



STATE OF NORTH CAROLINA

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

ASHEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

ASHEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2007, 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 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.

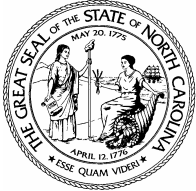
Leslie W. Merritt, Jr.

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

May 27, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Asheville-Buncombe Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Asheville-Buncombe Technical Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Asheville-Buncombe Technical Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditors.

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. The financial statements of the Asheville-Buncombe Technical Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Asheville-Buncombe Technical Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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., CPA, CFP
State Auditor

May 16, 2008

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

The Financial Statements

In accordance with GASB Statements No. 34 and 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of the College as a whole. As required, this report contains three basic financial statements and supplementary information:

Statement of Net Assets: This statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the age and condition of its buildings. (Exhibit A-1)

Statement of Revenues, Expenses, and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)

Statement of Cash Flows: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)

Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

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 is considered to be a business-type activity and is reported in a single column on the statements.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

Below is a condensed comparative analysis between the Statement of Net Assets (Exhibit A-1) contained herein and for the fiscal year ended June 30, 2006, followed by a discussion on the changes in assets, liabilities, and net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)








Statement of Net Assets
For the Year Ended June 30, 2007
With Comparative Data for the Year Ended June 30, 2006, as restated

	2007	2006	Change	
			Amount	Percent
Assets				
Current	\$ 5,208,529.64	\$ 3,904,011.90	\$ 1,304,517.74	33.41 %
Capital Assets, Net	68,645,635.89	63,941,310.74	4,704,325.15	7.36 %
Other Noncurrent	5,572,130.16	2,378,981.92	3,193,148.24	134.22 %
Total Assets	79,426,295.69	70,224,304.56	9,201,991.13	13.10 %
Liabilities				
Current	2,466,715.35	1,885,676.23	581,039.12	30.81 %
Noncurrent	2,535,244.35	3,993,407.24	(1,458,162.89)	(36.51) %
Total Liabilities	5,001,959.70	5,879,083.47	(877,123.77)	(14.92) %
Net Assets				
Invested in Capital Assets	68,645,635.89	63,941,310.74	4,704,325.15	7.36 %
Restricted Assets	5,925,270.96	640,241.89	5,285,029.07	825.47 %
Unrestricted Assets	(146,570.86)	(236,331.54)	89,760.68	(37.98) %
Total Net Assets	\$ 74,424,335.99	\$ 64,345,221.09	\$ 10,079,114.90	15.66 %

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. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of \$5,000 or more and a useful life of more than one year. The College's capital assets are stated at historical cost less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 15 to 50 years for buildings and 5 to 25 years for equipment.

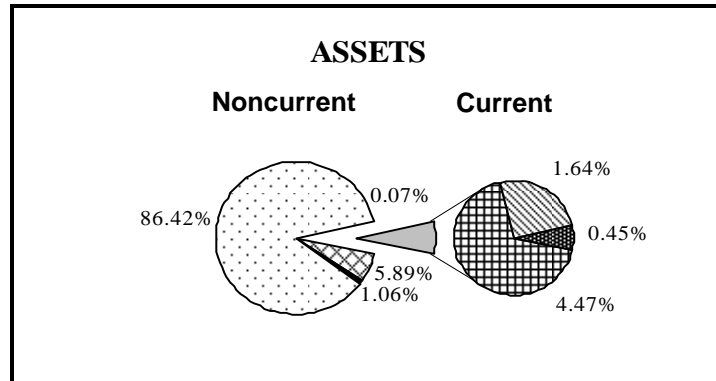
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Assets		
Cash and Cash Equivalents	\$ 3,552,566.89	
Receivables, Net	1,301,846.82	
Inventories	354,115.93	
Subtotal Current Assets	5,208,529.64	
Noncurrent Assets		
Cash and Cash Equivalents	54,668.23	
Receivables, Net	4,678,082.78	
Due from Primary Government	839,379.15	
Capital Assets, Net	68,645,635.89	
Subtotal Noncurrent Assets	74,217,766.05	
TOTAL ASSETS	\$ 79,426,295.69	

The composition of assets at June 30, 2007, is presented in the table to the left and illustrated in the graph below.

Current assets increased over the prior year by \$1,304,517.74 as illustrated in the table on page 4. Unrestricted cash and cash equivalents increased by \$512,206.37, of which \$182,272.28 was due to net profit in Bookstore sales and \$51,663.27 was due to revenue in excess of expenses in self-supporting and specific fees accounts. Restricted cash

and cash equivalents increased by \$343,390.20. Contributing to the increase in restricted cash was additional County funds held for construction in the amount of \$89,804.19 and for other capital needs in the amount of \$44,608.34. Current receivables increased over the prior year by \$641,892.59.



Noncurrent receivables increased over the prior year by \$4,493,980.41. This change is the net result of an increase of \$5,501,691.04 due from Buncombe County for on-going construction and a decrease in other receivables.

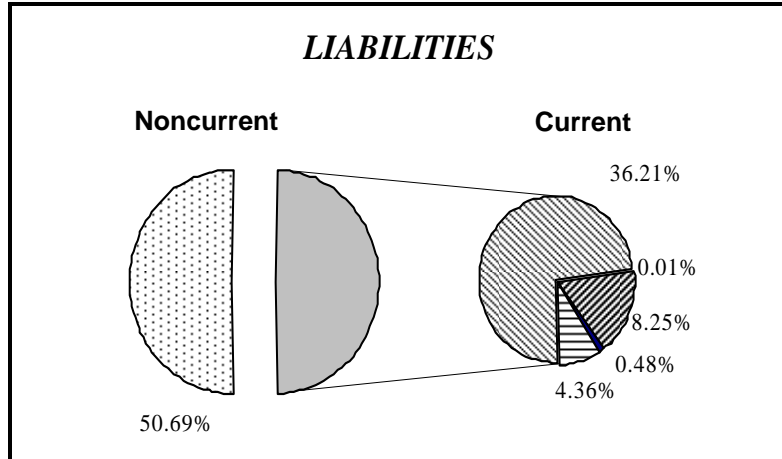
Net capital assets increased over the prior year by \$4,704,325.15. The College re-estimated the useful lives of fully depreciated assets during fiscal year 2006-2007. The result was a decrease in accumulated depreciation of \$1,811,503.05 which in turn increased net capital assets by the same amount. Additionally, net capital assets increased by \$2,374,475.49 resulting from construction and renovation of buildings and infrastructure and a net increase of \$311,389.79 resulting from equipment purchases.

Additional details for the composition of assets are available in Exhibit A-1 and Notes 1-D, 1-E, 1-F, 1-G 1-H, 2, 3, 4, and 5.







MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The College's liabilities are divided between current liabilities payable within twelve months and noncurrent liabilities that extend beyond a year. Current liabilities consist of amounts due to vendors for goods and services, unearned tuition revenue, funds held for others and the current portion of compensated absences. Noncurrent liabilities include the noncurrent portion of compensated absences.



The chart above and the table below present the composition of liabilities on June 30, 2007.

Current Liabilities		
Accounts Payable	\$ 1,811,514.41	
Due to Primary Government	624.96	
Unearned Revenue	412,607.04	
Funds Held for Others	23,907.10	
Compensated Absences	218,061.84	
Subtotal Current Liabilities	2,466,715.35	
Noncurrent Liabilities		
Compensated Absences	2,535,244.35	
Subtotal Noncurrent Liabilities	2,535,244.35	
TOTAL LIABILITIES	\$ 5,001,959.70	

As illustrated in the chart on page 4, current liabilities increased over the prior year by \$581,039.12. Of the change in current liabilities, \$300,829.32 is related to an increase in construction payables, \$137,650.94 is due to an increase in compensated absences, and \$75,080.66 is an increase in unearned revenue for tuition and fees.

The decrease in noncurrent liabilities of \$(1,458,162.89) is the result of discretely presenting the Foundation in the current year and removing the effects from the College financial statements.

Additional details for the composition of liabilities are available in Exhibit A-1 and Notes 1-I, 6, and 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NET ASSETS

Net assets are a measure of the value of all the College's assets less liabilities. The College's net assets are summarily categorized as "Invested in Capital Assets," restricted, and unrestricted. "Invested in Capital Assets" represents the College's investment in capital assets less depreciation. Restricted net assets include resources which must be spent in accordance with restrictions imposed by external parties. Restricted assets generally include capital, endowment, grant, and gift funds. Unrestricted assets include resources derived from sources not previously identified. The table below summarizes

Net Assets	
Invested in Capital	\$ 68,645,635.89
Restricted Net Assets	5,925,270.96
Unrestricted Net Assets	<u>(146,570.86)</u>
TOTAL NET ASSETS	<u>\$ 74,424,335.99</u>

the College's net assets. Changes in net assets are the direct result of increases and decreases in the College's assets and liabilities. An increase in assets increases net assets; whereas, a decrease in assets decreases net assets.

An increase in liabilities decreases net assets; conversely, a decrease in liabilities increases net assets. The College's increase in assets of \$9,201,991.13 and the decrease in liabilities of \$(877,123.77) results in an increase in net assets of \$10,079,114.90.

Additional information on net assets is available in Exhibit A-1 and Note 1-J.

Statement of Revenues, Expenses, and Changes in Net Assets

Below is a condensed comparative analysis of the June 30, 2007, Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) contained herein and the year ended June 30, 2006, followed by discussion on changes in revenues and expenses.

Statement of Revenues and Expenses and Changes in Net Assets				
For the Year Ended June 30, 2007 with Comparative Data for the Year Ended June 30, 2006				
	2007	2006	<u>Change</u>	
			Amount	Percent
Operating Revenues	\$ 10,320,445.95	\$ 10,719,322.26	\$ (398,876.31)	(3.72%)
Operating Expenses	(44,297,413.62)	(41,334,714.87)	(2,962,698.75)	7.17%
Nonoperating Revenues	31,023,073.65	26,863,372.79	4,159,700.86	15.48%
Capital Contributions	<u>10,990,062.93</u>	<u>4,821,296.08</u>	<u>6,168,766.85</u>	<u>127.95%</u>
INCREASE IN NET ASSETS	<u>\$ 8,036,168.91</u>	<u>\$ 1,069,276.26</u>	<u>\$ 6,966,892.65</u>	<u>651.55%</u>

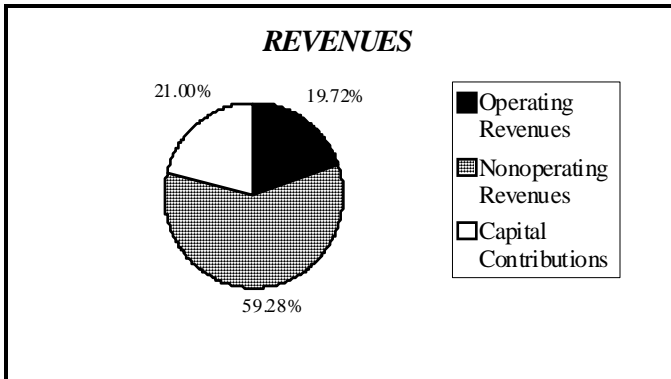
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The College's revenues are classified as operating, nonoperating, and capital contributions. Operating revenues are derived from activities that are necessary and essential to the mission of the College. Nonoperating revenues include activities that have nonexchange characteristics; that is, the College received revenue without providing a good or service. Capital contributions consist of State and county

appropriations, as well as grants for equipment, construction, building improvements, and infrastructure. The table to the right and the graph on the following page illustrate the composition of the College's revenues.

Operating Revenues	
Student Tuition & Fees	\$ 4,485,105.09
Grants & Contracts	3,188,408.11
Sales and Services	2,633,579.18
Other Revenues	<u>13,353.57</u>
Subtotal Operating	10,320,445.95
Nonoperating Revenues	
Government Appropriations	29,204,969.62
Grants & Gifts	1,683,682.51
Investment Income	126,896.78
Other Revenues	<u>7,524.74</u>
Subtotal Nonoperating	31,023,073.65
Capital Contributions	
Government Appropriations	10,531,968.36
Grants & Gifts	<u>458,094.57</u>
Subtotal Capital	10,990,062.93
TOTAL Revenues	<u>\$ 52,333,582.53</u>



The decrease in operating revenues is insignificant relative to the overall increase in revenues for the fiscal year.

Nonoperating revenues increased by \$4,159,700.86 largely in part to an increase in State funding of \$3,030,405.31. State aid received is based on full-time equivalency

enrollment. Appropriations received from the State during fiscal year 2006-2007 were based on FTE for fiscal year 2005-2006. Therefore the increase in current year funding is the result of an increase in FTE from 2004-2005 to 2005-2006. As shown by the graph on page 12, FTE increased by 212, thereby, significantly increasing the College's State appropriation. County appropriation during the fiscal year also increased significantly. The \$799,000.12 increase from Buncombe and Madison Counties funded plant operations and maintenance, particularly increased personnel, utilities, and repair costs.

The College also recognized an increase in capital contributions of \$6,168,766.85. This increase is attributed to appropriations from Buncombe County for on-going construction and renovation projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

More information on the composition of revenues can be found in Exhibit A-2 and Notes 1-K, 1-L, 1-M, 1-N and 9.

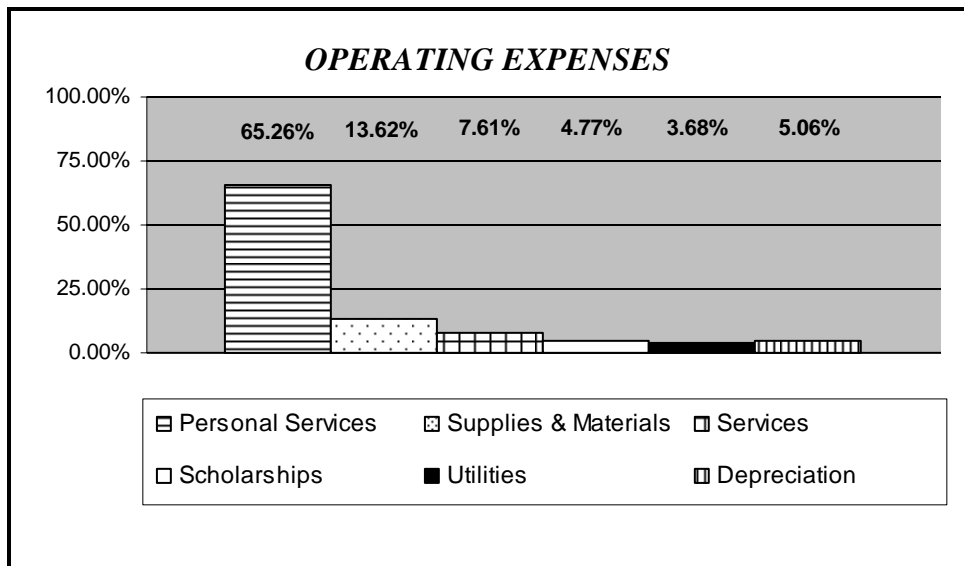
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Operating expenses are necessary and essential to the mission of the College; these do not include expenses related to investing, capital and related financing and noncapital financing activities. Depreciation is recognized as an operating expense in accordance with generally accepted accounting principles.

Operating Expenses		
Personal Services	\$	28,910,416.08
Supplies & Materials		6,033,350.06
Services		3,371,378.40
Scholarships		2,111,806.49
Utilities		1,628,989.06
Depreciation		2,241,473.53
TOTAL Operating Expenses	\$	44,297,413.62

The table to the left and the graph below illustrate the composition of operating expenses. Personnel services, other services, utilities and depreciation expenses increased over the prior year; while supplies and materials and scholarship expenses decreased. The net result

was an increase in operating expenses of \$2,962,698.75 over the prior year. This net increase is due to an increase in personnel services expenses of \$2,296,734.77. Salary increases granted to State employees by the General Assembly and the College's matching increases for non-State employees contribute to the variance. Furthermore, the matching rate for retirement increased July 1, 2006. Also contributing to this increase was the hiring of additional faculty and staff to meet the needs of the growing student population.



More information on expenses can be found in Exhibit A-2 and Notes 1-M and 10.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The change in net assets is the difference between total revenues and total expenses. The change in net assets as presented in Exhibit A-2, is an increase of \$8,036,168.91, bringing the College's total net assets to \$74,424,335.99 as illustrated on the right. The change in net assets from June 30, 2006, to June 30, 2007, is a function of the changes in revenues and expenses as previously discussed.

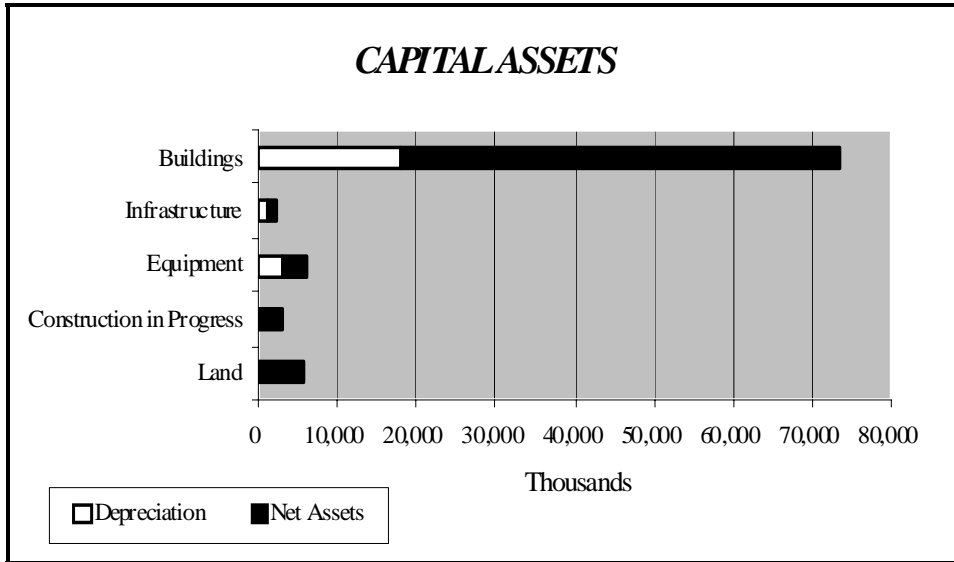
Beginning Net Assets, as restated	\$ 66,388,167.08
Revenues	
Operating	10,320,445.95
Nonoperating	31,023,073.65
Capital Contributions	<u>10,990,062.93</u>
Subtotal Revenues	52,333,582.53
Expenses	
Operating	<u>44,297,413.62</u>
Change in Net Assets	8,036,168.91
ENDING NET ASSETS	<u><u>\$ 74,424,335.99</u></u>

Other factors affecting net assets are the reversion of state appropriations and the non-reversion of unexpended county appropriations. Unexpended state aid reverts at fiscal year end and, therefore, only increases the College's assets through capital asset additions, that is, equipment costing \$5,000 or greater and State funded construction. On the other hand, unexpended County appropriations do not revert and therefore increase net assets. Federal funding does not typically affect the change in net assets since federal awards are primarily for financial assistance. Other federal grants are funded on a reimbursement basis and therefore do not significantly contribute to the College's financial position.

CAPITAL ASSETS

As of June 30, 2007, the College recorded \$91,055,214.17 invested in capital assets, \$22,409,578.28 in accumulated depreciation, resulting in net capital assets of \$68,645,635.89. The composition of capital assets is detailed in Note 5 and is illustrated below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



During 2006-2007, the College completed renovating the Haynes Building at the Enka Campus amounting to an increase in capital assets of \$3,260,031.26. Other completed renovation projects adding to capital assets included the A-B Tech at the Mall project totaling \$295,562.00, roof repairs totaling \$778,409.12 and laboratory upgrades totaling \$107,430.74. The total increase in capital assets for buildings is \$4,441,433.12 (Note 5).

During 2006-2007, the College has reported \$3,072,044.09 as construction in progress (Note 5). This amount includes an addition to the Azalea Building at the Asheville Campus that will house Business Services and the Bookstore. As of June 30, 2007, this addition cost \$1,242,444.08. The estimated remaining cost for the Azalea Building addition is \$2,966,993.92 which will be funded from State and county construction bonds and from the College's bookstore profits. Also during the fiscal year, the College began renovating the Birch Building at the Asheville Campus to house the new cosmetology and therapeutic massage programs. At the end of the fiscal year, this state of the art renovation has cost the College \$623,708.85 with an estimated cost of \$1,682,864.15 remaining. Of the anticipated expenses, the College currently has \$324,000.00 on hand from Buncombe County which will also finance the remainder. The College is also renovating the Fernihurst Building for its hospitality and culinary programs. This renovation has cost to date \$1,205,891.16 with an estimated remaining balance of \$1,669,108.84. The funding for the completion of Fernihurst will be from State and County bonds.

In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with positive experience rating, temporarily reduced the unemployment insurance tax by twenty percent for most employers and substituted an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

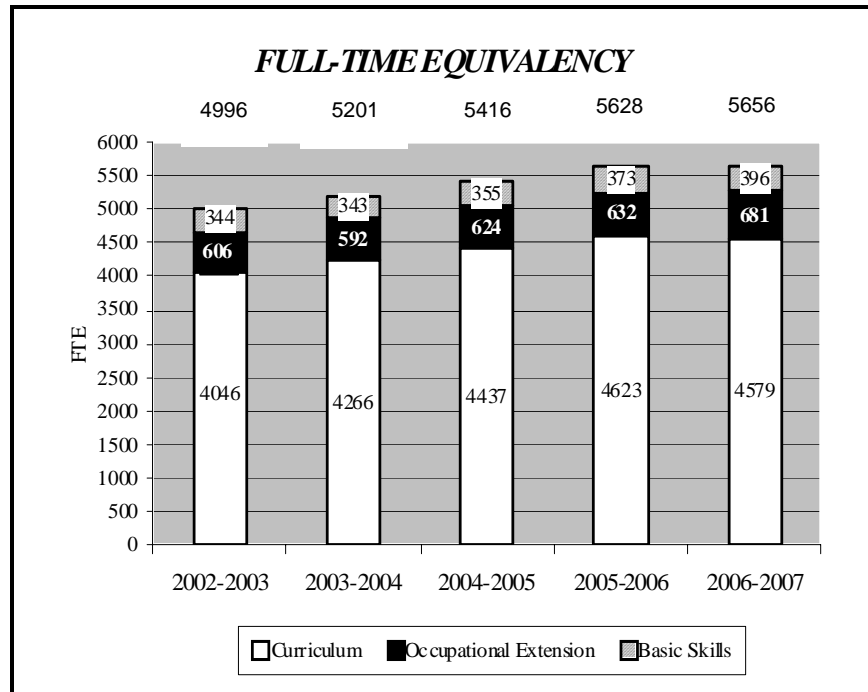
purchase equipment. At June 30, 2007, the College has \$1,028,790.00 remaining from its original HB275 equipment appropriation. The College intends to carry this appropriation into future years in order to purchase equipment and furniture for its new facilities.

The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are State and county appropriations and the Federal Vocational Education Grant. Construction expenditures are funded by State issued general obligation bonds, county funds, and funds generated from College operations.

THE COLLEGE'S FINANCIAL POSITION

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, federal, and county support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source. To ensure the fiscal stability of community colleges, State support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year preceding the budget year or the average of the three preceding year's FTE. The table below illustrates the College's actual FTE for the past five years.



The College has established three new programs effective with the Fall semester of 2007: Cosmetology, Therapeutic Massage, and Resort and Spa Management. The addition of these new programs will also generate increased FTE for which the College will realize funding in 2008-2009. The College, knowing State appropriations would be delayed to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

fund of these programs, prepared for additional expenses during 2007-2008 by using funds normally reverted to the State to purchase supplies, materials, and equipment for these and other programs.

With the Fall 2007 semester, tuition increased as follows:

	In-State		Out-of-State	
	Current	Previous	Current	Previous
Credit Hour	\$42.00	\$39.50	\$233.30	\$219.50
Maximum	\$672.00	\$632.00	\$3,732.80	\$3,512.00

This increase in tuition will generate additional revenue for the College through self-supporting curriculum classes.

Appropriations from Buncombe and Madison Counties are primarily for plant operations, maintenance and capital asset repairs and renovation. For the budget year 2007-2008 county appropriations increased by 8.24% over the prior year. The additional appropriations will be used to match legislated salary increases for non-State employees, cover the rising cost of employee benefits, pay for growing utility usage, and fund needed building repairs.

THE COLLEGE'S FINANCIAL FUTURE

What can the College expect in the future?

The College anticipates continued FTE growth in the upcoming year. In the fall of 2007, the College is expanding its curriculum programs by making available associate degrees in Cosmetology, Therapeutic Massage, and Resort and Spa Management. Services to area small businesses are growing as evidenced by the increase in the number of tenants utilizing the Small Business Incubator. As the economy recovers, industries are moving to the College's service area and local industries are expanding. The College will provide training for new and expanding industries, as well as, develop partnerships with these industries that will enhance educational opportunities. The College's culinary programs continue to receive recognition by winning national competitions; thereby, attracting students to the College.

The College is confident in its financial stability and ability to attract citizens to higher education. The College's Board and Administration are dedicated in its efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum programs, occupational training and continuing education; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to goals and freeing up resources to support change. The College's ongoing strategic planning initiative and efforts to identify resource reallocation opportunities have expanded to new

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

activities to enhance revenues and control expenses over the short and long term. As a result, Asheville-Buncombe Technical Community College is well positioned to increase enrollment, strategically add programs, partner with the State and community in economic development and meet public expectations, while remaining financially sound.

Asheville-Buncombe Technical Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,728,753.61
Restricted Cash and Cash Equivalents	823,813.28
Receivables, Net (Note 4)	1,291,669.46
Inventories	354,115.93
Notes Receivable, Net (Note 4)	10,177.36
	<hr/>
Total Current Assets	5,208,529.64

Noncurrent Assets:

Restricted Cash and Cash Equivalents	54,668.23
Restricted Receivables (Note 4)	4,678,082.78
Restricted Due from Primary Government	839,379.15
Capital Assets - Nondepreciable (Note 5)	8,870,558.09
Capital Assets - Depreciable, Net (Note 5)	59,775,077.80
	<hr/>
Total Noncurrent Assets	74,217,766.05

Total Assets

79,426,295.69

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,811,514.41
Due to Primary Government	624.96
Unearned Revenue	412,607.04
Funds Held for Others	23,907.10
Long-Term Liabilities - Current Portion (Note 7)	218,061.84
	<hr/>
Total Current Liabilities	2,466,715.35

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	2,535,244.35
	<hr/>
Total Noncurrent Liabilities	2,535,244.35

Total Liabilities

5,001,959.70

NET ASSETS

Invested in Capital Assets	68,645,635.89
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	54,668.33
Expendable:	
Scholarships and Fellowships	13,041.63
Loans	8,460.42
Capital Projects	5,788,502.59
Other	60,597.99
Unrestricted	(146,570.86)
	<hr/>
Total Net Assets	\$ 74,424,335.99

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 4,485,105.09
Federal Grants and Contracts	2,908,694.11
State and Local Grants and Contracts	279,714.00
Sales and Services, Net (Note 9)	2,633,579.18
Other Operating Revenues	13,353.57

Total Operating Revenues	10,320,445.95
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EXPENSES

Operating Expenses:

Personal Services	28,910,416.08
Supplies and Materials	6,033,350.06
Services	3,371,378.40
Scholarships and Fellowships	2,111,806.49
Utilities	1,628,989.06
Depreciation	2,241,473.53

Total Operating Expenses	44,297,413.62
--------------------------	---------------

Operating Loss	(33,976,967.67)
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NONOPERATING REVENUES

State Aid	21,981,715.62
County Appropriations	7,223,254.00
Noncapital Grants	1,486,019.48
Noncapital Gifts	197,663.03
Investment Income	126,896.78
Other Nonoperating Revenues	7,524.74

Net Nonoperating Revenues	31,023,073.65
---------------------------	---------------

Loss Before Other Revenues	(2,953,894.02)
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State Capital Aid	1,798,232.43
County Capital Aid	8,733,735.93
Capital Grants	403,963.32
Capital Gifts	54,131.25

Increase in Net Assets	8,036,168.91
------------------------	--------------

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 15)	66,388,167.08
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Net Assets, June 30, 2007	\$ 74,424,335.99
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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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 10,391,900.91
Payments to Employees and Fringe Benefits	(28,762,758.00)
Payments to Vendors and Suppliers	(10,682,037.01)
Payments for Scholarships and Fellowships	(2,107,870.65)
Loans Issued to Students	(46,221.95)
Collection of Loans to Students	41,227.88
Other Disbursements	(1,468,679.90)
	<u>(32,634,438.72)</u>
Net Cash Used by Operating Activities	<u>(32,634,438.72)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	21,981,715.62
County Appropriations	7,223,254.00
Noncapital Grants Received	1,397,422.74
Noncapital Gifts Received	197,663.03
	<u>30,800,055.39</u>
Cash Provided by Noncapital Financing Activities	<u>30,800,055.39</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,548,832.74
County Capital Aid	3,416,147.26
Capital Grants Received	403,963.32
Capital Gifts Received	135,750.00
Proceeds from Sale of Capital Assets	2,619.92
Acquisition and Construction of Capital Assets	(4,494,461.98)
	<u>1,012,851.26</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,012,851.26</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>126,896.78</u>
Cash Provided by Investing Activities	<u>126,896.78</u>

Net Increase in Cash and Cash Equivalents	(694,635.29)
Cash and Cash Equivalents, July 1, 2006	<u>4,301,870.41</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 3,607,235.12</u>

Asheville-Buncombe Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3
Page 2

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

Operating Loss	\$ (33,976,967.67)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,241,473.53
Provision for Uncollectible Loans and Write-Offs	1,983.76
Miscellaneous Nonoperating Income	29,391.24
Changes in Assets and Liabilities:	
Receivables, Net	52,191.35
Inventories	192,971.42
Notes Receivable, Net	(4,994.07)
Accounts Payable and Accrued Liabilities	129,570.03
Due to Primary Government	453.94
Unearned Revenue	72,446.91
Funds Held for Others	(1,510,610.10)
Compensated Absences	137,650.94
	<u>137,650.94</u>
Net Cash Used by Operating Activities	<u>\$ (32,634,438.72)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,728,753.61
Restricted Cash and Cash Equivalents	823,813.28
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	54,668.23
	<u>54,668.23</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 3,607,235.12</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 399,870.88
Assets Acquired through a Gift	33,006.25
Increase in Receivables Related to Nonoperating Income	5,528,643.01
Capital Asset Write-Offs	21,866.50

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

Asheville-Buncombe Technical Community College Foundation, Inc.
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents	
Operating Account	\$ 2,843.00
Cash Held by College (STIF)	191,425.00
Cash Held by College (Wachovia)	690,672.00
	<hr/>
Total Cash and Cash Equivalents	884,940.00
	<hr/>
Other Current Assets	
Marketable Securities	31,576.00
Contributions Receivable	22,814.00
Sales Tax Receivable	3,192.00
	<hr/>
Total Current Receivables	57,582.00
	<hr/>
Endowment Assets	
Cash with Investment Broker	66,648.00
Contributions Receivable	20,000.00
Cash Held by College (STIF)	239,420.00
Cash Held by College (Wachovia)	863,842.00
Marketable Securities	978,421.00
	<hr/>
Total Endowment Assets	2,168,331.00
	<hr/>
Other Assets	
Beneficial Interest in Remainder Trusts	1,381,088.00
	<hr/>
Total Other Assets	1,381,088.00
	<hr/>
Total Assets	\$ 4,491,941.00
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts Payable	\$ 6,372.00
Funds Held for Others	10,273.00
	<hr/>
Total Liabilities	16,645.00
	<hr/>
Net Assets	
Unrestricted	397,071.00
Temporarily Restricted	2,101,900.00
Permanently Restricted	1,976,325.00
	<hr/>
Total Net Assets	4,475,296.00
	<hr/>
Total Liabilities and Net Assets	\$ 4,491,941.00
	<hr/> <hr/>

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

Asheville-Buncombe Technical Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenues:</u>				
Contributions and Grants	\$ 40,284.00	\$ 287,717.00	\$ 288,983.00	\$ 616,984.00
Special Events Revenue	86,815.00	12,900.00	4,918.00	104,633.00
Interest and Investment Income	31,279.00	86,204.00		117,483.00
Investment Gains	10,089.00	97,009.00		107,098.00
Change in Value - Remainder Trusts		230,822.00		230,822.00
In Kind Contributions	169,523.00			169,523.00
Net Assets Released from Restriction	238,596.00	(238,596.00)		
Total Support and Revenues	576,586.00	476,056.00	293,901.00	1,346,543.00
<u>Expenses:</u>				
<u>Program Expenses</u>				
Student Scholarships	93,440.00			93,440.00
Community Grants	72,511.00			72,511.00
Equipment and Supplies Gifted to College	17,571.00			17,571.00
Faculty and Staff Mini-Grants	13,558.00			13,558.00
Personnel - Grants	61,207.00			61,207.00
Contributed Services and Facilities	60,817.00			60,817.00
Total Program Expenses	319,104.00			319,104.00
<u>Management and General Expenses</u>				
Office Expense	3,658.00			3,658.00
Contracted Services	4,410.00			4,410.00
Investment Expense	8,786.00			8,786.00
Other Expense	4,062.00			4,062.00
Contributed Services and Facilities	45,573.00			45,573.00
Total Management and General	66,489.00			66,489.00
<u>Fundraising Expenses</u>				
Special Events	29,710.00			29,710.00
Contributed Event Goods/Services	8,930.00			8,930.00
Contributed Services and Facilities	54,203.00			54,203.00
Total Fundraising Expenses	92,843.00			92,843.00
Total Expenses	478,436.00			478,436.00
Change in Net Assets	98,150.00	476,056.00	293,901.00	868,107.00
Net Assets, Beginning of Year				
As Previously Reported	298,921.00	475,578.00	1,682,424.00	2,456,923.00
Prior Period Adjustment		1,150,266.00		1,150,266.00
As Restated	298,921.00	1,625,844.00	1,682,424.00	3,607,189.00
Net Assets, End of Year	\$ 397,071.00	\$ 2,101,900.00	\$ 1,976,325.00	\$ 4,475,296.00

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, 2007

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 of the College and component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The Asheville-Buncombe Technical Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 28 elected members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed \$187,066.11 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Business Services office at (828) 254-1921 ext. 7542.

- 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 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.

- 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, money market accounts and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 vendor credits. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. 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 50 years for general infrastructure, 15 to 50 years for buildings, and 5 to 25 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.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year. 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 include the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

J. 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 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.

K. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- L. 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.

- M. Internal Sales Activities** - The College bookstore provides goods and services to College departments, as well as to its customers. The College also operates a central supply department and a copy center on a reimbursement basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- N. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$7,893.00, and deposits in private financial institutions with a carrying value of \$1,790,239.58 and a bank balance of \$3,453,741.41.

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, 2007, 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,809,102.54 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 1.6 years as of June 30, 2007. 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.

Component Unit - Investments of the College's component unit, the Asheville-Buncombe Technical Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The Foundation's investment portfolio with Charles Schwab was allocated as indicated below.

As of June 30:	
Equity Securities	\$ 491,377.00
Stock Index Funds	242,538.00
Fixed Income	<u>276,082.00</u>
Total Marketable Securities	<u>\$ 1,009,997.00</u>

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled in a government money market account in a private institution, as well as 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

otherwise. At June 30, 2007, net appreciation of \$2,989.94 was available to be spent, of which \$2,989.94 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 395,727.06	\$ 127,518.78	\$ 268,208.28
Accounts	102,911.32		102,911.32
Intergovernmental	880,174.42		880,174.42
Other	40,375.44		40,375.44
Total Current Receivables	<u>\$ 1,419,188.24</u>	<u>\$ 127,518.78</u>	<u>\$ 1,291,669.46</u>
Restricted Receivables:			
Intergovernmental	<u>\$ 4,678,082.78</u>	<u>\$ 0.00</u>	<u>\$ 4,678,082.78</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 15,700.27</u>	<u>\$ 5,522.91</u>	<u>\$ 10,177.36</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 5,798,514.00	\$ 0.00	\$ 0.00	\$ 5,798,514.00
Construction in Progress	3,300,793.53	3,946,229.94	4,174,979.38	3,072,044.09
Total Capital Assets, Nondepreciable	<u>9,099,307.53</u>	<u>3,946,229.94</u>	<u>4,174,979.38</u>	<u>8,870,558.09</u>
Capital Assets, Depreciable:				
Buildings	69,199,086.27	4,441,433.12		73,640,519.39
Machinery and Equipment	5,729,910.51	708,330.43	267,618.91	6,170,622.03
General Infrastructure	2,367,189.66	6,325.00		2,373,514.66
Total Capital Assets, Depreciable	<u>77,296,186.44</u>	<u>5,156,088.55</u>	<u>267,618.91</u>	<u>82,184,656.08</u>
Less Accumulated Depreciation:				
Buildings	16,387,623.26	1,728,362.76		18,115,986.02
Machinery and Equipment	2,913,716.65	396,940.64	243,132.49	3,067,524.80
General Infrastructure	1,109,897.33	116,170.13		1,226,067.46
Total Accumulated Depreciation	<u>20,411,237.24</u>	<u>2,241,473.53</u>	<u>243,132.49</u>	<u>22,409,578.28</u>
Total Capital Assets, Depreciable, Net	<u>56,884,949.20</u>	<u>2,914,615.02</u>	<u>24,486.42</u>	<u>59,775,077.80</u>
Capital Assets, Net	<u>\$ 65,984,256.73</u>	<u>\$ 6,860,844.96</u>	<u>\$ 4,199,465.80</u>	<u>\$ 68,645,635.89</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 1,054,851.11
Accrued Payroll	401,165.81
Contract Retainage	157,167.60
Intergovernmental Payables	198,329.89
Total Accounts Payable and Accrued Liabilities	\$ 1,811,514.41

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 2,615,655.25	\$ 1,416,898.12	\$ 1,279,247.18	\$ 2,753,306.19	\$ 218,061.84

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 134,696.55
2009	69,372.48
2010	71,203.32
2011	68,036.34
2012	1,399.89
Total Minimum Lease Payments	\$ 344,708.58

Rental expense for all operating leases during the year was \$120,878.46.

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	\$ 5,427,607.26	\$ 0.00	\$ 809,460.48	\$ 133,041.69	\$ 4,485,105.09
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,620,455.31	\$ 25,191.51	\$ 467,446.03	\$ 0.00	\$ 2,127,817.77
Vending	29,015.94				29,015.94
Rental Income	363,306.41				363,306.41
Other	1,922.85				1,922.85
Sales and Services of Education and Related Activities	111,516.21				111,516.21
Total Sales and Services	\$ 3,126,216.72	\$ 25,191.51	\$ 467,446.03	\$ 0.00	\$ 2,633,579.18

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	\$ 17,145,708.33	\$ 2,438,462.90	\$ 1,224,854.82	\$ 0.00	\$ 0.00	\$ 0.00	\$ 20,809,026.05
Research	1,374.28	26.37	70.89				1,471.54
Academic Support	3,294,913.26	350,724.93	207,626.52				3,853,264.71
Student Services	1,734,576.13	122,010.55	183,023.25				2,039,609.93
Institutional Support	3,469,411.07	340,164.28	1,134,878.30				4,944,453.65
Operations and Maintenance of Plant	3,068,389.63	386,481.05	564,353.59		1,628,989.06		5,648,213.33
Student Financial Aid				2,111,806.49			2,111,806.49
Auxiliary Enterprises	196,043.38	2,395,479.98	56,571.03				2,648,094.39
Depreciation						2,241,473.53	2,241,473.53
Total Operating Expenses	\$ 28,910,416.08	\$ 6,033,350.06	\$ 3,371,378.40	\$ 2,111,806.49	\$ 1,628,989.06	\$ 2,241,473.53	\$ 44,297,413.62

NOTE 11 - PENSION PLANS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$24,053,005.84, of which \$18,332,080.33 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,099,924.82 and \$487,633.34, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$487,633.34, \$382,765.93, and \$331,227.36, 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 College. The voluntary contributions by employees amounted to \$7,164.11 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$427,694.01 for the year ended June 30, 2007.

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 \$73,297.20 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$696,619.05. 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*.
- B. Disability Income -** 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$95,326.82. 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 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 \$75,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The College's dental plan is self-funded and administered by the Guardian Life Insurance Company. The administrative fee includes aggregate stop loss protection.

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. The employer contribution rate was .16% for the current fiscal year. Additionally, group term life insurance is provided by the College through a private insurance company. The benefit from this coverage is twice an eligible employee's annual salary.

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$6,582,493.26 and on other purchases were \$80,638.82 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 64,345,221.09
Restatements - Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	1,811,503.05
Construction in Progress Not Previously Reported	<u>231,442.94</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 66,388,167.08</u></u>



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 16, 2008. Our report was modified to include a reference to other auditors.

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. Other auditors audited the financial statements of Asheville-Buncombe Technical Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

**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
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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

May 16, 2008

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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