

Compliance Section

This section contains various schedules as required by the *U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and other state agencies. It also contains the Independent Auditors' reports on compliance and controls as required by the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, and the North Carolina State Single Audit Implementation Act.

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2005

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
Federal Awards					
<u>U.S. Department of Transportation</u>					
Direct Programs:					
Federal Transit Authority Capital and Operating:					
Capital and Operating Grants	20.507		\$ 1,006,740	\$ -	\$ 1,006,740
Passed through:					
NCDOT Planning Grant	20.205	Section 104(f) title 23 8.53302	79,433	-	79,433
Total U.S. Department of Transportation			<u>1,086,173</u>	<u>-</u>	<u>1,086,173</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
Community Development Block Grant Program/Entitlement Grants	14.218	B-02-MC-370001	1,471,935	-	1,471,935
Fair Housing Assistance Program-- FHAP					
State and Local	14.401	FF204K044018	117,800	-	117,800
HOME Program	14.239	M-02-DC-370201	2,203,283	-	2,203,283
Total U.S. Department of Housing and Urban Development			<u>3,793,018</u>	<u>-</u>	<u>3,793,018</u>
<u>U. S. Department of Agriculture</u>					
Passed through NC Dept of Health & Human Services- Div of Maternal & Child Health, After School Program Food Service					
Total U.S Department of Agriculture	10.559	7197	14,441	-	14,441
			<u>14,441</u>	<u>-</u>	<u>14,441</u>
<u>U. S. Department of Justice</u>					
Direct Programs:					
Local Law Enforcement Block Grant	16.592		(2,207)	-	(2,207)
Bulletproof Vest Program	16.607		3,887	-	3,887
COPS 2002		2002SHWX0388	76,666	-	76,666
Total U. S. Department of Justice			<u>78,346</u>	<u>-</u>	<u>78,346</u>
<u>U.S. Department of Homeland Security</u>					
FEMA	97.036		1,239,468	-	1,239,468
Total U.S. Department of Homeland Security			<u>1,239,468</u>	<u>-</u>	<u>1,239,468</u>

(continued)

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	State Expenditures	Total Expenditures
State Awards					
NC Dept of Insurance-					
Office of State Fire Marshall					
Governor's Highway		GP0502	\$ -	\$ 4,000	\$ 4,000
Total NC Dept of Insurance			-	4,000	4,000
NC Crime Control & Public Safety					
Emergency Management			-	3,239	3,239
Total NC Crime Control & Public Safety			-	3,239	3,239
Governor's Crime Commission					
GP0405			-	11,045	11,045
ADP GIS Capacity Enhancement					
Total NC Governor's Crime Commission			-	11,045	11,045
N. C. Department of Transportation					
Direct Programs:					
Powell Bill			-	2,329,679	2,329,679
Black Mountain Reimbursement		0508001	-	112,386	112,386
State Maintenance Assistance Program		SMAP	-	671,856	671,856
Bike Park TIP Project C-3415			-	41,007	41,007
NC DOT		20.205-4	-	18,986	18,986
NC DOT			-	42,158	42,158
Total N.C.Department of Transportation			-	3,216,072	3,216,072
N. C. Department of Health and Human Services					
Harvest House/Sr. Opportunity Center			-	10,883	10,883
Total N.C. Department of Health and Human Services			-	10,883	10,883
N.C. Community Development Initiative					
NCCDI			-	7,720	7,720
N. C. Department of Environment Health, and Natural Resources					
Direct Programs:					
High Unit Cost Grant - DEH0930		DEH0930	-	238,277	238,277
Azalea Road Park Phase I		2002-228			-
Total N.C. Department of Environment, Health, and Natural Resources			-	238,277	238,277
Total Federal and State Awards Expended			\$ 6,211,446	\$ 3,491,236	\$ 9,702,682

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2005

NOTES TO THE PRECEDING SCHEDULE:

1. Significant Accounting Policies

The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the City of Asheville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2. Federal and State Awards Which Have Been Passed Through to Subrecipients

<u>Subrecipient</u>	<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Tenant-Based Rental Assistance	HOME Investment Partnerships	14.239	\$ 35,962
WNC Housing - Independence Cottages	HOME Investment Partnerships	14.239	33,510
Asheville Area Habitat S/F New Const	HOME Investment Partnerships	14.239	290,054
NHS Single- Family New Construction	HOME Investment Partnerships	14.239	250,000
MHO - Homeownership Zone	HOME Investment Partnerships	14.239	28,554
MHO - Northpoint Commons	HOME Investment Partnerships	14.239	25,000
Buncombe Co. Rural Housing Rehab	HOME Investment Partnerships	14.239	80,245
Buncombe Co. - First Step Farm	HOME Investment Partnerships	14.239	104,633
HAC - Homeownership Assistance	HOME Investment Partnerships	14.239	41,348
Henderson Co. Habitat - Highlander	HOME Investment Partnerships	14.239	76,262
Madison Co. Owner- Occupied Rehab	HOME Investment Partnerships	14.239	108,228
WCCA - English Hills Apartments	HOME Investment Partnerships	14.239	225,000
General Program Admin	HOME Investment Partnerships	14.239	109,061
Member Government Administration	HOME Investment Partnerships	14.239	71,550
CHDO operating expenses	HOME Investment Partnerships	14.239	67,826
HACA - Woodfin Apartments	HOME Investment Partnerships	14.239	200,000
Our Next Generation - S/F New Constr	HOME Investment Partnerships	14.239	42,000
Henderson Co. Highland View Apts.	HOME Investment Partnerships	14.239	183,183
MHO - The Griffin Apartments	HOME Investment Partnerships	14.239	235,000
MHO - Depot Street Pre-development	HOME Investment Partnerships	14.239	25,000
ADDI	HOME Investment Partnerships	14.239	57,000
Total			<u>\$ 2,289,416</u>

See the accompanying Independent Auditors' Report on Supplementary Information.

CITY OF ASHEVILLE
Schedule of Revenues and Expenditures—High Unit Cost Grant—
Project Number DEH0930

From Inception and the Year Ended June 30, 2005

	<u>Prior Years</u>	<u>Current Year</u>	<u>Project to Date</u>
Sources of Funds:			
MSD Reimbursement	\$ -	\$ 2,200	\$ 2,200
State Funds	1,937,019	238,277	2,175,296
Total Revenues	<u>\$ 1,937,019</u>	<u>\$ 240,477</u>	<u>\$ 2,177,496</u>
Construction Cost:			
WC0201	\$ 583,484	\$ -	\$ 583,484
WC0202	613,090	-	613,090
WC0203	531,372	91,887	623,259
Administrative Expense:			
Professional Services	423,098	12,322	435,420
Advertising	819	-	819
Legal Fees	13,044	-	13,044
Engineering Fees	330	700	1,030
License, Taxes & Fees	96	-	96
Other:			
Right of Ways	4,100	-	4,100
 Total Expenditures	 <u>\$ 2,169,433</u>	 <u>\$ 104,909</u>	 <u>\$ 2,274,342</u>



Martin Starnes & Associates, CPAs, P.A.

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**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**

To the Honorable Mayor and
Members of the City Council
City of Asheville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Asheville, North Carolina, as of and for the year ended June 30, 2005, which collectively comprises the City of Asheville's basic financial statements, and have issued our report thereon dated September 29, 2005. We did not audit the financial statements of the City of Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely 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. The financial statements of the City of Asheville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Asheville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the City of Asheville, in a separate letter dated September 29, 2005.

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This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Martin Starnes & Associates, CPAs, P.A.
Martin Starnes & Associates, CPAs, P.A.
September 29, 2005



Martin Starnes & Associates, CPAs, P.A.

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Report On Compliance With Requirements Applicable To Each Major Federal Program and Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Asheville, North Carolina

Compliance

We have audited the compliance of City of Asheville, North Carolina, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Asheville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 29, 2005.

This report is intended for the information and use of the audit committee, management, others within the organization, members of City Council, federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
September 29, 2005



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**Report On Compliance With Requirements Applicable To Each Major State Program
and Internal Control Over Compliance In Accordance With Applicable Sections of
OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the City Council
City of Asheville, North Carolina

Compliance

We have audited the compliance of the City of Asheville, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2005. The City of Asheville's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Asheville's management. Our responsibility is to express an opinion on the City of Asheville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Asheville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Asheville's compliance with those requirements.

In our opinion, the City of Asheville complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Asheville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Asheville's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program 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 compliance and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 30, 2005.

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Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
September 29, 2005

**CITY OF ASHEVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

1. Summary of Auditors' Results

- A. An unqualified opinion was issued on the financial statements of the City of Asheville, North Carolina.
- B. Our audit of the basic financial statements disclosed no reportable conditions in internal control.
- C. Our audit of the basic financial statements disclosed no reportable conditions in compliance over Federal and State awards.
- D. An unqualified opinion was issued on the City of Asheville's compliance with the types of compliance requirements applicable to its major Federal programs.
- E. An unqualified opinion was issued on the City of Asheville's compliance with the types of compliance requirements applicable to its major State programs.
- F. Major Federal programs for the City of Asheville for the year ended June 30, 2005 are:

Federal Transit Authority Cluster	20,507
Community Development Block Grant	14,218
HOME Program	14,239
FEMA	97,036
- G. Major State programs for the City of Asheville for the year ended June 30, 2005 are:
- H. Powell Bill
- I. State Maintenance Assistance Program
- J. The threshold for determining Type A programs for the City of Asheville is \$300,000.
- K. City of Asheville did not qualify as a low risk auditor under Section .530 of Circular No. A-133.

CITY OF ASHEVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

2. Findings related to the Audit of the Basic Financial Statements

- A. The audit did not detect any financial findings related to compliance that are required to be reported in accordance with Government Auditing Standards.
- B. The audit did not detect any findings related to internal control over financial reporting that are required to be reported in accordance with Government Auditing Standards.

3. Findings and Questioned Costs Related to the Audit of Federal Awards

None

4. Findings and Questioned Costs Related to the Audit of State Awards

None

**CITY OF ASHEVILLE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

None. No uncorrected prior year findings.