



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE
ASHEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2005

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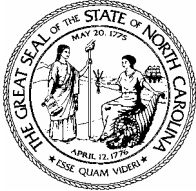
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Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Asheville-Buncombe Technical Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no reportable audit findings.

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.

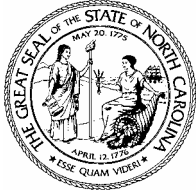
Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 30, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	10
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Notes to the Financial Statements	15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



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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, 2005, 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 the 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, 2005, 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.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2006 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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 the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 23, 2006

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. The discussion should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, notes to the financial statements, 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. Non-financial 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 non-financial 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, Liabilities, and Net Assets

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, 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 25 years for general infrastructure, 10 to 60 years for buildings and 2 to 15 years for equipment.

Current assets at June 30, 2005, decreased slightly. Receivables for county funded construction projects decreased significantly as the projects were completed and reimbursement received from the county during the year. Current cash increased largely due to a higher county fund cash balance at year end.

Three main changes account for the net increase in noncurrent assets. Noncurrent cash and cash equivalents consist mainly of assets held in the College's State Treasurer's Investment Fund (STIF) account belonging to the Asheville-Buncombe Technical Community College Foundation, Inc. The balance belonging to the Foundation was \$894,214 at 2004 and \$1,259,933 at 2005 accounting for the increase of \$365,719. The Foundation increase in cash was due to successful fund raising activities during the year. Noncurrent receivables decreased between the years due to the decrease in the amount due from The North Carolina Community College System for construction projects. Most of the state bond projects are near completion. Construction project activity was also the main reason capital assets increased between the years. The largest increase was construction work in progress which went up from \$1,302,932 at June 2004 to \$6,386,498 at June 2005. The Hospitality Education Center which is scheduled for completion in October 2005, accounts for \$6,231,795 of the amount. Additionally, \$14,667,811 of the increase in noncurrent capital assets resulted from a remaining useful life reevaluation of donated buildings that were undergoing extensive renovations during 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current and Noncurrent Assets

	FY 2004-05	FY 2003-04	Increase/ (Decrease)	% Increase/ (Decrease)
Assets:				
Cash and Cash Equivalents	\$ 2,639,036.28	\$ 2,397,336.97	\$ 241,699.31	10.08 %
Receivables, net	527,702.80	943,363.30	(415,660.50)	(44.06) %
Inventories	631,564.29	593,849.72	37,714.57	6.35 %
Notes Receivable, net	<u>5,967.62</u>	<u>8,635.57</u>	<u>(2,667.95)</u>	(30.89) %
Total Current Assets	<u>3,804,270.99</u>	<u>3,943,185.56</u>	<u>(138,914.57)</u>	(3.52) %
Cash and Cash Equivalents	1,348,398.11	982,678.72	365,719.39	37.22 %
Receivables	1,755,361.55	4,599,843.17	(2,844,481.62)	(61.84) %
Capital Assets, net	<u>61,333,461.05</u>	<u>41,909,114.10</u>	<u>19,424,346.95</u>	46.35 %
Total Noncurrent Assets	<u>64,437,220.71</u>	<u>47,491,635.99</u>	<u>16,945,584.72</u>	35.68 %
Total Assets	<u>\$ 68,241,491.70</u>	<u>\$ 51,434,821.55</u>	<u>\$ 16,806,670.15</u>	32.68 %

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. The change in total current liabilities was insignificant. 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. Compensated absences long-term increased from 2004 to 2005. The increase was due to salary increases and having more full time employees at June 30, 2005. Foundation cash held in the STIF account increased by \$365,719 as explained above in the discussion concerning noncurrent assets.

Current and Noncurrent Liabilities

	FY 2004-05	FY 2003-04	Increase/ (Decrease)	% Increase/ (Decrease)
Liabilities:				
Other Liabilities	\$ 1,491,592.15	\$ 1,489,710.88	\$ 1,881.27	0.13 %
Funds Held for Others	20,099.72	31,123.65	(11,023.93)	(35.42) %
Long-Term Liabilities - Current Portion	<u>136,253.34</u>	<u>117,540.02</u>	<u>18,713.32</u>	15.92 %
Total Current Liabilities	<u>1,647,945.21</u>	<u>1,638,374.55</u>	<u>9,570.66</u>	0.58 %
Funds Held for Others	1,259,933.22	894,213.83	365,719.39	40.90 %
Long-Term Liabilities	<u>2,057,668.44</u>	<u>1,834,212.98</u>	<u>223,455.46</u>	12.18 %
Total Noncurrent Liabilities	<u>3,317,601.66</u>	<u>2,728,426.81</u>	<u>589,174.85</u>	21.59 %
Total Liabilities	<u>\$ 4,965,546.87</u>	<u>\$ 4,366,801.36</u>	<u>\$ 598,745.51</u>	13.71 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets increased \$16,207,924.64 for the fiscal year for a year-end total of \$63,275,944.83. The total consists of net assets invested in capital assets of \$61,333,461.05, restricted net assets of \$1,794,316.44, and unrestricted net assets of \$148,167.34. Total net assets increased from \$47,068,020 at June 30, 2004 to \$63,275,944.83 at the 2005 year end. Unrestricted net assets decreased 70.44% largely due to an increase in the compensated absences liability described above. Restricted net assets decreased 61.48% almost entirely due to \$2,823,398.51 decrease in capital projects net assets. Both state and county construction projects were completed or neared completion which decreased capital projects net assets. Directly related is the increase in Invested in Capital Assets of \$19,424,346.95, including donated buildings reevaluation, as explained in the discussion of Noncurrent Assets.

Net Assets

	FY 2004-05	FY 2003-04	Increase/ (Decrease)	% Increase/ (Decrease)
Invested in Capital Assets	\$ 61,333,461.05	\$ 41,909,114.10	\$ 19,424,346.95	46.35 %
Restricted Net Assets	1,794,316.44	4,657,620.43	(2,863,303.99)	(61.48) %
Unrestricted Net Assets	148,167.34	501,285.66	(353,118.32)	(70.44) %
Total Net Assets	<u>\$ 63,275,944.83</u>	<u>\$ 47,068,020.19</u>	<u>\$ 16,207,924.64</u>	34.44 %

Revenues

The College's revenues are classified as operating and nonoperating revenues. Total revenues increased from \$30,674,104 in 2003-04 to \$34,048,246 in 2004-05 for an increase of \$3,374,142 or 11%. 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 largely is derived from bookstore operations. Federal grant revenue consists mainly of revenue from the Federal Title IV student financial aid programs. The Pell grant program is the largest and accounts for \$3,223,599 or 90% of the total. Student tuition and fees and sales and services revenue both rose due to increased student enrollment and higher tuition and textbook costs. Operating revenues in total remained stable over the two-year period.

Operating Revenues

	FY 2004-05	FY 2003-04	Increase	% Increase
Student Tuition and Fees	\$ 4,308,903.62	\$ 4,295,904.04	\$ 12,999.58	0.30 %
Federal Grants and Contracts	3,565,529.41	3,275,306.81	290,222.60	8.86 %
State and Local Grants and Contracts	12,840.86	18,052.01	(5,211.15)	(28.87) %
Sales and Services, Net	2,473,208.10	2,361,522.50	111,685.60	4.73 %
Other Operating Revenues	15,217.59	12,478.00	2,739.59	21.96 %
Total Operating Revenues	<u>\$ 10,375,699.58</u>	<u>\$ 9,963,263.36</u>	<u>\$ 412,436.22</u>	4.14 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues comprise the major portion of the College's income and include appropriations from state and local governments, noncapital gifts and grants, 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. Non-operating revenues experienced a 14.30% increase in 2004-05. Both state and county appropriations rose as the College's enrollment and program growth required greater resources. In addition, noncapital grants and gifts increased significantly. The current portion of federal pass through funds from the North Carolina Community College System is included in this amount. The federal portion rose from \$247,249 in 2003-04 to \$334,735 in 2004-05 for an increase of \$87,486. During 2004-05, the College obtained new funding to support a biotechnology initiative. The College received over \$280,078 from Golden Leaf funds passed through the North Carolina Community College System for this effort.

Nonoperating Revenues (Expenses)

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
State Aid	\$ 16,758,682.21	\$ 14,816,234.87	\$ 1,942,447.34	13.11 %
County Appropriations	5,709,534.04	5,156,669.12	552,864.92	10.72 %
Noncapital Grants and Gifts	1,135,426.07	642,729.19	492,696.88	76.66 %
Investment Income	76,933.14	95,207.36	(18,274.22)	(19.19) %
Other Nonoperating Expense	<u>(8,029.05)</u>	<u>0.00</u>	<u>(8,029.05)</u>	100.00 %
Net Nonoperating Revenues	<u>\$ 23,672,546.41</u>	<u>\$ 20,710,840.54</u>	<u>\$ 2,961,705.87</u>	14.30 %

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 34/35. Operating expenses showed an increase in 2004-05. The largest increase was in salaries and benefits due to a sizable across the board raise, a performance funding bonus and increase in full time staff positions. Expenses for supplies decreased between years. Two functional areas, Instruction and Operation & Maintenance, account for the decrease. The other functional areas all had increases in supply expenses. As explained previously, purchases are recorded as a capital asset if the item costs \$5,000 or more. Most items considered equipment for instructional programs cost less than \$5,000 and are therefore, for financial statement purposes classified as supplies. For the year ended June 30, 2004, \$1,168,219 was spent for lower cost instructional equipment items. For 2004-05, only \$497,389 was spent in this category for a decrease between the years of \$670,830. Less was spent because much of the instructional equipment budget for 2004-05 was allocated to be used for the new Hospitality Education Center. The building completion did not occur as projected, and the equipment purchases were delayed until 2005-06. Expenses for lower cost operation and maintenance "capital items" which are not capitalized also decreased between the years. In 2003-04, \$201,331 was spent, but in 2004-05, only \$22,128 was expended in this category. During

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2004-05, the types of projects were the nature that exceeded the \$5,000 capitalization ceiling and the expenses were capitalized instead of being reflected as supply expense.

Operating Expenses

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Increase</u>	<u>% Increase</u>
Salaries & Benefits	\$ 24,384,061.22	\$ 21,502,085.69	\$ 2,881,975.53	13.40 %
Supplies and Materials	4,843,958.59	5,368,286.24	(524,327.65)	(9.77) %
Services	2,403,904.03	2,363,141.34	40,762.69	1.72 %
Scholarships and Fellowships	2,080,290.16	2,566,250.20	(485,960.04)	(18.94) %
Utilities	1,240,840.10	1,205,267.36	35,572.74	2.95 %
Depreciation	1,614,132.65	1,664,583.52	(50,450.87)	(3.03) %
Total Operating Expenses	<u>\$ 36,567,186.75</u>	<u>\$ 34,669,614.35</u>	<u>\$ 1,897,572.40</u>	5.47 %

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 decreased significantly because state construction revenue decreased almost \$3 million from \$5,462,199 in 2003-04 to \$2,525,460 in 2004-05. County capital appropriations also decreased by 27.61%. County construction funds went from \$936,429 in 2003-04 to \$664,762 in 2004-05 for a decrease of \$271,667. As explained previously, most of the current construction projects are complete or nearing completion. Capital grants decreased between the two years. The College received a capital HUD grant for the Enka campus and most of the revenue was recognized in the 2003-04 year. The College received no donated equipment during the 2004-05 year.

Capital Contributions

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Decrease</u>	<u>% Decrease</u>
State Capital Aid	\$ 3,050,123.78	\$ 6,746,884.76	\$ (3,696,760.98)	(54.79) %
County Capital Appropriations	899,903.93	1,243,162.11	(343,258.18)	(27.61) %
Capital Grants	301,413.43	538,362.98	(236,949.55)	(44.01) %
Capital Gifts	0.00	66,037.38	(66,037.38)	(100.00) %
Total Capital Contributions	<u>\$ 4,251,441.14</u>	<u>\$ 8,594,447.23</u>	<u>\$ (4,343,006.09)</u>	(50.53) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset Activity

Asheville-Buncombe Technical Community College's capital assets as of June 30, 2005, amount to \$61,333,461 net of accumulated depreciation of \$20,400,340. Significant capital activity in the current year consists primarily of net additions to construction in progress of \$5,083,565.64. Most of the increase is for the Hospitality Education Building which is scheduled for completion in October 2005. Additions to buildings from 2004-05 expenditures consist of renovations to the buildings on the Enka campus and minor renovations to the Elm Building on the main campus.

Analysis of Financial Position

For the year ended June 30, 2005, the college had a slight decrease in current assets of 3.5% but an increase in total assets of 32.68%. Total liabilities increased 13.71% due to an increase in noncurrent liabilities made up of funds held for the Asheville-Buncombe Technical Community College Foundation, Inc. and compensated absences as described in the discussion concerning liabilities.

Net Assets increased over \$16.2 million in 2004-05 reflecting a 34.44% change from Net Assets as of June 30, 2004.

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

Economic Factors and Next Year's Budget

The College anticipates continued growth in the 2005-06 year. State and county funding remain stable. County funding for construction projects will increase as will funding from grant activities.

Asheville-Buncombe Technical Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,000,460.52
Restricted Cash and Cash Equivalents	638,575.76
Receivables, Net (Note 4)	527,702.80
Inventories	631,564.29
Notes Receivable, Net (Note 4)	5,967.62
	<hr/>
Total Current Assets	3,804,270.99

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,348,398.11
Restricted Due from Primary Government	1,755,361.55
Capital Assets - Nondepreciable (Note 5)	12,185,011.92
Capital Assets - Depreciable, Net (Note 5)	49,148,449.13
	<hr/>
Total Noncurrent Assets	64,437,220.71

Total Assets	<hr/> <hr/> 68,241,491.70
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,229,229.88
Due to Primary Government	1,523.88
Deferred Revenue	260,838.39
Funds Held for Others	20,099.72
Long-Term Liabilities - Current Portion (Note 7)	136,253.34
	<hr/>
Total Current Liabilities	1,647,945.21

Noncurrent Liabilities:

Funds Held for Others	1,259,933.22
Long-Term Liabilities (Note 7)	2,057,668.44
	<hr/>

Total Noncurrent Liabilities	3,317,601.66
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Total Liabilities	<hr/> <hr/> 4,965,546.87
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NET ASSETS

Invested in Capital Assets	61,333,461.05
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	54,668.33

Expendable:	
Scholarships and Fellowships	6,973.55
Loans	8,460.42
Capital Projects	1,702,734.61
Other	21,479.53

Unrestricted	148,167.34
	<hr/>

Total Net Assets	<hr/> <hr/> <hr/> \$ 63,275,944.83
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The accompanying notes to the financial statements are an integral part of this statement.

***Asheville-Buncombe Technical Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 4,308,903.62
Federal Grants and Contracts	3,565,529.41
State and Local Grants and Contracts	12,840.86
Sales and Services, Net (Note 9)	2,473,208.10
Other Operating Revenues	15,217.59

Total Operating Revenues	10,375,699.58
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EXPENSES

Operating Expenses:

Personal Services	24,384,061.22
Supplies and Materials	4,843,958.59
Services	2,403,904.03
Scholarships and Fellowships	2,080,290.16
Utilities	1,240,840.10
Depreciation	1,614,132.65

Total Operating Expenses	36,567,186.75
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Operating (Loss)	(26,191,487.17)
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NONOPERATING REVENUES (EXPENSES)

State Aid	16,758,682.21
County Appropriations	5,709,534.04
Noncapital Grants	1,085,871.60
Noncapital Gifts	49,554.47
Investment Income	76,933.14
Other Nonoperating Revenues (Expenses)	(8,029.05)

Net Nonoperating Revenues	23,672,546.41
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Income Before Other Revenues, Expenses, Gains, and Losses	(2,518,940.76)
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State Capital Aid	3,050,123.78
County Capital Appropriations	899,903.93
Capital Grants	301,413.43

Increase (Decrease) in Net Assets	1,732,500.38
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NET ASSETS

Net Assets, July 1, 2004 as Restated (Note 17)	61,543,444.45
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Net Assets, June 30, 2005	\$ 63,275,944.83
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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, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 10,384,419.90
Payments to Employees and Fringe Benefits	(24,076,786.03)
Payments to Vendors and Suppliers	(8,507,220.19)
Payments for Scholarships and Fellowships	(2,080,380.16)
Loans Issued to Students	(40,292.04)
Collection of Loans to Students	41,579.95
Other Receipts (Payments)	365,520.63

Net Cash Provided (Used) by Operating Activities (23,913,157.94)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	16,758,682.21
County Appropriations	5,709,534.04
Noncapital Grants Received	1,025,340.59
Noncapital Gifts and Endowments Received	49,554.47

Net Cash Provided by Noncapital Financing Activities 23,543,111.31

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	5,894,605.40
County Capital Appropriations	1,366,200.13
Capital Grants Received	317,296.43
Acquisition and Construction of Capital Assets	(6,677,569.77)

Net Cash Provided (Used) by Capital and Related Financing Activities 900,532.19

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>76,933.14</u>
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Net Cash Provided (Used) by Investing Activities 76,933.14

Net Increase (Decrease) in Cash and Cash Equivalents 607,418.70
Cash and Cash Equivalents, July 1, 2004 3,380,015.69

Cash and Cash Equivalents, June 30, 2005 \$ 3,987,434.39

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

Operating (Loss)	\$ (26,191,487.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,614,132.65
Provision for Uncollectible Loans and Write-Offs	1,611.36
Changes in Assets and Liabilities:	
Receivables, Net	(5,987.69)
Inventories	(37,714.57)
Notes Receivable, Net	1,056.59
Accounts Payable and Accrued Liabilities	85,244.98
Due to Primary Government	105.98
Deferred Revenue	23,015.69
Funds Held for Others	354,695.46
Compensated Absences	242,168.78

Net Cash Used by Operating Activities \$ (23,913,157.94)

***Asheville-Buncombe Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,000,460.52
Restricted Cash and Cash Equivalents	638,575.76
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,348,398.11</u>
Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 3,987,434.39</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 19,453.00
Capital Asset Write-Offs	24,039.87

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

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ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- 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, 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 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, and 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 25 years for general infrastructure, 10 to 60 years for buildings, and 2 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 1 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 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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 AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$7,299.00, and deposits in private financial institutions with a carrying value of \$242,882.84 and a bank balance of \$394,709.91.

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, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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 the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, 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 and banker's acceptances; 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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,737,252.55 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (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 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund 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 Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2005, net appreciation of \$6,526.57 was available to be spent, of which \$6,526.57 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 307,055.26	\$ 24,510.10	\$ 282,545.16
Accounts	125,189.43		125,189.43
Intergovernmental	119,968.21		119,968.21
Total Current Receivables	\$ 552,212.90	\$ 24,510.10	\$ 527,702.80
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 7,578.98	\$ 1,611.36	\$ 5,967.62

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 5,798,514.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,798,514.00
Construction in Progress	1,302,932.28		5,580,500.64	496,935.00	6,386,497.92
Total Capital Assets, Nondepreciable	7,101,446.28		5,580,500.64	496,935.00	12,185,011.92
Capital Assets, Depreciable:					
Buildings	60,698,331.92		1,141,956.93		61,840,288.85
Machinery and Equipment	5,186,813.11		213,283.06	24,039.87	5,376,056.30
General Infrastructure	2,200,165.19		132,278.76		2,332,443.95
Total Capital Assets, Depreciable	68,085,310.22		1,487,518.75	24,039.87	69,548,789.10
Less Accumulated Depreciation:					
Buildings	28,984,309.31	(14,475,424.26)	1,192,303.06		15,701,188.11
Machinery and Equipment	3,157,641.20		311,897.54	16,010.82	3,453,527.92
General Infrastructure	1,135,691.89		109,932.05		1,245,623.94
Total Accumulated Depreciation	33,277,642.40	(14,475,424.26)	1,614,132.65	16,010.82	20,400,339.97
Total Capital Assets, Depreciable, Net	34,807,667.82	14,475,424.26	(126,613.90)	8,029.05	49,148,449.13
Capital Assets, Net	\$ 41,909,114.10	\$ 14,475,424.26	\$ 5,453,886.74	\$ 504,964.05	\$ 61,333,461.05

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 559,546.66
Accrued Payroll	376,260.93
Contract Retainage	293,422.29
Total Accounts Payable and Accrued Liabilities	\$ 1,229,229.88

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 1,951,753.00	\$ 1,100,067.17	\$ 857,898.39	\$ 2,193,921.78	\$ 136,253.34

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	\$ 63,962.82
2007	61,851.10
2008	56,243.16
Total Minimum Lease Payments	\$ 182,057.08

Rental expense for all operating leases during the year was \$54,212.52.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 5,160,620.03	\$ 0.00	\$ 836,329.59	\$ 15,386.82	\$ 4,308,903.62
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,621,859.41	\$ 17,082.14	\$ 489,120.24	\$ 6,005.13	\$ 2,109,651.90
Other	268,502.07				268,502.07
Sales and Services of Education	99,589.59	4,535.46			95,054.13
Total Sales and Services	\$ 2,989,951.07	\$ 21,617.60	\$ 489,120.24	\$ 6,005.13	\$ 2,473,208.10

NOTE 10 - 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	\$ 14,783,315.37	\$ 1,608,785.48	\$ 568,539.51	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,960,640.36
Public Service	1,084.08	41.22					1,125.30
Academic Support	2,519,246.90	362,170.09	234,460.65				3,115,877.64
Student Services	1,455,549.20	73,298.10	148,419.30				1,677,266.60
Institutional Support	2,887,002.11	288,224.26	942,403.34				4,117,629.71
Operations and Maintenance of Plant	2,565,747.46	350,232.26	440,928.06		1,240,840.10		4,597,747.88
Student Financial Aid				2,080,290.16			2,080,290.16
Auxiliary Enterprises	172,116.10	2,161,207.18	69,153.17				2,402,476.45
Depreciation						1,614,132.65	1,614,132.65
Total Operating Expenses	\$ 24,384,061.22	\$ 4,843,958.59	\$ 2,403,904.03	\$ 2,080,290.16	\$ 1,240,840.10	\$ 1,614,132.65	\$ 36,567,186.75

NOTE 11 - PENSION PLANS

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

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 Statute* 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$20,344,664.32, of which \$15,263,934.31 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$915,836.94 and \$331,227.36, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$331,227.36, \$29,473.17, and \$0.00, 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.ncosc.net/> 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 \$18,374.00 for the year ended June 30, 2005.

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 \$295,579.00 for the year ended June 30, 2005.

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 \$63,937.20 for the year ended June 30, 2005.

NOTE 12 - 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 3.2% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College’s total contribution to the Plan was \$488,445.89. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$67,924.51. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include 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 \$5,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

honesty bond is with a private insurance company and is handled by the North 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 \$56.49 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. There were no employer contributions required for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,066,903.13 and on other purchases were \$328,711.86 at June 30, 2005.
- B. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,096,198.00 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 15 - RELATED PARTIES - FOUNDATION

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 Others of \$1,259,933.22 represents the Foundation's cash held in the College's State Treasurer's Investment Fund account. The distributions received and/or benefits provided approximated \$37,543.35 for the year ended June 30, 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

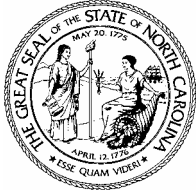
For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2004, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2004 Net Assets as Previously Reported	\$ 47,068,020.19
Restatement - Valuation of Donated Capital Assets	<u>14,475,424.26</u>
July 1, 2004 Net Assets as Restated	<u><u>\$ 61,543,444.45</u></u>

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
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**

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, 2005, and have issued our report thereon dated June 23, 2006.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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.

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 an opinion 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 reportable 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 caused by error or fraud 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 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

We noted certain matters that we have reported to management of the College in a separate letter dated June 21, 2006.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 23, 2006

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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