

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE
ASHEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Asheville-Buncombe Technical Community College

This report presents the results of our financial statement audit of Asheville-Buncombe Technical Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Asheville-Buncombe Technical Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Asheville-Buncombe Technical Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Asheville-Buncombe Technical Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

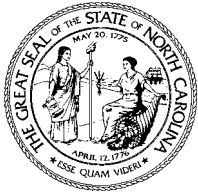
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Asheville-Buncombe Technical Community College
Asheville, North Carolina

We have audited the accompanying basic financial statements of Asheville-Buncombe Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Asheville-Buncombe Technical Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

January 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Asheville-Buncombe Community College's annual financial report presents management's discussion and analysis of the College's financial activity for the fiscal year ended June 30, 2003. The discussion should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, notes and this discussion are the responsibility of management.

Using the Annual Report

This report consists of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis - for Public Colleges and Universities*.

The statement format presents financial information in a form similar to that used by corporations. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements. Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. This statement combines current financial resources and capital assets.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and County appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well-being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the institution. Nonfinancial factors must also be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of nonfinancial factors that have an impact on the College's condition.

The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

College Assets and Liabilities

The assets of the College are divided between current and noncurrent assets. Current Assets include Cash and Cash Equivalents, Receivables, Inventories and Notes Receivable for student loans. Noncurrent Assets consist of Cash and Cash Equivalents, Receivables and Capital Assets (land, construction in progress, buildings, infrastructure, and equipment). The College's capital assets are stated at historical cost less depreciation. A purchase is recorded as a capital asset if the item costs \$5,000 or more and has a useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for infrastructure, 15 to 40 years for buildings and 5 to 15 years for equipment.

Current assets at June 30, 2003, increased due to an increase in cash. County current cash was less in 2002 because \$445,965 of that year's appropriation was a receivable at year-end. At June 30, 2003, the entire appropriation was received thus reflecting more cash and decreased receivables. In addition, several institutional funds cash balances increased significantly including the bookstore which increased \$144,582. Receivables decreased due to having received all of the county appropriation during the fiscal year as explained above.

Noncurrent Assets increased due to an increase in the receivable due from the North Carolina Community College System for construction projects from \$169,231.71 at 2002 to \$1,861,562.04 at 2003.

Current and Noncurrent Assets

	FY 2002-03	FY 2001-02	Increase/ (Decrease)	% Increase/ (Decrease)
Assets				
Cash and Cash Equivalents	\$ 3,059,889.52	\$ 1,640,069.91	\$ 1,419,819.61	86.57%
Receivables, Net	480,296.87	885,659.83	(405,362.96)	(45.77%)
Inventories	539,928.34	647,682.31	(107,753.97)	(16.64%)
Notes Receivable, Net	<u>5,964.18</u>	<u>5,941.89</u>	<u>22.29</u>	0.38%
 Total Current Assets	 <u>4,086,078.91</u>	 <u>3,179,353.94</u>	 <u>906,724.97</u>	 28.52%
 Cash and Cash Equivalents	 1,147,676.38	 1,124,158.80	 23,517.58	 2.09%
Receivables	1,861,562.04	169,231.71	1,692,330.33	1,000.01%
Capital Assets, Net	<u>39,353,996.83</u>	<u>37,261,543.07</u>	<u>2,092,453.76</u>	5.62%
 Total Noncurrent Assets	 <u>42,363,235.25</u>	 <u>38,554,933.58</u>	 <u>3,808,301.67</u>	 9.88%
 Total Assets	 <u>\$ 46,449,314.16</u>	 <u>\$ 41,734,287.52</u>	 <u>\$ 4,715,026.64</u>	 11.30%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current Liabilities increased due to increased contracts and retainage payable at 2003. Noncurrent Liabilities include compensated absences that will not be paid within the next fiscal year and Funds Held for Others which represents cash held in the College's State Treasurer's Investment Fund (STIF) account for the Asheville-Buncombe Technical Community College Foundation, Inc. Both compensated absences and Foundation cash in the STIF account increased from 2002 to 2003. Compensated absences at 2003 included the accumulated unused portion of the special annual leave bonus awarded to all full-time permanent employees as of October 1, 2002. The bonus leave accounted for \$460,674 of the 2003 noncurrent compensated absences total of \$1,325,753. Foundation cash held in the STIF account increased because of increased donations from \$451,243 at 2002 to \$1,062,800 at 2003.

Liabilities

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ Decrease</u>
Current Liabilities	\$ 1,591,676.63	\$ 476,491.32	\$ 1,115,185.31	234.04%
Noncurrent Liabilities	<u>2,388,554.12</u>	<u>1,413,066.92</u>	<u>975,487.20</u>	69.03%
Total Liabilities	<u>\$ 3,980,230.75</u>	<u>\$ 1,889,558.24</u>	<u>\$ 2,090,672.51</u>	110.64%

Net Assets

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets increased \$2,624,354.13 for the fiscal year for a year-end total of \$42,469,083.41. The total consists of net assets invested in capital assets of \$39,353,996.83, restricted net assets of \$1,846,387.99, and unrestricted net assets of \$1,268,698.59.

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include Student Tuition and Fees; Federal, State, and Local Operating Grants; Sales and Services Revenue; and Other Operating Revenues. Sales and Services revenue mainly is derived from bookstore operations. The slight decrease from 2002 to 2003 is due to a change in the way scholarship discounts were handled in the two years. At 2003, bookstore revenue was reduced by \$216,765 for scholarship discounts. At 2002, the entire amount of discounts offset tuition. Federal Grant Revenue consists of revenue from the Federal Title IV student financial aid programs. The Pell grant program is the largest and accounts for \$2,481,264 or 95% of the total. Operating revenues in total remained stable over the two-year period.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenues

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ Decrease</u>
Student Tuition and Fees	\$ 3,937,722.92	\$ 3,444,464.08	\$ 493,258.84	14.32%
Federal Grants and Contracts	2,612,326.58	2,404,712.73	207,613.85	8.63%
State and Local Grants and Contracts	12,330.03	4,053.59	8,276.44	204.18%
Sales and Services, Net	2,113,306.28	2,172,419.58	(59,113.30)	(2.72%)
Other Operating Revenues	<u>9,812.15</u>	<u>153,290.61</u>	<u>(143,478.46)</u>	<u>(93.60%)</u>
 Total Operating Revenues	 <u>\$ 8,685,497.96</u>	 <u>\$ 8,178,940.59</u>	 <u>\$ 506,557.37</u>	 6.19%

Nonoperating Revenues comprise the major portion of the College's income and include appropriations from State and local governments, Noncapital Grants and Gifts, and Investment Income. The largest amount, State Aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations. Nonoperating revenues experienced a small increase in 2002-03. Other Nonoperating Expense was much higher in 2001-02 due to a write off of a large receivable. Fiscal Year 2002-03 Nonoperating Expense consisted mainly of a loss on the disposal of a piece of equipment which was not fully depreciated.

Nonoperating Revenues

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ Decrease</u>
State Aid	\$ 14,398,489.43	\$ 14,102,614.01	\$ 295,875.42	2.10%
County Appropriations	4,887,839.00	4,666,305.03	221,533.97	4.75%
Noncapital Grants and Gifts	745,968.21	775,925.45	(29,957.24)	(3.86%)
Investment Income	107,050.39	111,835.38	(4,784.99)	(4.28%)
Other Nonoperating Revenues (Expenses)	<u>(17,984.68)</u>	<u>(389,317.17)</u>	<u>371,332.49</u>	<u>(95.38%)</u>
 Total Nonoperating Revenues	 <u>\$ 20,121,362.35</u>	 <u>\$ 19,267,362.70</u>	 <u>\$ 853,999.65</u>	 4.43%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statement No. 34/35. Operating Expenses showed a small increase in 2002-03. Supplies and material expenses increased in all functional areas particularly in instruction and auxiliary services. Utilities increased because more space was occupied at the College's Enka Campus.

Operating Expenses

	FY 2002-03	FY 2001-02	Increase/ (Decrease)	% Increase/ Decrease
Personal Services	\$ 20,420,119.73	\$ 19,169,993.50	\$ 1,250,126.23	6.52%
Supplies and Materials	4,480,750.58	3,692,788.37	787,962.21	21.34%
Services	2,039,865.78	2,138,653.34	(98,787.56)	(4.62%)
Scholarships and Fellowships	2,100,524.35	1,931,210.88	169,313.47	8.77%
Utilities	1,067,885.20	900,874.85	167,010.35	18.54%
Depreciation	1,546,327.16	1,533,659.07	12,668.09	0.83%
Total Operating Expenses	\$ 31,655,472.80	\$ 29,367,180.01	\$ 2,288,292.79	7.79%

Capital Contributions

Capital Contributions consist of State and local appropriations for equipment, construction, building improvements and infrastructure. The federal portion of the State Capital Aid is classified as Capital Grants. State Capital Aid increased significantly because State construction revenue increased \$2,921,247 from \$1,040,417 in 2001-02 to \$3,961,664 in 2002-03. In addition, the College received donated equipment totaling \$47,000.

Capital Contributions

	FY 2002-03	FY 2001-02	Increase/ (Decrease)	% Increase/ Decrease
State Capital Aid	\$ 4,879,395.46	\$ 1,727,533.96	\$ 3,151,861.50	182.45%
County Capital Appropriations	185,428.77	423,208.97	(237,780.20)	(56.19%)
Capital Grants	361,142.39	172,368.54	188,773.85	109.52%
Capital Gifts	47,000.00	316,000.00	(269,000.00)	(85.13%)
Total Capital Contributions	\$ 5,472,966.62	\$ 2,639,111.47	\$ 2,833,855.15	107.38%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset Activity

Asheville-Buncombe Technical Community College's capital assets as of June 30, 2003, amount to \$39,353,996.83 net of accumulated depreciation of \$31,613,058.88. Significant capital activity in the current year consists primarily of additions to buildings of \$1,086,141.86 and construction in progress of \$2,643,874.55. The Computer Technology Center and Hospitality Education Center projects are new buildings in progress. The Enka Center and Dental Laboratory additions to buildings are renovations to existing structures. The College has outstanding commitments totaling \$2,206,498.12 relating to these projects.

Analysis of Financial Position

For the year ended June 30, 2003, the College had a net increase in cash and cash equivalents of \$1,443,337.19, representing a 52.21% increase in cash and cash equivalents when compared to the July 1, 2002, balance. As discussed in College Assets and Liabilities, county current cash increased since all of the allotted appropriation was received in the current fiscal year thus reflecting more cash and decreased receivables. In addition, several institutional funds cash balances increased significantly including the bookstore which increased \$144,582.00.

Net Assets increased by \$2,624,354.13 million, reflecting a 6.58% change from Net Assets as of June 30, 2002. As noted above in Capital Contributions, this is due to a significant increase in State Construction Revenue.

Management concludes that financial position has remained strong during the past fiscal year.

Economic Factors and Next Year's Budget

The State of North Carolina has experienced a revenue shortfall during the past two years and this may have a significant impact on future budgets.

Asheville-Buncombe Technical Community College**Statement of Net Assets****June 30, 2003****Exhibit A****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	2,355,542.74
Restricted Cash and Cash Equivalents		704,346.78
Receivables, Net (Note 3)		480,296.87
Inventories		539,928.34
Notes Receivable, Net (Note 3)		5,964.18
Total Current Assets		4,086,078.91

Noncurrent Assets:

Restricted Cash and Cash Equivalents		1,147,676.38
Restricted Due from Primary Government		1,861,562.04
Capital Assets - Nondepreciable, Net (Note 4)		8,969,316.17
Capital Assets - Depreciable, Net (Note 4)		30,384,680.66
Total Noncurrent Assets		42,363,235.25

Total Assets**46,449,314.16****LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		1,255,436.83
Due to Primary Government		1,440.57
Deferred Revenue		161,678.58
Funds Held for Others		61,978.37
Long-Term Liabilities - Current Portion (Note 6)		111,142.28
Total Current Liabilities		1,591,676.63

Noncurrent Liabilities:

Funds Held for Others		1,062,800.44
Long-Term Liabilities (Note 6)		1,325,753.68
Total Noncurrent Liabilities		2,388,554.12

Total Liabilities**3,980,230.75****NET ASSETS**

Invested in Capital Assets 39,353,996.83

Restricted for:

Nonexpendable:

Scholarships and Fellowships 54,668.33

Expendable:

Scholarships and Fellowships 5,726.10

Loans 9,404.92

Capital Projects 1,608,971.87

Other 167,616.77

Unrestricted 1,268,698.59

Total Net Assets**\$ 42,469,083.41**

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

<i>Asheville-Buncombe Technical Community College</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	3,937,722.92
Federal Grants and Contracts		2,612,326.58
State and Local Grants and Contracts		12,330.03
Sales and Services, Net (Note 8)		2,113,306.28
Other Operating Revenues		9,812.15
Total Operating Revenues		8,685,497.96
EXPENSES		
Operating Expenses:		
Personal Services		20,420,119.73
Supplies and Materials		4,480,750.58
Services		2,039,865.78
Scholarships and Fellowships		2,100,524.35
Utilities		1,067,885.20
Depreciation		1,546,327.16
Total Operating Expenses		31,655,472.80
Operating Loss		(22,969,974.84)
NONOPERATING REVENUES (EXPENSES)		
State Aid		14,398,489.43
County Appropriations		4,887,839.00
Noncapital Grants		669,469.29
Noncapital Gifts, Net (Note 8)		76,498.92
Investment Income, Net		107,050.39
Other Nonoperating (Expenses)		(17,984.68)
Net Nonoperating Revenues		20,121,362.35
Loss Before Other Revenues, Expenses, Gains, and Losses		(2,848,612.49)
State Capital Aid		4,879,395.46
County Capital Appropriations		185,428.77
Capital Grants		361,142.39
Capital Gifts, Net (Note 8)		47,000.00
Increase in Net Assets		2,624,354.13
NET ASSETS		
Net Assets, July 1, 2002		39,844,729.28
Net Assets, June 30, 2003	\$	42,469,083.41
The accompanying notes to the financial statements are an integral part of this statement.		

Asheville-Buncombe Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 8,833,868.93
Payments to Employees and Fringe Benefits		(19,924,149.74)
Payments to Vendors and Suppliers		(7,447,619.22)
Payments for Scholarships and Fellowships		(2,100,524.35)
Loans Issued to Students		(34,624.18)
Collection of Loans to Students		34,103.79
Other Receipts		612,023.26
Net Cash Used by Operating Activities		(20,026,921.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		14,398,489.43
County Appropriations		4,887,839.00
Noncapital Grants Received		1,125,196.52
Noncapital Gifts and Endowments Received		76,498.92
Net Cash Provided by Noncapital Financing Activities		20,488,023.87
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		3,187,065.13
County Capital Appropriations		185,428.77
Capital Grants Received		321,286.27
Acquisition and Construction of Capital Assets		(2,816,342.21)
Net Cash Provided by Capital and Related Financing Activities		877,437.96
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		104,796.87
Net Cash Provided by Investing Activities		104,796.87
Net Increase in Cash and Cash Equivalents		1,443,337.19
Cash and Cash Equivalents, July 1, 2002		2,764,228.71
Cash and Cash Equivalents, June 30, 2003		\$ 4,207,565.90

Asheville-Buncombe Technical Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (Loss)		\$ (22,969,974.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,546,327.16
Provision for Uncollectible Loans and Writeoffs		498.10
Miscellaneous Nonoperating Income		(484.74)
Changes in Assets and Liabilities:		
Receivables, Net		(8,254.63)
Inventories		107,753.97
Notes Receivable, Net		(520.39)
Accounts Payable and Accrued Liabilities		77,035.25
Due to Primary Government		1,123.91
Deferred Revenue		155,618.46
Funds Held for Others		613,939.57
Compensated Absences		450,016.67
Net Cash Used by Operating Activities		<u>\$ (20,026,921.51)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 2,355,542.74
Restricted Cash and Cash Equivalents		704,346.78
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,147,676.38
Total Cash and Cash Equivalents - June 30, 2003		<u>\$ 4,207,565.90</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability		\$ 792,938.65
Assets Acquired through a Gift		47,000.00
Increase in Receivables Related to Nonoperating Income		1,694,583.85
The accompanying notes to the financial statements are an integral part of this statement.		

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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, 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. Asheville-Buncombe Technical Community 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, overnight repurchase agreements, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and amounts due from bookstore vendors. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost. Merchandise for resale is valued using the average cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 15 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. 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 July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of October 1, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- K. Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets – This represents the College's total investment in capital assets.

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

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

N. Internal Sales Activities – The College Bookstore provides goods and services to College departments, as well as to its customers. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- O. 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 county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$6,334.00. The carrying amount of cash on deposit was \$4,201,231.90 and the bank balance was \$4,328,372.50.

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.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 3,912,095.37	\$ 4,025,811.53
Cash on Deposit with Private Financial Institutions	<u>289,136.53</u>	<u>302,560.97</u>
	<u>\$ 4,201,231.90</u>	<u>\$ 4,328,372.50</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$53,589.00 of the bank balance was covered by federal depository insurance, and \$248,971.97 was securitized by overnight repurchase agreements.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 228,042.33	\$ 11,734.58	\$ 216,307.75
Accounts	147,543.12	1,536.51	146,006.61
Intergovernmental	104,727.08		104,727.08
Other	13,255.43		13,255.43
Total Current Receivables	\$ 493,567.96	\$ 13,271.09	\$ 480,296.87
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 6,274.52	\$ 310.34	\$ 5,964.18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 5,798,514.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,798,514.00
Construction in Progress	1,181,466.96	(654,539.34)	2,643,874.55		3,170,802.17
Total Capital Assets, Nondepreciable	6,979,980.96	(654,539.34)	2,643,874.55		8,969,316.17
Capital Assets, Depreciable:					
Buildings	54,339,024.97	654,539.34	431,602.52		55,425,166.83
Machinery and Equipment	4,739,967.45		533,572.40	342,870.71	4,930,669.14
General Infrastructure	1,594,672.18		47,231.39		1,641,903.57
Total Capital Assets, Depreciable	60,673,664.60	654,539.34	1,012,406.31	342,870.71	61,997,739.54
Less Accumulated Depreciation:					
Buildings	26,626,207.55		1,184,706.69		27,810,914.24
Machinery and Equipment	2,889,343.70		287,162.91	325,370.77	2,851,135.84
General Infrastructure	876,551.24		74,457.56		951,008.80
Total Accumulated Depreciation	30,392,102.49		1,546,327.16	325,370.77	31,613,058.88
Total Capital Assets, Depreciable, Net	30,281,562.11	654,539.34	(533,920.85)	17,499.94	30,384,680.66
Capital Assets, Net	\$ 37,261,543.07	\$ 0.00	\$ 2,109,953.70	\$ 17,499.94	\$ 39,353,996.83

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 780,833.72
Accrued Payroll	251,825.93
Contract Retainage	222,777.18
Total Accounts Payable and Accrued Liabilities	\$ 1,255,436.83

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 986,879.29	\$ 1,365,478.25	\$ 915,461.58	\$ 1,436,895.96	\$ 111,142.28

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	\$ 59,312.92
2005	22,301.28
2006	3,890.60
2007	2,492.10
Total Minimum Lease Payments	\$ 87,996.90

Rental expense for all operating leases during the year was \$64,033.87.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 4,299,521.34	\$ 0.00	\$ 353,669.73	\$ 8,128.69	\$ 3,937,722.92
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,162,481.49	\$ 9,529.48	\$ 216,765.32	\$ 587.44	\$ 1,935,599.25
Other	88,481.58				88,481.58
Sales and Services of Education and Related Activities	96,842.87	7,617.42			89,225.45
Total Sales and Services	\$ 2,347,805.94	\$ 17,146.90	\$ 216,765.32	\$ 587.44	\$ 2,113,306.28
Nonoperating - Noncapital Gifts	\$ 76,498.92	\$ 0.00	\$ 0.00	\$ 0.00	\$ 76,498.92
Capital Gifts	\$ 47,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 47,000.00

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 12,212,391.17	\$ 1,775,409.82	\$ 714,219.78	\$ 0.00	\$ 0.00	\$ 0.00	\$ 14,702,020.77
Public Service	2,522.95	298.11	80.50				2,901.56
Academic Support	2,260,596.36	248,408.45	159,770.07				2,668,774.88
Student Services	1,115,438.08	68,578.50	128,756.03				1,312,772.61
Institutional Support	2,500,914.89	181,306.80	622,482.45				3,304,704.14
Operations and Maintenance of Plant	2,186,062.15	389,822.23	369,864.94		1,067,885.20		4,013,634.52
Student Financial Aid				2,100,524.35			2,100,524.35
Auxiliary Enterprises	142,194.13	1,816,926.67	44,692.01				2,003,812.81
Depreciation						1,546,327.16	1,546,327.16
Total Operating Expenses	\$ 20,420,119.73	\$ 4,480,750.58	\$ 2,039,865.78	\$ 2,100,524.35	\$ 1,067,885.20	\$ 1,546,327.16	\$ 31,655,472.80

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$17,242,567.22, of which \$12,095,435.88 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$725,726.16. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$238,009.64, and \$594,138.84, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College. The voluntary contributions by employees amounted to \$17,346.00 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$232,706.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$85,306.61 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$284,242.74. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$62,896.27. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - 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.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

Employee dishonesty insurance for employees paid from non-State funds is purchased from Cincinnati Insurance Company with coverage of \$50,000 per occurrence and a \$1,000 deductible.

The College's dental plan is self-funded and administered by the Guardian Life Insurance Company. The administrative fee includes aggregate stop loss protection of \$49.12 per employee per month.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,206,498.12 and on other purchases were \$82,680.44 at June 30, 2003.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$8,983,857.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE FOUNDATION, INC.

The Asheville-Buncombe Technical Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation, and the Foundation's cash held in the College's State Treasurer's Investment Fund. Noncurrent Funds Held for

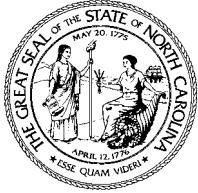
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Others of \$1,062,800.44 represents the Foundation's cash held in the College's State Treasurer's Investment Fund account. The distributions received and/or benefits provided by the Foundation approximated \$100,196.70 for the year ended June 30, 2003.

***Asheville-Buncombe Technical Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Computer Technology Center Renovations #1	Nov 2002	\$ 5,000,000.00	\$ 0.00	\$ 5,000,000.00	\$ 2,708,310.59	54.17%	Dec 2003
Dental Lab Renovations	Dec 2000	41,000.00		41,000.00	41,000.00	100.00%	Jul 2001
Enka Center Renovations	Dec 2001	400,000.00		400,000.00	384,753.00	96.19%	Aug 2002
	Jan 2002	600,000.00		600,000.00	600,000.00	100.00%	May 2003
<i>Projects Pending Approval by the State Board</i>							
Renovations #2	Feb 2004	22,176.00		22,176.00	2,174.00	9.80%	Aug 2004
Hospitality Education Center	Jan 2004	5,898,254.00		5,898,254.00	210,757.00	3.57%	Jun 2005
Fernihurst Renovation	Feb 2005	900,000.00		900,000.00	30,035.75	3.34%	Oct 2005
<i>Projects Not Started - To Be Funded in Future Years</i>							
Birch Building Renovation	Nov 2004	800,000.00		800,000.00			
Corporate Technology Center Renovations #2	Mar 2004	416,351.00		416,351.00			
Total All Projects		\$ 14,077,781.00	\$ 0.00	\$ 14,077,781.00	\$ 3,977,030.34		
<p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p>							



Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Asheville-Buncombe Technical Community College
Asheville, North Carolina

We have audited the financial statements of Asheville-Buncombe Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 21, 2004. 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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
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course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 21, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Mr. K. Ray Bailey	President, Asheville-Buncombe Technical Community College
Mr. Richard B. Mauney	Vice President for Administrative Services Asheville-Buncombe Technical Community College
Ms. Kaye A. Myers	Chairman, Board of Trustees Asheville-Buncombe Technical Community College

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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February 18, 2004

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