GASTON COLLEGE

(A Component Unit of the State of North Carolina)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gaston College (the "College"), a component unit of the State of North Carolina, and Gaston College Foundation, Inc. (the "Foundation") a blended component unit, as of and for the year ended June 30, 2018, which collectively comprises the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In addition, Management identified the under-accrual of payroll expenses in accordance with generally accepted government accounting standards ("GAGAS") at the previous year-end. As a result, net position as of July 1, 2017, has been restated. Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, 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, 2018

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, 2018. 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 is presented in a format that distinguishes between operating and nonoperating revenues.

The Statement of Cash Flows provides detail about 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 an indicator of the College's financial position. In the case of Gaston College, net position decreased $53,687,480.16. Excluding restatements, net position increased $323,492.92. Note 10 provides a more detailed analysis of the restatement. The decrease represents a 67.03% decrease compared to the prior year's total net position. Significant year-to-year differences reported on the Statement of Net Position are the result of pension and postretirement activities.

Noncapital Assets which include cash and cash equivalents, investments, accounts receivable, prepaid expenses, and inventory, increased $1,567,736.07 during the 2017-18 fiscal year. A majority of this increase in noncapital assets comes from positive investment returns. Service and fee revenue also contributed to the increase in noncapital assets.

Capital Assets decreased $255,315.71 as depreciation and disposal costs exceeded new construction and equipment purchases for the fiscal year. *Net Position Invested in Capital Assets* mirrors the balance reported as *Capital Assets* less construction accounts payable and retainage of $28,162.35.

Deferred Outflows decreased from $9,338,754.00 to $7,652,753.00. The decrease in deferred outflows is composed of two items. A decrease in deferred outflows for pensions of $3,124,737.00 which was offset to some extent by the addition of deferred outflows for other postemployment benefits ("OPEB").

Current Liabilities decreased by $613,330.62 primarily as a result of lower construction related accounts payable and retainage which decreased $516,267.57 compared to the prior year. The current liabilities group includes unearned revenue, funds held for others, and the current portion of long-term liabilities. Unearned revenue increased as summer enrollment increased as a result of additional financial aid availability to students through the Pell grant program. The current liability for compensated absences decreased as a result of lower utilization during the current year.

Noncurrent Liabilities include compensated absences, net pension liability, and net OPEB liability. Noncurrent compensated absences increased $65,560.34 during the year, offsetting most of the decrease reported in compensated absences - current liabilities. The net pension liability decreased $2,092,361.00 from $13,603,648.00 to $11,511,287.00 on actuarial calculations and investment performance. The addition of an OPEB liability added $38,838,354.00 to noncurrent liabilities. A majority of this liability was recognized through a current year restatement of unrestricted net position.

Deferred Inflows increased from $642,927.00 to $15,454,344.00 as pension related deferred inflows decreased from $642,927.00 to $376,594. The increase in deferred inflows is the result of the addition of deferred inflows for OPEB. The OPEB deferred inflow was partially recognized through a current year restatement of unrestricted net position.

Condensed Statement of Net Position
For the Fiscal Years Ended June 30, 2018 and June 30, 2017

	FY2017-2018	FY2016-2017	Change	% Change
Noncapital Assets	$ 21,273,948.83	$ 19,706,212.76	$ 1,567,736.07	7.96%
Capital Assets, Net	69,450,510.96	69,705,826.67	(255,315.71)	(0.37%)
Total Assets	90,724,459.79	89,412,039.43	1,312,420.36	1.47%
Deferred Outflows	7,652,753.00	9,338,754.00	(1,686,001.00)	(18.05%)
Total Deferred Outflows	7,652,753.00	9,338,754.00	(1,686,001.00)	(18.05%)
Current Liabilities	3,358,670.72	2,745,340.10	613,330.62	22.34%
Noncurrent Liabilities	53,151,742.10	15,262,590.20	37,889,151.90	248.25%
Total Liabilities	56,510,412.82	18,007,930.30	38,502,482.52	213.81%
Deferred Inflows	15,454,344.00	642,927.00	14,811,417.00	2,303.75%
Total Deferred Inflows	15,454,344.00	642,927.00	14,811,417.00	2,303.75%
Net Position:				
Invested in Capital Assets	69,422,348.61	69,161,396.75	260,951.86	0.38%
Restricted	6,001,508.57	5,903,085.43	98,423.14	1.67%
Unrestricted	(49,011,401.21)	5,035,453.95	(54,046,855.16)	(1,073.33%)
Total Net Position	$ 26,412,455.97	$ 80,099,936.13	$(53,687,480.16)	(67.03%)

Restricted Net Position remained stable, increasing 1.67%. The expenditure of restricted funds exceeded incoming restricted funds. The difference between collections and disbursements was offset by restricted investment income of $334,245.10.

The College's *Unrestricted Net Position* decreased by $54,046,855.16. This decrease was largely the result of the addition of deferrals and liabilities for OPEB. The decrease was offset to some extent by investment income as well as service and fee revenue.

Statement of Revenues, Expenses, and Changes in Net Position
The comparative Statement of Revenues, Expenses, and Changes in Net Position reports an *Increase in Net Position* of $323,492.92. This increase represents a 94.51% decrease over the previous fiscal year's net increase of $5,890,843,80. As construction activities related to the Center for Advanced Manufacturing wound down, *Capital Aid and Gifts* decreased $5,580,185.13, accounting for all of the decrease. The decrease in *Capital Aid and Gifts* was offset nominally by a decrease in the *Loss*

before Other Revenues and Expenses of $12,834.25, which includes all operating revenues, expenses, and nonoperating revenues.

Student Tuition and Fees increased even through the number of full-time equivalent students decreased. The increase is the result of new offerings in continuing education and an increase in proprietary textile training fees. Similarly, *Sales and Service* revenue grew in areas not supported by financial aid. These areas of growth are not eligible for financial aid funding, and as a result do not reduce the *Scholarships and Fellowships* expense. Rather, Bookstore revenue, a component of Sales and Service revenue, decreased $242,737.46 compared to the prior year. *NonCapital Grants and Gifts* revenue, which is derived primarily from Pell grant revenue, was flat compared to the prior year.

Sales and Services and Other operating revenues grew 7.63% compared to the prior year. While Bookstore sales declined, Textile Center and Fire Training revenues increased. Most notably, Textile Center revenue increased $291,455.66 compared to the prior year.

State Aid increased 3.28% during the current year. The State allots a specific amount to the College for the fiscal year. This allotment is recognized as *State Aid*, *Student Tuition*, *State Capital Aid*, and *Capital Grants*. This year *Student Tuition and State Capital Aid* decreased. Since the overall allotment does not change based on how the funds are allocated, the changes in *Tuition* and *State Capital Aid* were offset by a decrease in *State Aid*.

Salaries and Benefits increased 1.19% in part due to a 2.00% salary increase and an increase in health insurance and employer retirement costs. Changes in accounting standards related to OPEB and a reduction in the number of fulltime employees offset, mitigating the overall increase compared to the prior year.

Supplies and Materials decreased $185,272.49 as noncapital equipment spending declined and the Bookstore purchased fewer books for resale.

Services increased $233,685.63 compared to the prior year. A majority of the increase related to plant repairs. Increases in the services purchased by the Foundation, Customized Training, and Student Government Association also contributed to the increase.

County Appropriations grew 4.44%, as Gaston and Lincoln counties increased College support.

Investment Income totaled $505,413.63 as the Gaston College Foundation's investments delivered a solid return for the year, although less than the prior fiscal year.

Depreciation Expense increased 12.09% as new equipment and facilities purchased in the prior year depreciated for a full year. Of the $179,931.11 increase in depreciation, $169,641.88 related to prior year purchases depreciating for a full year and $13,295.01 related to current year purchases.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and June 30, 2017

	FY 2017-18	FY 2016-17	Change	% Change
Operating Revenues				
Student Tuition & Fees, Net	$ 5,160,613.23	$ 5,056,818.83	$ 103,794.40	2.05%
Sales and Services and Other, Net	3,760,911.71	3,494,138.86	266,772.85	7.63%
Total Operating Revenue	8,921,524.94	8,550,957.69	370,567.25	4.33%
Operating Expenses				
Salaries and Benefits	35,462,781.83	35,044,607.47	418,174.36	1.19%
Supplies and Materials	5,004,195.36	5,189,467.85	(185,272.49)	(3.57%)
Services	5,121,908.26	4,888,222.63	233,685.63	4.78%
Scholarships and Fellowships	3,355,974.73	3,034,070.89	321,903.84	10.61%
Utilities	1,203,768.26	1,162,435.90	41,332.36	3.56%
Depreciation	1,668,203.34	1,488,272.23	179,931.11	12.09%
Total Operating Expenses	51,816,831.78	50,807,076.97	1,009,754.81	1.99%
Operating Loss	(42,895,306.84)	(42,256,119.28)	(639,187.56)	1.51%
Nonoperating Revenues				
State Aid	24,456,945.01	23,680,990.58	775,954.43	3.28%
County Appropriations	5,310,821.04	5,085,079.02	225,742.02	4.44%
Noncapital Grants and Gifts	10,877,813.40	10,912,373.65	(34,560.25)	(0.32%)
Investment Income, Net	505,413.63	827,586.94	(322,173.31)	(38.93%)
Other Nonoperating Revenue (Expense)	33,091.73	26,032.81	7,058.92	27.12%
Total Nonoperating Revenues	41,184,084.81	40,532,063.00	652,021.81	1.61%
Loss before Other Revenues and Expenses	(1,711,222.03)	(1,724,056.28)	12,834.25	(0.74%)
Capital Aid and Gifts				
State Capital Aid	1,163,963.37	4,013,725.05	(2,849,761.68)	(71.00%)
County Capital Aid	718,240.50	1,439,987.76	(721,747.26)	(50.12%)
Capital Grants	129,106.06	1,942,525.27	(1,813,419.21)	(93.35%)
Capital Gifts	5,500.00	197,362.00	(191,862.00)	(97.21%)
Additions to Endowment	17,905.02	21,300.00	(3,394.98)	(15.94%)
Increase in Net Position	323,492.92	5,890,843.80	(5,567,350.88)	(94.51%)
Net Position - Beginning of Year	80,099,936.13	74,209,092.33	5,890,843.80	7.94%
Cumulative Effect of Change in Accounting Principle	(54,010,973.08)	-	(54,010,973.08)	
Net Position - Beginning of Year - as Restated	26,088,963.05	74,209,092.33	(48,120,129.28)	(64.84%)
Net Position - End of Year	$ 26,412,455.97	$ 80,099,936.13	$ (53,687,480.16)	(67.03%)

County Capital Aid provides funds for routine plant maintenance and construction projects. The decrease in County Capital Aid during the current year follows completion of construction activity on the Center for Advanced Manufacturing. A majority of the current year's funds were spent to add an ADA compliant elevator to the Dalpiaz building.

State Capital Aid decreased 71.00% during the current year. The prior year's State Capital Aid included a special allotment of $3,400,000 for construction and equipment from the State for the Center for Advanced Manufacturing. The special allotment did not carry into the current year. Current year State Capital Aid was used to purchase furniture and equipment for ongoing operations.

Capital Grants decreased 93.35% during the current year. This decrease reflects the expenditure of the EDA and Timken grants in the prior year. *Capital Gifts* also decreased 97.21% as the Center for Advanced Manufacturing completed in the previous year.

Capital Asset Activity

After completing the Center for Advanced Manufacturing, the College started the construction process to build a Veterinary Technician building on the Dallas campus. The College also completed smaller renovation projects during the fiscal year. Construction in progress increased from $94,307.03 at the beginning of the year, to $331,448.32 at the end of the current year.

Final Analysis

During the 2017-18 fiscal year, the College's net position decreased $53,687,480.16. This decrease is the result of changes in pension and OPEB accounting standards and is offset to some extent by investment income and other income from services and fees.

As a growing economic climate continued through the 2017-18 fiscal year, the College continued to experience declining enrollment. The College's overall funding is closely tied to the State's enrollment-based funding model. State funding for the 2018-19 fiscal year decreases as a function of enrollment. The College also receives funding from Gaston and Lincoln Counties; county funding is dependent upon the economic climate in each county.

Request for Information

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

Gaston College
Statement of Net Position
June 30, 2018

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 7,968,070.00
Restricted Cash and Cash Equivalents	700,529.75
Short-Term Investments	3,135,460.15
Receivables, Net (Note 5)	2,181,595.37
Inventories	615,933.18
Prepaid Items	437,021.46
Total Current Assets	15,038,609.91
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	567,267.10
Receivables, Net (Note 5)	120,000.00
Restricted Investments	5,434,664.47
Other Investments	37,227.35
Net OPEB Asset	76,180.00
Capital Assets - Nondepreciable (Note 6)	1,712,550.84
Capital Assets - Depreciable, Net (Note 6)	67,737,960.12
Total Noncurrent Assets	75,685,849.88
Total Assets	90,724,459.79
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	6,214,017.00
Deferred Outflows for OPEB	1,438,736.00
Total Deferred Outflows of Resources	7,652,753.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,649,635.21
Unearned Revenue	1,317,576.84
Funds Held for Others	170,545.51
Long-Term Liabilities - Current Portion (Note 8)	220,913.16
Total Current Liabilities	3,358,670.72
Noncurrent Liabilities:	
Long-Term Liabilities (Note 8)	53,151,742.10
Total Liabilities	56,510,412.82
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	376,594.00
Deferred Inflows for OPEB	15,077,750.00
Total Deferred Inflows of Resources	15,454,344.00
NET POSITION	
Net Investment in Capital Assets	69,422,348.61
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,490,048.01
Expendable:	
Scholarships and Fellowships	1,685,390.73
Capital Projects	559,617.79
Other	266,452.04
Unrestricted	(49,011,401.21)
Total Net Position	$ 26,412,455.97

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, 2018

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 11)	$ 5,160,613.23
State and Local Grants and Contracts	160,883.00
Sales and Services, Net (Note 11)	3,469,400.94
Other Operating Revenues	130,627.77
Total Operating Revenues	8,921,524.94
EXPENSES	
Operating Expenses:	
Salaries and Benefits	35,462,781.83
Supplies and Materials	5,004,195.36
Services	5,121,908.26
Scholarships and Fellowships	3,355,974.73
Utilities	1,203,768.26
Depreciation and Amortization	1,668,203.34
Total Operating Expenses	51,816,831.78
Operating Loss	(42,895,306.84)
NONOPERATING REVENUES	
State Aid	24,456,945.01
County Appropriations	5,310,821.04
Noncapital Grants - Student Financial Aid	9,036,544.87
Noncapital Grants	1,434,403.42
Noncapital Gifts, Net	406,865.11
Investment Income (Net of Investment Expense of $43,927.84)	505,413.63
Other Nonoperating Revenue	33,091.73
Net Nonoperating Revenues	41,184,084.81
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,711,222.03)
CAPITAL AID AND GIFTS	
State Capital Aid	1,163,963.37
County Capital Aid	718,240.50
Capital Grants	129,106.06
Capital Gifts	5,500.00
Additions to Endowments	17,905.02
Increase in Net Position	323,492.92
NET POSITION	
Net Position, July 1, 2017, as restated (Note 20)	26,088,963.05
Net Position, June 30, 2018	$ 26,412,455.97

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	8,864,687.91
Payments to Employees and Fringe Benefits		(34,294,625.52)
Payments to Vendors and Suppliers		(11,501,973.88)
Payments for Scholarships and Fellowships		(3,371,966.14)
Other Receipts		40,279.93
Net Cash Used by Operating Activities		(40,263,597.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		24,456,945.01
County Appropriations		5,310,821.04
Noncapital Grants - Student Financial Aid		9,030,853.55
Noncapital Grants and Gifts		2,099,808.57
Additions to Endowments		17,905.02
Net Cash Provided by Noncapital Financing Activities		40,916,333.19
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		2,252,753.36
County Capital Aid		692,497.62
Capital Grants		221,696.26
Capital Gifts		75,500.00
Proceeds from Insurance on Capital Assets		1,178.95
Acquisition and Construction of Capital Assets		(1,933,951.78)
Net Cash Provided by Capital and Related Financing Activities		1,309,674.41
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		2,391,241.81
Investment Income		183,471.33
Purchase of Investments and Related Fees		(2,577,856.49)
Net Cash Used by Investing Activities		(3,143.35)
Net Increase in Cash and Cash Equivalents		1,959,266.55
Cash and Cash Equivalents, July 1, 2017		7,276,600.30
Cash and Cash Equivalents, June 30, 2018	$	9,235,866.85

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, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(42,895,306.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		1,668,203.34
Miscellaneous Nonoperating Income		36,709.36
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(74,559.85)
Inventories		(82,984.01)
Prepaid Items		(37,403.49)
Net Other Postemployment Benefits Asset		4,625.00
Deferred Outflows Related to Pensions		3,124,737.00
Deferred Outflows Related to Other Postemployment Benefits		(11,948.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(96,782.53)
Unearned Revenue		1,731.41
Funds Held for Others		3,570.57
Net Pension Liability		(2,092,361.00)
Net Other Postemployment Benefits Liability		(14,688,806.00)
Compensated Absences		65,560.34
Deferred Inflows Related to Pensions		(266,333.00)
Deferred Inflows Related to Other Postemployment Benefits		15,077,750.00
Net Cash Used by Operating Activities	$	(40,263,597.70)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	7,968,070.00
Restricted Cash and Cash Equivalents		700,529.75
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		567,267.10
Total Cash and Cash Equivalents - June 30, 2018	$	9,235,866.85

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	28,162.35
Change in Fair Value of Investments		205,005.00
Loss on Disposal of Capital Assets		(3,617.63)

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

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 (the "College") is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended with the College's financial statements. The blended component unit, although legally separate, is in substance, part of the College's operations and therefore, is reported as if it were part of the College. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, The Gaston College Foundation, Inc. (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.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 201 Highway 321 South, Dallas, North Carolina 28034, or by calling (704) 922-6309. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed information regarding the blended component unit is provided in Note 18.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with GAAP as prescribed by the Governmental Accounting Standards Board ("GASB").

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

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 - To the extent available, investments are reported at fair value based on quoted market prices in active markets or on a trade-date basis. Additional information regarding the 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 change 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, vendor credits, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

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

H. Capital Assets - Capital assets are stated at cost at date of acquisition or 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 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/amortization is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery & Equipment	5-75 years
General Infrastructure	10-75 years

The Rauch collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015, are stated at fair value as of the date of donation. The collection is considered inexhaustible and is therefore not depreciated.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include long-term liabilities that will not be paid within the next fiscal year. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefit ("OPEB") liability.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 Comprehensive Annual Financial Report. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences include the accumulated, unused portion of certain special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31st is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has the following items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows related to other postemployment benefits.

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(s) and so will not be recognized as an inflow of resource (revenue) until then. The College has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

Deferred outflows and inflows of resources relate to the pension plan as further described in Note 13 and other postemployment benefits in Note 14.

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

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

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources.

See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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 non-operating 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 non-operating 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*.

Non-operating 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 non-operating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstore and copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

Q. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended Gaston County current appropriations revert at the end of the fiscal year. Unexpended Lincoln County current appropriations and Gaston County capital appropriations do not revert and are available for future use. Gaston County capital appropriations and capital bond funds are drawn as needed.

R. Unearned Revenue - Unearned revenue includes the portion of student tuition and fees for summer programs which have been received as of June 30 of the year, but not earned; scholarship and grant income that has been received but not expended; and unearned revenue for certain ongoing projects.

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 savings and loan association, or trust company 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, 2018, was $5,725.00. The carrying amount of the College's deposits not with the State Treasurer was $9,154,334.27, and the bank balance was $9,387,472.84.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2018, 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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $12,102.03, which represents the College's equity position in the State Treasurer's 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 1.4 years as of June 30, 2018. 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 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 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. Details of these investments are reported in Note 3 of these financial statements.

Investment Income of $505,413.63 is reported on the basic financial statements net of investment expense. Investment expense for the fiscal year ending June 30, 2018, is $43,927.84.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has 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, 2018, the College did not hold investments with a direct credit risk. The College does invest in bonds through mutual funds.

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 money market accounts of $63,705.55 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 Foundation's investment policy permits it to invest in foreign-currency denominated securities. The Foundation does not currently hold any foreign-currency denominated 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 to the basic financial statements as of June 30, 2018, is as follows:

Cash on Hand	$	5,725.00
Carrying Amount of Deposits with Private Financial Institutions		9,154,334.27
Investments in the Short-Term Investment Fund (STIF)		12,102.03
Money Market Accounts with Private Financial Institutions		63,705.55
Investments with Private Financial Institutions		8,570,124.62
Other Investments		37,227.35
Total Deposits and Investments	$	17,843,218.82

Current:		
Cash and Cash Equivalents	$	7,968,070.00
Short-term Investments		3,135,460.15
Restricted Cash and Cash Equivalents		700,529.75
Noncurrent:		
Restricted Cash and Cash Equivalents		567,267.10
Restricted Investments		5,434,664.47
Other Investments		37,227.35
Total Deposits and Investments	$	17,843,218.82

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2018. 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 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 the College 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, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Investment by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 3,118,163.76	$ 3,118,163.76	$ -	$ -
Total Debt Securities	3,118,163.76	3,118,163.76	-	-
Other Securities				
International Mutual Funds	1,204,882.20	1,204,882.20	-	-
Equity Mutual Funds	2,480,974.21	2,480,974.21	-	-
Real Estate Mutual Funds	423,633.14	423,633.14	-	-
Domestic Stocks	739,268.03	739,268.03	-	-
Foreign Stocks	603,203.28	603,203.28	-	-
Total Other Securities	5,451,960.86	5,451,960.86	-	-
Total Investments by Fair Value Level	8,570,124.62	$ 8,570,124.62	$ -	$ -
Investment Measured at the Net Asset Value (NAV)				
Other - Life Insurance	37,227.35			
Investment as a Position in an External Investment Pool				
Short-Term Investment Fund	12,102.03			
Total Investment Measured at Fair Value	$ 8,619,454.00			

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.

Short-Term Investment Fund - At year-end, the College held investments valued at $12,102.03 in the STIF. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value.

NOTE 4 - 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 UPMIFA, authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Income available for disbursement is determined by a total return calculation. Specifically, the fair 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, 2018, net appreciation of $1,295,000.98 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 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,220,375.39	$ 1,881,000.00	$ 1,339,375.39
Student Sponsors	58,528.22	-	58,528.22
Vendors	86,105.56	-	86,105.56
Sales and Service	579,871.24	213,000.00	366,871.24
Intergovernmental	247,277.15	-	247,277.15
Pledges	90,984.41	7,546.60	83,437.81
Total Current Receivables	$ 4,283,141.97	$ 2,101,546.60	$ 2,181,595.37
Noncurrent Receivables:			
Pledges	$ 123,000.00	$ 3,000.00	$ 120,000.00
Total Noncurrent Receivables	$ 123,000.00	$ 3,000.00	$ 120,000.00

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 1,326,373.52	$ -	$ -	$ 1,326,373.52
Art, Literature, and Artifacts	54,729.00	-	-	54,729.00
Construction in Progress	94,307.03	1,095,683.58	858,542.29	331,448.32
Total Capital Assets, Nondepreciable	1,475,409.55	1,095,683.58	858,542.29	1,712,550.84
Capital Assets, Depreciable:				
Buildings	79,828,685.79	600,181.14	-	80,428,866.93
Machinery and Equipment	8,489,699.75	429,703.83	27,758.97	8,891,644.61
General Infrastructure	4,355,391.71	150,657.95	-	4,506,049.66
Total Capital Assets, Depreciable	92,673,777.25	1,180,542.92	27,758.97	93,826,561.20
Less Accumulated Depreciation/Amortization for:				
Buildings	20,187,207.32	1,104,503.93	-	21,291,711.25
Machinery and Equipment	2,915,653.17	469,421.36	22,962.39	3,362,112.14
General Infrastructure	1,340,499.64	94,278.05	-	1,434,777.69
Total Accumulated Depreciation/Amortization	24,443,360.13	1,668,203.34	22,962.39	26,088,601.08
Total Capital Assets, Depreciable, Net	68,230,417.12	(487,660.42)	4,796.58	67,737,960.12
Capital Assets, Net	$ 69,705,826.67	$ 608,023.16	$ 863,338.87	$ 69,450,510.96

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 460,172.79
Accrued Payroll	1,178,745.07
Contract Retainage	10,717.35
Total	$ 1,649,635.21

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented below. Noncurrent, long-term liabilities total $53,151,742.10.

	Restated Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Compensated Absences	$ 1,957,453.92	$ 1,183,895.76	$ 1,118,335.42	$ 2,023,014.26	$ 220,913.16
Net Pension Liability	13,603,648.00	-	2,092,361.00	11,511,287.00	-
Net Other Postemployment Benefit Liability	54,527,160.00	-	14,688,806.00	39,838,354.00	-
	$ 70,088,261.92	$ 1,183,895.76	$ 17,899,502.42	$ 53,372,655.26	$ 220,913.16

Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postretirement benefit liaiblity is included in Note 14.

NOTE 9 - 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, 2018:

Fiscal Year	Amount
2018-19	$ 134,101.91
2019-20	107,032.95
2020-21	31,370.70
Total Minimum Lease Payments	$ 272,505.56

Rental expense for all operating leases during the year was $130,846.50.

NOTE 10 - NET POSITION

The unrestricted net position amount of ($49,011,401.21) has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources, deferred inflows of resources and long-term liabilities. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 6,214,017.00	$ -	$ 6,214,017.00
Deferred Outflows Related to OPEB	-	1,359,046.00	1,359,046.00
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	(11,511,287.00)	-	(11,511,287.00)
Net OPEB Liability	-	(39,838,354.00)	(39,838,354.00)
Deferred Inflows Related to Pensions	(376,594.00)	-	(376,594.00)
Deferred Inflows Related to OPEB	-	(15,077,750.00)	(15,077,750.00)
Effect on Unrestricted Net Position	$ (5,673,864.00)	$ (53,557,058.00)	$ (59,230,922.00)

See Notes 13 and 14 for detailed information regarding the amortization of the Deferred Outflows of Resources and Deferred Inflows of Resources relating to pensions and OPEB, respectively.

NOTE 11 - 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, Net	$ 9,348,842.18	$ 45,055.00	$ 4,271,173.95	$ (128,000.00)	$ 5,160,613.23
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 3,035,973.62	$ 12,699.05	$ 1,684,729.36	$ 20,000.00	$ 1,318,545.21
Fire Training	323,078.89	-	-	-	323,078.89
Printing	266,890.01	253,004.31	-	-	13,885.70
Textile	1,762,843.92	-	-	61,000.00	1,701,843.92
Vending	43,468.64	-	-	-	43,468.64
Sales and Services of Education: and Related Activities	68,578.58	-	-	-	68,578.58
Total Sales and Services, Net	$ 5,500,833.66	$ 265,703.36	$ 1,684,729.36	$ 81,000.00	$ 3,469,400.94
Nonoperating - Noncapital Gifts, Net	$ 412,541.69	$ -	$ -	$ 5,676.58	$ 406,865.11
Capital Gifts, Net	$ 5,500.00	$ -	$ -	$ -	$ 5,500.00

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

NOTE 12 - 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	$ 17,992,111.33	$ 1,302,915.79	$ 1,192,225.39	$ -	$ -	$ -	$ 20,487,252.51
Academic Support	5,215,904.47	197,446.83	686,526.58	-	-	-	6,099,877.88
Student Services	3,373,891.55	65,187.18	427,624.61	-	-	-	3,866,703.34
Institutional Support	4,490,125.22	110,903.18	1,531,742.08	-	-	-	6,132,770.48
Operations and Maintenance of Plant	2,699,504.90	764,182.98	898,341.65	-	1,203,768.26	-	5,565,797.79
Student Financial Aid	-	-	-	3,355,974.73	-	-	3,355,974.73
Auxiliary Enterprises	1,691,244.36	2,563,559.40	385,447.95	-	-	-	4,640,251.71
Depreciation and Amortization	-	-	-	-	-	1,668,203.34	1,668,203.34
Total Operating Expenses	$ 35,462,781.83	$ 5,004,195.36	$ 5,121,908.26	$ 3,355,974.73	$ 1,203,768.26	$ 1,668,203.34	$ 51,816,831.78

NOTE 13 - PENSION PLANS

Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2018, was 10.78% of covered payroll. The College's contributions to the pension plan were $2,421,571.98, and employee contributions were $1,347,298.88 for the year ended June 30, 2018.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the state of North Carolina's fiscal year 2017 *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 https://www.osc.nc.gov/ and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the College reported a liability of $11,511,287.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The College’s proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the College’s proportion was 0.14508%, which was a decrease of 0.00293% from its 0.14801% proportion measured as of June 30, 2016.

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

Valuation Date	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed In	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments .The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2017, calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 23,694,994.00	$ 11,511,287.00	$ 1,302,894.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the College recognized pension expense of $3,186,112.00. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 249,543.00	$ 376,594.00
Changes in Assumptions	1,818,610.00	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,557,868.00	-
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	166,424.00	-
Contributions Subsequent to the Measurement Date	2,421,572.00	-
Total	$ 6,214,017.00	$ 376,594.00

The amount of $2,421,572.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2019	$ 713,617.00
2020	2,243,569.00
2021	1,082,140.00
2022	(623,475.00)
2023	-
Total	$ 3,415,851.00

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2017 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other OPEB plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the "Plan"), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies ("LEAs"), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System ("TSERS"). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The College's contributions to the RHBF were $1,359,045.50 for the year ended June 30, 2018. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("DIPNC"), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The College's contributions to DIPNC were $31,448.97 for the year ended June 30, 2018. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

C. Net OPEB Liability

Net OPEB Liability: At June 30, 2018, the College reported a liability of $39,838,354.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The College's proportion of the net OPEB liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the College's proportion was 0.12151%, which was an decrease of 0.00383% from its proportion measured as of June 30, 2016, which was 0.12534%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of $76,180.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The College's proportion of the net OPEB asset was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the College's proportion was 0.12464%, which was an decrease of 0.00548% from its proportion measured as of June 30, 2016, which was 0.13012%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
RHBF	$ 47,524,868.00	$ 39,838,354.00	$ 33,741,857.00
	1% Decrease (2.75%)	**Current Discount Rate (3.75%)**	**1% Increase (4.75%)**
DIPNC	$ (64,764.00)	$ (76,180.00)	$ (87,622.00)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net Pension Liability	$ 32,544,266	$ 39,838,354	$ 49,533,128
DIPNC Net Pension Liability	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the College recognized OPEB expense of $1,728,090.00 for RHB and $44,026.00 for DIPNC. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Difference Between Actual and Expected Experience	$ -	$ 20,887.00	$ 20,887.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	16,698.00	16,698.00
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	-	10,656.00	10,656.00
Contributions Subsequent to the Measurement Date	1,359,046.00	31,449.00	1,390,495.00
Total	$ 1,359,046.00	$ 79,690.00	$ 1,438,736.00

Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Difference Between Actual and Expected Experience	$ 2,856,483.00	$ -	$ 2,856,483.00
Changes in Assumptions	10,971,301.00	-	10,971,301.00
Net Difference Between Projected and Actual Earnings on Plan Investments	14,806.00	-	14,806.00
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,235,160.00	-	1,235,160.00
Total	$ 15,077,750.00	$ -	$ 15,077,750.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBF	DIPNC
2019	$ (3,016,290.00)	$ 14,691.00
2020	(3,016,290.00)	14,691.00
2021	(3,016,290.00)	14,687.00
2022	(3,016,290.00)	4,172.00
2023	(3,012,590.00)	-
Total	$ (15,077,750.00)	$ 48,241.00

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (the "Plan"), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina ("DIPNC"), part of the State's Pension and Other Employee Benefit Trust Funds. Short-Term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Public Officers' and Employees' Liability Insurance

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

2. Automobile, Fire, and Other Property Losses

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

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

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

NOTE 16 - 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 $144,945.00 at June 30, 2018.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

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

NOTE 17 - 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, 2018.

NOTE 18 - BLENDED COMPONENT UNIT

Condensed information for the College's blended component unit for the year ended June 30, 2018, is presented as follows:

Condensed Statement of Net Position

June 30, 2018

ASSETS	College	Foundation	Eliminations	Total
Current Assets	$ 11,051,373.65	$ 3,989,431.42	$ (2,195.16)	$ 15,038,609.91
Capital Assets, Net	69,390,510.96	60,000.00	-	69,450,510.96
Other Noncurrent Assets	472,364.13	5,762,974.79	-	6,235,338.92
Total Assets	80,914,248.74	9,812,406.21	(2,195.16)	90,724,459.79
DEFERRED OUTFLOWS OF RESOURCES	7,652,753.00	-	-	7,652,753.00
LIABILITIES				
Current Liabilities	2,692,655.98	668,209.90	(2,195.16)	3,358,670.72
Long-Term Liabilities	53,151,742.10	-	-	53,151,742.10
Other Noncurrent Liabilities	-	-	-	-
Total Liabilities	55,844,398.08	668,209.90	(2,195.16)	56,510,412.82
DEFERRED INFLOWS OF RESOURCES	15,454,344.00	-	-	15,454,344.00
NET POSITION				
Net Investment in Capital Assets	69,362,348.61	60,000.00	-	69,422,348.61
Restricted - Nonexpendable	-	3,490,048.01	-	3,490,048.01
Restricted - Expendable	224,568.41	2,286,892.15		2,511,460.56
Unrestricted	(52,318,657.36)	3,307,256.15	-	(49,011,401.21)
Total Net Position	$ 17,268,259.66	$ 9,144,196.31	$ -	$ 26,412,455.97

Condensed Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2018

	College	Foundation	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 5,160,613.23	$ -	$ -	$ 5,160,613.23
State and Local Contracts and Grants	160,883.00	-	-	160,883.00
Sales and Services	3,469,400.94	-	-	3,469,400.94
Other Operating Revenue	130,627.77	-	-	130,627.77
Total Operating Revenues	8,921,524.94	-	-	8,921,524.94
OPERATING EXPENSES				
Operating Expenses	49,599,586.37	608,203.09	(59,161.02)	50,148,628.44
Depreciation/Amortization	1,668,203.34	-	-	1,668,203.34
Total Operating Expenses	51,267,789.71	608,203.09	(59,161.02)	51,816,831.78
Operating Loss	(42,346,264.77)	(608,203.09)	59,161.02	(42,895,306.84)
NONOPERATING REVENUES				
Noncapital Aid and Gifts	40,323,385.96	414,446.24	(59,161.02)	40,678,671.18
Investment Income, Net	159.14	505,254.49	-	505,413.63
Capital Aid and Gifts	1,999,869.45	16,940.48	-	2,016,809.93
Net Nonoperating Revenues	42,323,414.55	936,641.21	(59,161.02)	43,200,894.74
Additions to Endowments	-	17,905.02	-	17,905.02
Increase (Decrease) in Net Position	(22,850.22)	346,343.14	-	323,492.92
NET POSITION				
Net Position, July 1, 2017 as restated	17,291,109.88	8,797,853.17	-	26,088,963.05
Net Position, June 30, 2018	$ 17,268,259.66	$ 9,144,196.31	$ -	$ 26,412,455.97

Condensed Statement of Cash Flows

June 30, 2018

	College	Foundation	Eliminations	Total
Net Cash Used by Operating Activities	$ (39,713,866.81)	$ (608,891.91)	$ 59,161.02	$ (40,263,597.70)
Cash Provided by Noncapital Financing Activities	40,179,675.56	736,657.63	-	40,916,333.19
Net Cash Provided by Capital and Related Financing Activities	1,275,394.95	93,440.48	(59,161.02)	1,309,674.41
Net Cash Provided (Used) by Investing Activities	159.14	(3,302.49)	-	(3,143.35)
Net Increase in Cash and Cash Equivalents	1,741,362.84	217,903.71	-	1,959,266.55
Cash and Cash Equivalents, July 1, 2017	6,564,284.01	712,316.29	-	7,276,600.30
Cash and Cash Equivalents, June 30, 2018	$ 8,305,646.85	$ 930,220.00	$ -	$ 9,235,866.85

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board ("GASB"):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 20 - NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

	Amount
July 1, 2017 Net Position as Previously Reported	$ 80,099,936.13
Restatements:	
Record the College's Net OPEB Asset and Liability and OPEB Related	
Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(53,019,567.00)
Record Deferred Faculty Compensation	(991,406.08)
July 1, 2017 Net Position as Restated	$ 26,088,963.05

NOTE 21 - SUBSEQUENT EVENTS

Subsequent to year end, the College committed to contracts for the construction of a Veterinary Technology Facility for approximately $5,300,000. The majority of the commitment will be funded with approved North Carolina bonds.

The College has evaluated subsequent events through December 10, 2018, which is the date the financial statements were available to be issued.

NOTE 22 - AUDIT HOURS AND COST

This audit required 245 audit hours at an approximate cost of $38,400. The cost represents 0.04% of the College's total assets and 0.07% of total expenses subjected to audit.

Gaston College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years

	2017	2016	2015	2014	2013
(1) Proportionate share percentage of collective net pension liability	0.14508%	0.14801%	0.14997%	0.15096%	0.15200%
(2) Proportionate Share of TSERS collective net pension liability	$ 11,511,287	$ 13,603,648	$ 5,526,691	$ 1,769,887	$ 9,227,949
(3) Covered payroll	$ 23,064,074	$ 22,837,649	$ 23,371,524	$ 22,052,132	$ 22,447,539
(4) Net pension liability as a percentage of covered payroll	49.91%	59.57%	23.65%	8.03%	41.11%
(5) Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, as amended

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

		2018	2017	2016
(1)	Contractually required contribution	$ 2,421,572.00	$ 2,300,990.89	$ 2,089,645.00
(2)	Contributions in relation to the contractually determined contribution	2,421,572.00	2,300,990.89	2,089,645.00
(3)	Contribution deficiency (excess)	$ -	$ -	$ -
(4)	Covered payroll	$ 22,463,562.00	$ 23,064,074.38	$ 22,837,648.78
(5)	Contributions as a percentage of covered payroll	10.78%	9.98%	9.15%

		2015	2014	2013
(1)	Contractually required contribution	$ 2,046,994.42	$ 1,916,330.28	$ 1,869,879.97
(2)	Contributions in relation to the actuarially determined contribution	2,046,994.42	1,916,330.28	1,869,879.97
(3)	Contribution deficiency (excess)	$ -	$ -	$ -
(4)	Covered payroll	$ 22,371,523.60	$ 22,052,132.12	$ 22,447,538.64
(5)	Contributions as a percentage of covered payroll	9.15%	8.69%	8.33%

		2012	2011	2010
(1)	Contractually required contribution	$ 1,616,501.45	$ 1,056,823.88	$ 699,911.40
(2)	Contributions in relation to the actuarially determined contribution	1,616,501.45	1,056,823.88	699,911.40
(3)	Contribution deficiency (excess)	$ -	$ -	$ -
(4)	Covered payroll	$ 21,727,169.99	$ 21,436,589.81	$ 19,605,361.43
(5)	Contributions as a percentage of covered payroll	7.44%	4.93%	3.57%

		2009
(1)	Contractually required contribution	$ 661,981.96
(2)	Contributions in relation to the actuarially determined contribution	661,981.96
(3)	Contribution deficiency (excess)	$ -
(4)	Covered-employee payroll	$ 19,701,844.04
(5)	Contributions as a percentage of covered-employee payroll	3.36%

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

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

Gaston College
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability (Asset)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years

		2017		2016
Retiree Health Benefit Fund				
(1) Proportionate Share Percentage of Collective Net OPEB Liability (Asset)		**0.12151%**		**0.12534%**
(2) Proportionate Share of Collective Net OPEB Liability (Asset)	$	39,838,354	$	54,527,160
(3) Covered Payroll	$	23,064,074	$	22,837,649
(4) Net OPEB Liability as a Percentage of Covered Payroll		172.73%		238.76%
(5) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)		3.52%		2.41%
Disability Income Plan of North Carolina				
(1) Proportionate Share Percentage of Collective Net OPEB Liability (Asset)		**0.12464%**		**0.13012%**
(2) Proportionate Share of Collective Net OPEB Liability (Asset)	$	(76,180.00)	$	(80,805.00)
(3) Covered Payroll	$	23,064,074	$	22,837,649
(4) Net OPEB Liability as a Percentage of Covered Payroll		0.33%		0.35%
(5) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)		116.23%		116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* .

Gaston College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Retiree Health Benefit Fund

	2018	2017	2016	2015	2014
(1) Contractually Required Contribution	$ 1,359,045.50	$ 1,340,022.74	$ 1,278,908.32	$ 1,228,196.64	$ 1,190,815.13
(2) Contributions in Relation to the Contractually Determined Contribution	1,359,045.50	1,340,022.74	1,278,908.32	1,228,196.64	1,190,815.13
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 22,463,561.91	$ 23,064,074.38	$ 22,837,648.78	$ 22,371,523.60	$ 22,052,132.12
(5) Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	2012	2011	2010	2009
(1) Contractually Required Contribution	$ 1,189,719.55	$ 1,086,358.50	$ 1,050,392.90	$ 882,241.26	$ 807,775.61
(2) Contributions in Relation to the Contractually Determined Contribution	1,189,719.55	1,086,358.50	1,050,392.90	882,241.26	807,775.61
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 22,447,538.64	$ 21,727,169.99	$ 21,436,589.81	$ 19,605,361.43	$ 19,701,844.04
(5) Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina

	2018	2017	2016	2015	2014
(1) Contractually Required Contribution	$ 31,448.97	$ 87,643.47	$ 93,934.36	$ 91,723.25	$ 97,029.38
(2) Contributions in Relation to the Contractually Determined Contribution	31,448.97	87,643.47	93,934.36	91,723.25	97,029.38
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 22,463,561.91	$ 23,064,074.38	$ 22,837,648.78	$ 22,371,523.60	$ 22,052,132.12
(5) Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	2012	2011	2010	2009
(1) Contractually Required Contribution	$ 98,769.17	$ 112,981.28	$ 111,470.27	$ 101,947.88	$ 102,449.59
(2) Contributions in Relation to the Contractually Determined Contribution	98,769.17	112,981.28	111,470.27	101,947.88	102,449.59
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 22,447,538.64	$ 21,727,169.99	$ 21,436,589.81	$ 19,605,361.43	$ 19,701,844.04
(5) Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

Gaston College
Notes to Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note **XX** for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

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, 2018, 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, 2018.

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, 2018