investment and Other Income (Net)	827,470.92	20,703.63	806,767.29	3897%
Total Nonoperating Revenues	<u>1,179,330.96</u>	<u>382,259.37</u>	<u>797,071.59</u>	<u>208.52%</u>
Income Before Other Revenues, Expenses, Gains, and Losses	<u>283,435.23</u>	<u>(617,492.75)</u>	<u>900,927.98</u>	<u>-145.90%</u>
Other Revenues				
Capital Gifts	519,286.92	279,028.38	240,258.54	86.11%
Additions to Endowments	21,300.00	33,925.00	(12,625.00)	-37.21%
Total Other Revenues	<u>540,586.92</u>	<u>312,953.38</u>	<u>227,633.54</u>	<u>72.74%</u>
Increase (Decrease) in Net Position	824,022.15	(304,539.37)	1,128,561.52	-370.58%
Net Position				
Net Position - Beginning of Year	<u>7,973,831.02</u>	<u>8,278,370.39</u>	<u>(304,539.37)</u>	<u>-3.68%</u>
Net Position - End of Year	<u>\$ 8,797,853.17</u>	<u>\$ 7,973,831.02</u>	<u>\$ 824,022.15</u>	<u>10.33%</u>

Salaries and benefit expenses paid increased by \$36,654.61 during fiscal year 2016-17. The Radio Station reimburses the College for salaries and benefit expenses as fundraising allows. The Radio Station reimbursed the College \$28,619.63 more for more salaries and benefits during the current fiscal year than the prior fiscal year. The Foundation also reimbursed the College \$8,034.98 for salaries and benefits using the Engaging Veterans in Workforce Development Program Grant during fiscal year 2016-17. This grant was not used to reimburse salaries and benefits in the prior year.

Service, supplies, and materials expenses decreased 15.28% during the year as construction expenses and equipment purchases for the Center for Advanced Manufacturing decreased. Current year scholarship awards decreased by \$45,696.02 or 18.93% due to continuing decline in enrollment.

Gaston College Foundation, Inc.
Management's Discussion and Analysis

Investments and Other Income of the Foundation increased \$806,767.29 or 3,896.74% during the fiscal year due to major recovery in the financial markets following the presidential election. Capital gifts increased \$240,258.54 over fiscal year 2016 mainly due to the \$150,000 gift received from Parkdale and the additional \$30,000 gift received from Owens Corning Foundation. Additions to Endowments decreased in fiscal year 2016-17 by \$12,625.00 or 37.21%.

Final Analysis

Management believes the Foundation is in a strong financial position to continue its mission of supporting the work of Gaston College. However, the Foundation is not without its challenges. The state of the local economy can affect the fundraising efforts of the Foundation. The state of the national and world economies can affect the performance of the investments held by the Foundation. Management is optimistic about the future and focused on identifying potential donors and nurturing the existing donor base.

Request for Information

This report is designed to provide an overview of the Foundation'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 Associate Vice President for Finance, Operations, and Facilities/Controller, Gaston College, 201 Highway 321 South, Dallas, NC 28034.

Gaston College Foundation, Inc.
Statement of Net Position
June 30, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 311,521.81
Restricted Cash and Cash Equivalents	243,103.47
Short-Term Investments	2,961,651.84
Receivables, Net (Note 5)	124,043.54
Prepaid Items	9,996.35
Total Current Assets	<u>3,650,317.01</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	157,691.01
Receivables, Net (Note 5)	160,000.00
Restricted Investments	5,099,989.35
Other Investments	37,153.80
Capital Assets (Note 6)	60,000.00
Total Noncurrent Assets	<u>5,514,834.16</u>

Total Assets	<u>9,165,151.17</u>
---------------------	---------------------

Deferred Outflows of Resources	<u>-</u>
---------------------------------------	----------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	6,932.68
Unearned Revenue	360,365.32
Total Liabilities	<u>367,298.00</u>

Deferred Inflows of Resources	<u>-</u>
--------------------------------------	----------

NET POSITION

Investment in Capital Assets	60,000.00
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,472,069.44
Expendable:	
Scholarships and Fellowships	1,448,313.05
Capital Projects	351,482.73
Restricted for Specific Programs	156,053.44
Unrestricted	3,309,934.51
Total Net Position	<u>\$ 8,797,853.17</u>

Gaston College Foundation, Inc.
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Expenses

Operating Expenses (Note 8)	
Salaries and Benefits	\$ 174,581.53
Supplies and Materials	325,475.59
Services	200,117.79
Scholarships and Fellowships	195,720.82
Total Operating Expenses	<u>895,895.73</u>

Operating Loss (895,895.73)

Nonoperating Revenues

Noncapital Gifts, Net (Note 7)	351,860.04
Investment Income (Net of Investment Expenses of \$40,033.13)	827,470.92
Net Nonoperating Revenues	<u>1,179,330.96</u>

Gain Before Other Revenues, Expenses, Gains, and Losses 283,435.23

Other Revenues, Expenses, Gains, and Losses

Capital Gifts, Net (Note 7)	519,286.92
Additions to Endowments	21,300.00
Total Other Revenues, Expenses, Gains, and Losses	<u>540,586.92</u>

Increase in Net Position 824,022.15

Net Position - Beginning of Year 7,973,831.02

Net Position - End of Year \$ 8,797,853.17

Gaston College Foundation, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows From Operating Activities:

Payments to Employees and Fringe Benefits	\$ (171,149.56)
Payments to Vendors and Suppliers	(513,018.85)
Payments for Scholarships and Fellowships	(195,720.82)
Net Cash Used in Operating Activities	<u>(879,889.23)</u>

Cash Flows From Noncapital Financing Activities:

Noncapital Gifts and Endowments Provided	<u>188,632.90</u>
------------------------------------------	-------------------

Cash Flows From Capital and Related Financing Activities:

Capital Gifts Received	<u>1,235,035.69</u>
------------------------	---------------------

Cash Flows From Investing Activities:

Proceeds from Sales and Maturities of Investments	932,748.59
Investment Income	179,585.08
Purchase of Investments and Related Fees	(1,614,692.05)
Net Cash Used in Investing Activities	<u>(502,358.38)</u>

Net Increase in Cash and Cash Equivalents	41,420.98
-------------------------------------------	-----------

Cash and Cash Equivalents, July 1, 2016	<u>670,895.31</u>
-----------------------------------------	-------------------

Cash and Cash Equivalents, June 30, 2017	<u>\$ 712,316.29</u>
------------------------------------------	----------------------

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:

Operating Loss	<u>\$ (895,895.73)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Prepaid Items	12,841.88
Accounts Payable and Accrued Liabilities	3,164.62
Total Adjustments	<u>16,006.50</u>
Net Cash Used in Operating Activities	<u>\$ (879,889.23)</u>

Reconciliation of Cash and Cash Equivalents:

Current Assets:	
Cash and Cash Equivalents	\$ 311,521.81
Restricted Cash and Cash Equivalents	243,103.47
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>157,691.01</u>
Total Cash and Cash Equivalents	<u>\$ 712,316.29</u>

Noncash Investing, Capital, and Financing Activities:

Change in Fair Value of Investments	<u>\$ 609,482.83</u>
Increase in Receivables Related to Nonoperating Income	<u>\$ 3,164.62</u>

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

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 Foundation, Inc. (the “Foundation”) is a component unit of Gaston College which 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 Foundation for which the Foundation’s Board of Trustees is financially accountable. The Foundation is a component unit of Gaston College and is included in the financial statements of the College as a blended component unit.

Blended Component Unit - Although legally separate, the 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.

- 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 Foundations and Universities*, the full scope of the Foundation’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 Foundation 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.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

Nonexchange transactions, in which the Foundation receives (or gives) value without directly giving (or receiving) equal value in exchange, include 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 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** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding fair value measurement of investments is disclosed in Note 3. 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 contribution 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. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.
- The Foundation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.
- Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 75 years for buildings, and 5 to 75 years for equipment.
- H. 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 whose use is limited by external parties or statute, endowments, and other restricted investments.
- I. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue. The Foundation has no deferred outflows or inflows of resources at June 30, 2017.

J. Net Position - The Foundation's net position is classified as follows:

Investment in Capital Assets - This represents the Foundation'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 Foundation 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 unrestricted gifts and investment 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 Foundation. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

K. Revenue and Expense Recognition - The Foundation 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 Foundation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and sales and services of auxiliary enterprises. 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*.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

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 Foundation, 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.

- L. Unearned Revenue** - Unearned revenue includes the portion of gifts and contributions which have been received as of June 30 of the year, but not earned, and scholarship and grant income that has been received but not expended.
- M. Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- N. Income Taxes** - The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (“IRC”). In accordance with IRC regulations, the Foundation is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of the Foundation. The Foundation accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when the Foundation believes that they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. The Foundation has evaluated all of its tax positions and determined that it had no uncertain income tax positions as of June 30, 2017. Management believes that the Foundation continues to satisfy the requirements of a tax exempt organization and is not subject to tax. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

- A. Deposits** - The Foundation may establish time deposit accounts, money market accounts, and certificates of deposit. The carrying amount of the Foundation’s deposits not with the State Treasurer was \$394,728.69 and the bank balance was \$384,352.14.

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.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. As of June 30, 2017, the Foundation's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the Foundation 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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$90.65, which represents the Foundation's equity position in the 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Except as specified by the donor, endowment funds belonging to the Foundation 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.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

Investments of 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.

Investment Income of \$867,504.05 is reported on the basic financial statements net of investment expense. Investment expense for the fiscal year ending June 30, 2017 is \$40,033.13.

In addition to the maturity-related interest rate risk disclosed above, the Foundation's investments include investments 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 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, 2017, the Foundation's investments with related credit risk were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB Ba and below
Motrgage Pass Throughs	\$ 55,454.48	\$ 55,454.48	\$ -	\$ -	\$ -	\$ -
Asset-Backed Securities	77,500.97	59,995.50	-	-	-	17,505.47
Domestic Corporate Bonds	395,821.21	17,100.03	78,638.84	253,638.16	46,444.18	-
	<u>\$ 528,776.66</u>	<u>\$ 132,550.01</u>	<u>\$ 78,638.84</u>	<u>\$ 253,638.16</u>	<u>\$ 46,444.18</u>	<u>\$ 17,505.47</u>

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation does not have a formal policy for custodial credit risk. All investments are held in the name of the Foundation. Foundation cash and money market accounts of \$317,496.95 are reported as cash and cash equivalents. The Foundation 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 Foundation's investment policy permits it to invest in foreign-currency denominated securities. The Foundation does not currently hold any foreign-currency denominated

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

securities. The Foundation 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 Foundation to the basic financial statements as of June 30, 2017 is as follows:

Carrying Amount of Deposits with Private Financial Institutions	\$ 394,728.69
Investments in the Short-Term Investment Fund (STIF)	90.65
Money Market Accounts with Private Financial Institutions	317,496.95
Investments with Private Financial Institutions	8,061,641.19
Other Investments	37,153.80
Total Deposits and Investments	<u><u>\$ 8,811,111.28</u></u>
Current:	
Cash and Cash Equivalents	\$ 311,521.81
Restricted Cash and Cash Equivalents	243,103.47
Short-Term Investments	2,961,651.84
Noncurrent:	
Restricted Cash and Cash Equivalents	157,691.01
Restricted Investments	5,099,989.35
Other Investments	37,153.80
Total Deposits and Investments	<u><u>\$ 8,811,111.28</u></u>

NOTE 3 – FAIR VALUE MEASUREMENTS

To the extent available, the Foundation's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 - Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the College’s investments within the fair value hierarchy at June 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	\$ 251,751.91	\$ 251,751.91	\$ -	\$ -
Mortgage Pass Throughs	55,454.48	-	55,454.48	-
Asset-backed Securities	77,500.97	-	77,500.97	-
Domestic Corporate Bonds	395,821.21	-	395,821.21	-
Total Debt Securities	<u>780,528.57</u>	<u>251,751.91</u>	<u>528,776.66</u>	<u>-</u>
Short-Term Investment Fund	90.65	-	90.65	-
Equity Mutual Funds	3,768,405.33	3,768,405.33	-	-
Debt Mutual Funds	2,242,742.57	2,242,742.57	-	-
Domestic Stocks	774,455.37	774,455.37	-	-
Foreign Stocks	495,509.35	495,509.35	-	-
Other	37,153.80	37,153.80	-	-
Total Investments by Fair Value Level	<u>\$8,098,885.64</u>	<u>\$7,570,018.33</u>	<u>\$528,867.31</u>	<u>\$ -</u>

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

There has not been a change in valuation techniques used during the fiscal year. Debt and equity securities (U.S. Treasuries, mutual funds, and stocks) classified in Level 1 of the fair value hierarchy are valued at prices quoted in active markets for those securities using the market approach. Values are evaluated by calculating the appropriate spread over a comparable U.S. Treasury for each issue. These spreads represent the amount of additional yield required to account for the risks inherent with stocks, including credit, refunding, and liquidity risk. Evaluations include benchmark quotes on liquid assets, follow both the listed and new issue market, and focus on changing market conditions.

Mortgage pass throughs, asset-backed securities, money market mutual funds, and corporate bonds classified in Level 2 of the fair value hierarchy are valued using an income approach since these types of investments tend to have little, if any, trading activity. The fair value measurement reflects current market expectations about future amounts.

NOTE 4 – ENDOWMENT INVESTMENTS

Investments of the Foundation'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, 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 Foundation'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, 2017, net appreciation of \$1,061,377.02 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.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

NOTE 5 – RECEIVABLES

Receivables at June 30, 2017 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Pledges	\$ 128,913.56	\$ 4,870.02	124,043.54
Noncurrent Receivables:			
Pledges	\$ 160,000.00	\$ -	\$ 160,000

NOTE 6 – CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017 is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 60,000.00	\$ -	\$ -	\$ 60,000.00
Total Capital Assets, Nondepreciable	\$ 60,000.00	\$ -	\$ -	\$ 60,000.00

NOTE 7 – REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less/(Plus) Change in Allowance for Uncollectibles*	Net Revenues
Nonoperating - Noncapital Gifts	\$ 354,110.86	\$ -	\$ -	\$ 2,250.82	\$ 351,860.04
Capital Gifts	\$ 519,286.92	\$ -	\$ -	\$ -	\$ 519,286.92

*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 Foundation
Notes to the Financial Statements
June 30, 2017

NOTE 8 – OPERATING EXPENSES BY FUNCTION

The Foundation’s operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Total
Institutional Support	\$ 174,581.53	\$ 325,475.59	\$ 200,117.79	\$ -	\$ 700,174.91
Student Financial Aid	-	-	-	195,720.82	195,720.82
Total Operating Expenses	\$ 174,581.53	\$ 325,475.59	\$ 200,117.79	\$ 195,720.82	\$ 895,895.73

NOTE 9 – RISK MANAGEMENT

The Foundation 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.

As a component unit of Gaston College, the Foundation is covered by College insurance policies. 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.

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. As the employees of the Foundation are also College employees, they are covered through the College’s policy.

Gaston College Foundation
Notes to the Financial Statements
June 30, 2017

NOTE 10 – RELATED PARTIES

The Foundation, a component unit of Gaston College, provided funds to Gaston College to aid, support, and promote the College. This support was in the amount of \$195,720.82 in scholarships and fellowships and \$322,513.43 in equipment.

NOTE 11 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through August 29, 2017, which is the date the financial statements were available to be issued.

NOTE 12 – AUDIT HOURS AND COST

This audit required approximately 100 audit hours at a cost of \$9,300. The cost represents 0.10% of the Foundation's total assets and 1.04% 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 Foundation, Inc.
Dallas, 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 Foundation, Inc. (the “Foundation”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Foundation’s basic financial statements, and have issued our report thereon dated August 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’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 Foundation’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 Foundation’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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Charlotte, North Carolina
August 29, 2017