

# Transylvania County Schools



Annual Financial Report

For the Year Ended  
June 30, 2010



# Annual Financial Report of the Transylvania County Schools

Brevard, North Carolina  
For the Fiscal Year Ended June 30, 2010



Prepared by Business Services Department  
Norris Barger, Director of Business Services

# Transylvania County Schools

## Annual Financial Report

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# CARLAND & ANDERSEN

## INCORPORATED

CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Transylvania County, 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 Transylvania County Board of Education, North Carolina, as of and for the year ended June 30, 2010 which collectively comprise the Transylvania County Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Transylvania County Board of Education, North Carolina's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Transylvania County Board of Education, North Carolina as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, the State Public School Fund, and the Federal Grants Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2010 on our consideration of the Transylvania County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Transylvania County Board of Education, North Carolina. The individual fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Calvin A. Benson Incorporated*

November 5, 2010

## Annual Financial Report

### Management's Discussion and Analysis

This section of the Transylvania County Schools (*the Board*) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2010. This information should be read in conjunction with the audited financial statements included in this report.

### Financial and Economic Highlights

County funding is a major source of income for the Board; therefore the county's economic outlook directly affects that of the Board. The following factors have positively affected the economic outlook of Transylvania County.

The county's economic situation mirrored that of the state and country in 2010. The unemployment rate rose to 8.6% as of June 2010, compared to the state average of 11.0%. The county continues to enjoy an influx of retirees, which has supported the tax base through rough economic times. Because of conservative financial practices, the county was able continue its financial support of the school system with relatively minor harm to instructional programs.

The Board has absorbed the negative financial impact of the slow state and local economies through budget cuts and re-direction of resources. The Board anticipates a leveling of enrollment over the next several years but will need continued funding support to implement federal and state mandates.

### Overview of the Financial Statements

The audited financial statements of the Transylvania County Schools consist of four components. They are as follows:

- ◆ *Independent Auditors' Report*
- ◆ *Management's Discussion and Analysis*
- ◆ *Basic Financial Statements*
- ◆ *Required supplemental section that presents budgetary statements for selected governmental and enterprise funds*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *government-wide statements*. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities. The statement of net assets includes all of the Board's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second type of statement included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary fund, and fiduciary funds. These statements present the governmental funds on the

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modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of the Board's major funds.

### **Government-wide Statements**

The government-wide statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Board's net assets and how they have changed. Net assets – the difference between the Board's assets and liabilities – are one way to measure the Board's financial health or position. Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the Board's overall health, one must consider additional non-financial factors such as changes in the county's property tax base and the condition of its school buildings and other physical assets.

The Board's activities are divided into two categories in the government-wide statements:

- ◆ **Governmental activities:** Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and state and federal aid finance most of these activities.
- ◆ **Business-type activities:** The Board charges fees to help it cover the costs of certain services it provides. Child Nutrition is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds – not the Board as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by State law, such as the State Public School Fund. The Board established other funds to control and manage money for a particular purpose or to show that it is properly using certain revenues, such as in the Federal Grants fund.

Transylvania County Schools has three types of funds:

- ◆ **Governmental funds:** Most of the Board's basic services are included in the governmental funds, which generally focus on two things – how cash and other assets can readily be converted to cash flow in and out, and the balances left at year-end



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that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements, in the form of a reconciliation, explains the relationship (or differences) between them. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

- ◆ *Proprietary funds:* Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same basis of accounting as the government-wide statements – full accrual. Transylvania County Schools has one proprietary fund – an enterprise fund – the Child Nutrition Fund.
- ◆ *Fiduciary fund:* The fiduciary fund is used to account for resources held for the benefit of parties outside the government. Transylvania County Schools has one fiduciary fund that accounts for four activities. The Bjerg Scholarship, Lollis Scholarship, and Connestee Scholarship are scholarship funds managed for the benefit of graduating Transylvania County Schools students. The Wenzlick Trust is used to enrich Vocational Education programs.

**Financial Analysis of the Schools as a Whole**

Net assets is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$43,055,281 as of June 30, 2010. The largest component of net assets is invested in capital assets, net of debt, of \$41,842,745. It comprises 97.2% of the total net assets.

<b>Table I - Condensed Statement of Net Assets as of June 30, 2010</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 3,651,341	\$ 2,968,907	\$ 491,246	\$ 399,194	\$ 4,142,587	\$ 3,368,101
Capital assets	41,719,084	43,006,880	224,849	238,702	41,943,933	43,245,582
Total assets	\$ 45,370,425	\$ 45,975,787	\$ 716,095	\$ 637,896	\$ 46,086,520	\$ 46,613,683
Current liabilities	1,173,110	1,313,676	48,121	16,953	1,221,231	1,330,629
Long-term liabilities	1,764,110	1,677,303	45,898	47,557	1,810,008	1,724,860
Total liabilities	\$ 2,937,220	\$ 2,990,979	\$ 94,019	\$ 64,510	\$ 3,031,239	\$ 3,055,489
Invested in capital assets, net of related debt	41,617,896	42,684,701	224,849	238,702	41,842,745	42,923,403
Restricted net assets	-	379,266	-	-	-	379,266
Unrestricted net assets (deficit)	815,309	(79,159)	397,227	334,684	1,212,536	255,525
Total net assets	42,433,205	42,984,808	622,076	573,386	43,055,281	43,558,194

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The following table shows the revenues and expenses of the Board for the current fiscal year.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,178,203	\$ 1,106,711	\$ 617,171	\$ 767,672	\$ 1,795,374	\$ 1,874,383
Operating grants and contributions	23,141,904	24,072,370	1,554,932	1,367,556	24,696,836	25,439,926
Capital grants and contributions	144,072	324,778	-	-	144,072	324,778
General revenues:						
Other revenues	10,288,560	10,729,466	115,761	29,014	10,404,321	10,758,480
Total revenues	34,752,739	36,233,325	2,287,864	2,164,242	37,040,603	38,397,567
<b>EXPENDITURES</b>						
Governmental activities:						
Instructional services	28,907,136	28,759,217	-	-	28,907,136	28,759,217
System-wide support	5,795,062	5,781,458	-	-	5,795,062	5,781,458
Community services	155,407	233,873	-	-	155,407	233,873
Child nutrition	-	-	-	-	-	-
Non-programmed charges	329,125	332,053	-	-	329,125	332,053
Interest on long-term debt	11,407	1,114	-	-	11,407	1,114
Unallocated depreciation expense	-	1,344,819	-	-	-	1,344,819
Business-type activities:						
Food service	-	-	2,345,379	2,354,813	2,345,379	2,354,813
Total expenditures	35,198,137	36,452,534	2,345,379	2,354,813	37,543,516	38,807,347
Transfers in (out)	(106,205)	(85,065)	106,205	85,065	-	-
Increase (decrease) in net assets	(551,603)	(304,274)	48,690	(105,506)	(502,913)	(409,780)
Beginning net assets	42,984,808	43,289,082	573,386	678,892	43,558,194	43,967,974
Ending net assets	\$ 42,433,205	\$ 42,984,808	\$ 622,076	\$ 573,386	\$ 43,055,281	\$ 43,558,194

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Total governmental activities generated revenues of \$34.75 million while expenses in this category totaled \$35.19 million for the year ended June 30, 2010. Comparatively, revenues were \$36.23 million and expenses totaled \$36.45 million for the year ended June 30, 2009. After transfers to the business-type activities, the decrease in net assets stands at \$551,603 at June 30, 2010, compared to \$304,274 in 2009. Instructional expenses comprised 79.0% of total governmental-type expenses while support services made up 21.0% of those expenses for 2010. County funding comprised 28.0% of total governmental revenue. Most of the remaining 72.0% of total governmental revenue for 2010 consists of restricted State and federal money. Business-type activities generated revenue of \$2.29 million and had expenses of \$2.35 million. Net assets increased in the business-type activities by \$48,690, after transfers in from the governmental activities of \$106,205.

**Capital Assets**

The following is a summary of the capital assets, net of depreciation at year-end:

<b>Table III - Summary of Capital Assets as of June 30, 2010</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and improvements	\$ 11,618,862	\$ 11,618,862	\$ -	\$ -	\$ 11,618,862	\$ 11,618,862
Buildings	46,485,224	46,317,543	-	-	46,485,224	46,317,543
Furniture and equipment	944,452	944,452	600,358	573,637	1,544,810	1,518,089
Vehicles	3,204,957	3,453,949	125,947	125,947	3,330,904	3,579,896
Accumulated depreciation	(20,534,411)	(19,327,926)	(501,456)	(460,883)	(21,035,867)	(19,788,809)
Total	41,719,084	43,006,880	224,849	238,701	41,943,933	43,245,581

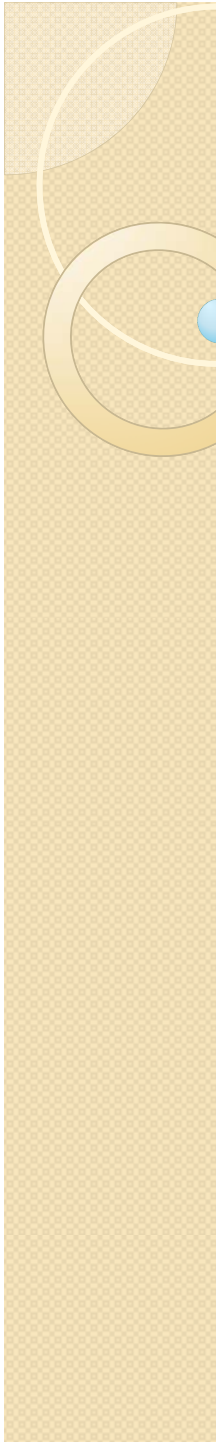
**Debt Outstanding**

During the year the Board’s outstanding debt decreased by \$134,184 reflecting installment payments on the financing of school buses and the net change in liability for compensated absences.

**Requests for Information**

This report is intended to provide a summary of the financial condition of Transylvania County Schools. Questions or requests for additional information should be addressed to:

Norris Barger, Director of Business Services  
 Transylvania County Schools  
 225 Rosenwald Lane  
 Brevard, NC 28712





## Basic Financial Statements



# Transylvania County Schools

Exhibit 1

## Statement of Net Assets

As of June 30, 2010

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,616,222	\$ 291,688	\$ 2,907,910
Accounts receivable (net)	907,835	377	908,212
Due from other governments	127,284	86,390	213,674
Internal balances	-	-	-
Inventories	-	112,791	112,791
Capital assets (Note 1)			
Land, improvements, and construction in progress	11,618,862	-	11,618,862
Other capital assets, net of depreciation	30,100,222	224,849	30,325,071
Total capital assets	41,719,084	224,849	41,943,933
Total assets	45,370,425	716,095	46,086,520
<b>LIABILITIES</b>			
Accounts payable	166,818	34,373	201,191
Accrued salaries and wages payable	1,000,530	-	1,000,530
Unearned revenue	5,762	13,748	19,510
Long-term liabilities:			
Due within one year	101,188	-	101,188
Due in more than one year	1,662,922	45,898	1,708,820
Total liabilities	2,937,220	94,019	3,031,239
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 41,617,896	224,849	41,842,745
Restricted for:			
Individual schools	-	-	-
Unrestricted (deficit)	815,309	397,227	1,212,536
Total net assets	\$ 42,433,205	\$ 622,076	\$ 43,055,281

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

# Transylvania County Schools

Exhibit 2

## Statement of Activities

For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
Instructional programs:							
Regular	\$ 17,096,391	\$ -	\$ 13,132,400	\$ -	\$ (3,963,991)	\$ -	\$ (3,963,991)
Special	3,665,059	-	3,134,778	-	(530,281)	-	(530,281)
Alternative	2,031,201	-	1,717,093	-	(314,108)	-	(314,108)
School-based leadership	1,985,651	-	1,087,415	-	(898,236)	-	(898,236)
Co-curricular	357,792	-	-	-	(357,792)	-	(357,792)
School-based support	3,771,042	1,032,983	1,461,614	-	(1,276,445)	-	(1,276,445)
Support services:							
Regular	414,924	-	273,860	-	(141,064)	-	(141,064)
Special	118,781	-	85,650	-	(33,131)	-	(33,131)
Alternative	41,341	-	38,486	-	(2,855)	-	(2,855)
Technology	146,780	-	136,644	-	(10,136)	-	(10,136)
Operational	4,021,042	73,303	1,500,519	144,072	(2,303,148)	-	(2,303,148)
Financial and human resources	553,340	-	284,390	-	(268,950)	-	(268,950)
Accountability	13,420	-	2,678	-	(10,742)	-	(10,742)
Policy and leadership	485,434	-	141,220	-	(344,214)	-	(344,214)
Community services	155,407	71,917	41,336	-	(42,154)	-	(42,154)
Non-programmed charges	329,125	-	103,821	-	(225,304)	-	(225,304)
Interest on long-term debt	11,407	-	-	-	(11,407)	-	(11,407)
Total governmental activities	35,198,137	1,178,203	23,141,904	144,072	(10,733,958)	-	(10,733,958)

(continued)



Business-type Activities:

Child nutrition	2,345,379	617,171	1,554,932	-	-	(173,276)	(173,276)
Total business-type activities	2,345,379	617,171	1,554,932	-	-	(173,276)	(173,276)
Total government-wide	\$ 37,543,516	\$ 1,795,374	\$ 24,696,836	\$ 144,072	(10,733,958)	(173,276)	(10,907,234)

General revenues:

Unrestricted county appropriations - operating	8,628,239	100,000	8,728,239
Unrestricted county appropriations - capital	1,046,963	-	1,046,963
Unrestricted State appropriation - capital	232,398	-	232,398
Investment earnings, unrestricted	15,120	2,179	17,299
Miscellaneous, unrestricted	365,840	13,582	379,422
Transfers	(106,205)	106,205	-
Total general revenues and transfers	10,182,355	221,966	10,404,321
Change in net assets	(551,603)	48,690	(502,913)
Net assets-beginning	42,984,808	573,386	43,558,194
Net assets-ending	\$ 42,433,205	\$ 622,076	\$ 43,055,281

# Transylvania County Schools

Exhibit 3

## Balance Sheet

### Governmental Funds

As of June 30, 2010

	Major Funds				Non-major Fund	Total Governmental Funds
	General	State Public School Fund	Federal Grants Fund	Capital Outlay	Individual Schools	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,697,467	\$ 3,201	\$ -	\$ 554,179	\$ 361,375	\$ 2,616,222
Accounts receivable	16,770	740,241	150,824	-	-	907,835
Due from other governments	29,523	-	-	97,761	-	127,284
Due from other funds	-	-	-	-	-	-
Total assets	<u>\$ 1,743,760</u>	<u>\$ 743,442</u>	<u>\$ 150,824</u>	<u>\$ 651,940</u>	<u>\$ 361,375</u>	<u>\$ 3,651,341</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 152,209	\$ -	\$ -	\$ 14,609	\$ -	\$ 166,818
Unearned revenues	2,434	3,201	127	-	-	5,762
Accrued salaries and benefits payable	109,592	740,241	150,697	-	-	1,000,530
Total liabilities	<u>264,235</u>	<u>743,442</u>	<u>150,824</u>	<u>14,609</u>	<u>-</u>	<u>1,173,110</u>
Fund balances:						
Reserved for:						
State statute	46,293	-	-	97,761	-	144,054
Designated for subsequent year's budget	-	-	-	20,250	-	20,250
Unreserved	1,433,232	-	-	519,320	361,375	2,313,927
Total fund balances	<u>1,479,525</u>	<u>-</u>	<u>-</u>	<u>637,331</u>	<u>361,375</u>	<u>2,478,231</u>
Total liabilities and fund balances	<u>\$ 1,743,760</u>	<u>\$ 743,442</u>	<u>\$ 150,824</u>	<u>\$ 651,940</u>	<u>\$ 361,375</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and thus not reported in the funds.	41,719,084
Long-term debt is not due and payable in the current period and therefore are not reported in the funds.	(1,764,110)
Net assets of governmental activities	<u>\$ 42,433,205</u>

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

# Transylvania County Schools

Exhibit 4

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Governmental Funds

For the Fiscal Year Ended June 30, 2010

	Major Funds				Non-major Fund	Total Governmental Funds
	General	State Public School Fund	Federal Grants Fund	Capital Outlay	Individual Schools	
<b>REVENUES</b>						
State of North Carolina	\$ 387,515	\$ 19,232,953	\$ -	\$ 381,424	\$ -	\$ 20,001,892
U.S. Government	271,758	-	3,197,995	-	-	3,469,753
Transylvania County	8,638,739	-	-	1,046,963	-	9,685,702
Other	332,179	-	-	106,044	1,032,983	1,471,206
Total revenues	9,630,191	19,232,953	3,197,995	1,534,431	1,032,983	34,628,553
<b>EXPENDITURES</b>						
Current:						
Instructional programs	5,548,250	16,811,942	3,026,330	547,287	1,050,874	26,984,683
Support and development	2,883,222	2,339,460	123,987	48,724	-	5,395,393
Community services	129,999	377	-	-	-	130,376
Non-programmed charges	306,478	-	22,647	-	-	329,125
Debt service:						
Principal	-	-	-	220,991	-	220,991
Interest and other charges	-	-	-	11,407	-	11,407
Capital outlay	-	-	-	848,364	-	848,364
Total expenditures	8,867,949	19,151,779	3,172,964	1,676,773	1,050,874	33,920,339
Excess of revenues over (under) expenditures	762,242	81,174	25,031	(142,342)	(17,891)	708,214
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers to other funds	-	(81,174)	(25,031)	-	-	(106,205)
Total other financing sources (uses)	-	(81,174)	(25,031)	-	-	(106,205)
Net change in fund balance	762,242	-	-	(142,342)	(17,891)	602,009
Fund balances-beginning	717,283	-	-	779,673	379,266	1,876,222
Fund balances-ending	\$ 1,479,525	\$ -	\$ -	\$ 637,331	\$ 361,375	\$ 2,478,231

(continued)

# Transylvania County Schools

Exhibit 4

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Governmental Funds

For the Fiscal Year Ended June 30, 2010

Net changes in fund balances - total governmental funds	\$ 602,009
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(1,283,339)
Loss on disposal of assets	(4,457)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	220,991
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Net change in compensated absences	(86,807)
Total changes in net assets of governmental activities	<u>\$ (551,603)</u>

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

### General Fund and Annually Budgeted Major Special Revenue Fund

For the Fiscal Year Ended June 30, 2010

	General Fund				State Public School Fund			
	Original Budget	Final Budget	Actual Amounts	Variance	Original Budget	Final Budget	Actual Amounts	Variance
<b>Revenues:</b>								
State of North Carolina	\$ 713,156	\$ 713,156	\$ 387,515	\$ (325,641)	\$ 19,325,084	\$ 19,483,795	\$ 19,232,953	\$ (250,842)
Federal government	212,601	247,425	271,758	24,333	-	-	-	-
Transylvania County	8,749,239	8,738,739	8,638,739	(100,000)	-	-	-	-
Other	441,990	482,490	332,179	(150,311)	-	-	-	-
Total revenues	10,116,986	10,181,810	9,630,191	(551,619)	19,325,084	19,483,795	19,232,953	(250,842)
<b>Expenditures:</b>								
Current:								
Instructional programs:								
Regular	3,548,542	3,545,506	2,783,156	762,350	13,140,389	12,118,985	12,113,773	5,212
Special	370,198	370,198	278,768	91,430	2,027,928	2,082,580	2,059,449	23,131
Alternative	347,471	549,471	540,094	9,377	503,448	441,448	435,406	6,042
School-based leadership	566,827	792,823	762,282	30,541	971,818	1,102,578	1,086,250	16,328
Co-curricular	336,213	336,213	260,021	76,192	-	-	-	-
School-based support	1,064,529	933,357	923,929	9,428	1,043,785	1,185,274	1,117,064	68,210
Total instructional programs	6,233,780	6,527,568	5,548,250	979,318	17,687,368	16,930,865	16,811,942	118,923
Support and development:								
Regular	228,469	219,469	112,917	106,552	321,860	328,187	266,539	61,648
Special	20,948	29,948	24,929	5,019	-	11,000	8,387	2,613
Alternative	-	-	-	-	-	200	189	11
Technology	-	-	-	-	115,895	139,224	136,644	2,580
Operational	2,536,407	2,266,407	2,194,130	72,277	750,517	1,524,175	1,500,456	23,719
Financial and human resources	271,761	271,761	230,739	41,022	188,137	288,137	283,347	4,790
Accountability	14,506	10,542	9,815	727	2,000	2,700	2,678	22
Policy and leadership	270,562	315,347	310,692	4,655	171,214	169,214	141,220	27,994
Total support and development	3,342,653	3,113,474	2,883,222	230,252	1,549,623	2,462,837	2,339,460	123,377

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued)

### General Fund and Annually Budgeted Major Special Revenue Fund

For the Fiscal Year Ended June 30, 2010

Community services	140,553	140,768	129,999	10,769	7,970	7,970	377	7,593
Non-programmed charges	400,000	400,000	306,478	93,522	-	-	-	-
Total expenditures	<u>10,116,986</u>	<u>10,181,810</u>	<u>8,867,949</u>	<u>1,313,861</u>	<u>19,244,961</u>	<u>19,401,672</u>	<u>19,151,779</u>	<u>249,893</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>762,242</u>	<u>762,242</u>	<u>80,123</u>	<u>82,123</u>	<u>81,174</u>	<u>(949)</u>
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	(80,123)	(82,123)	(81,174)	949
Appropriated fund balance	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,123)</u>	<u>(82,123)</u>	<u>(81,174)</u>	<u>949</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>762,242</u>	<u>\$ 762,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			717,283				-	
Fund balances, end of year			<u>\$ 1,479,525</u>				<u>\$ -</u>	

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

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual General Fund and Annually Budgeted Major Special Revenue Fund

For the Fiscal Year Ended June 30, 2010

	Federal Grants Fund			
	Original Budget	Final Budget	Actual Amounts	Variance
<b>Revenues:</b>				
Federal government	\$ 4,227,749	\$4,267,476	\$ 3,197,995	\$(1,069,481)
Total revenues	4,227,749	4,267,476	3,197,995	(1,069,481)
<b>Expenditures:</b>				
Current:				
Instructional programs:				
Regular	284,282	1,131,385	915,692	215,693
Special	1,060,371	1,075,069	1,073,751	1,318
Alternative	971,634	1,049,747	915,436	134,311
School-based leadership	177,007	5,621	1,165	4,456
Co-curricular	-	-	-	-
School-based support	35,381	130,669	120,286	10,383
Total instructional programs	2,528,675	3,392,491	3,026,330	366,161
Support and development:				
Regular	5,996	8,794	7,321	1,473
Special	76,179	77,882	77,263	619
Alternative	39,424	39,424	38,297	1,127
Operational	822,570	100	63	37
Financial and human resources	100	1,100	1,043	57
Total support and development	944,269	127,300	123,987	3,313

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued) General Fund and Annually Budgeted Major Special Revenue Fund For the Fiscal Year Ended June 30, 2010

Non-programmed charges	729,774	722,654	22,647	700,007
Total expenditures	<u>4,202,718</u>	<u>4,242,445</u>	<u>3,172,964</u>	<u>1,069,481</u>
Revenues over (under) expenditures	<u>25,031</u>	<u>25,031</u>	<u>25,031</u>	<u>-</u>
Other financing sources (uses):				
Transfers to other funds	(25,031)	(25,031)	(25,031)	-
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(25,031)</u>	<u>(25,031)</u>	<u>(25,031)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u><u>\$ -</u></u>	

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



# Transylvania County Schools

Exhibit 6

## Statement of Net Assets

### Proprietary Fund

As of June 30, 2010

	<u>Major Fund</u> <u>Child Nutrition</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 291,688
Due from other governments	86,390
Receivables (net)	377
Inventories	112,791
Total current assets	<u>491,246</u>
Noncurrent assets:	
Capital assets, net of depreciation	224,849
Total assets	<u>716,095</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	34,373
Unearned revenue	13,748
Total current liabilities	<u>48,121</u>
Noncurrent liabilities:	
Compensated absences	45,898
Total liabilities	<u>94,019</u>
<b>NET ASSETS</b>	
Invested in capital assets	224,849
Unrestricted	397,227
Total net assets	<u>\$ 622,076</u>

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

# Transylvania County Schools

Exhibit 7

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Proprietary Fund

For the Fiscal Year Ended June 30, 2010

	<u>Major Fund</u> <u>Child Nutrition</u>
<b>OPERATING REVENUES</b>	
Food sales	\$ 617,171
Other	13,582
Total operating revenues	<u>630,753</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	1,048,641
Contracted services	28,148
Materials and supplies	106,018
Food cost:	
Purchase of food	836,311
Donated commodities	98,759
Indirect costs	147,172
Depreciation	40,572
Other	39,758
Total operating expenses	<u>2,345,379</u>
Operating income (loss)	<u>(1,714,626)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Federal reimbursements	1,333,853
Federal commodities	123,907
County Appropriation	100,000
Interest earned	2,179
Indirect costs not paid	97,172
Total nonoperating revenue (expenses)	<u>1,657,111</u>
Income (loss) before contributions and transfers	(57,515)
Transfers from other funds	106,205
Change in net assets	<u>48,690</u>
Total net assets - beginning	573,386
Total net assets - ending	<u>\$ 622,076</u>

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

# Transylvania County Schools

Exhibit 8

## Statement of Cash Flows

### Proprietary Fund

For the Fiscal Year Ended June 30, 2010

	<u>Major Fund</u> <u>Child Nutrition</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 616,983
Cash paid for goods and services	(1,061,894)
Cash paid to employees for services	(951,099)
Other operating revenues	13,582
Net cash provided (used) by operating activities	<u>(1,382,428)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal, state, and local grants and reimbursements	<u>1,441,579</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(26,721)
Transfers from other funds	26,721
Net cash provided (used) by capital and related financing activities	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>2,179</u>
Net increase (decrease) in cash and cash equivalents	61,330
Balance - beginning	230,358
Balance - ending	<u>\$ 291,688</u>

(continued)

# Transylvania County Schools

Exhibit 8

## Statement of Cash Flows

### Proprietary Fund

For the Fiscal Year Ended June 30, 2010

#### Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$ (1,714,626)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	40,572
Donated commodities consumed	98,759
Salaries paid by State Public School Fund	81,174
Indirect costs not paid	97,172
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(188)
(Increase) decrease in inventory	11,623
Increase (decrease) in accounts payable and accrued liabilities	4,192
Increase (decrease) in unearned revenue	553
Increase (decrease) in long-term liabilities	(1,659)
Total adjustments	<u>332,198</u>
Net cash provided by operating activities	<u>\$ (1,382,428)</u>

#### Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$81,174 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected by a transfer in and an operating expense on Exhibit 7.

The Federal Grants Fund donated equipment with a value of \$25,031 to the School Food Service Fund during the fiscal year. The contribution is reflected as a transfer in and an addition to capital assets on Exhibit 6 and 7.

Indirect costs of \$97,172 that would be due to the General Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 7.

The School Food Service Fund received donated commodities with a value of \$98,759 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$98,759 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 7.

# Transylvania County Schools

Exhibit 9

## Statement of Fiduciary Net Assets

As of June 30, 2010

	<u>Private-Purpose Trust Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 169,144
	<u>169,144</u>
<b>Liabilities</b>	-
<b>Net Assets</b>	<u>\$ 169,144</u>

## Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2010

	<u>Private-Purpose Trust Fund</u>
<b>Additions:</b>	
Sale of surplus property	\$ -
Contributions and other revenue	12,527
<b>Deductions:</b>	
Scholarships	(44,216)
Instructional costs	(38,941)
Other	-
Change in net assets	<u>(70,630)</u>
Beginning net assets	<u>239,774</u>
Ending net assets	<u>\$ 169,144</u>

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

## Summary of Significant Accounting Policies

The accounting policies of Transylvania County Schools conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

### A. Reporting Entity

The Transylvania County Schools (Board) is a Local Education Agency empowered by State law [Chapter 115C of the NC General Statutes] with the responsibility to oversee and control all activities related to public school education in Transylvania County, NC. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

### B. Basis of Presentation

**Government-wide Statements:** The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Board and for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Board's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The fiduciary funds are presented separately.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal

## Annual Financial Report

activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Board reports the following major governmental funds:

- ◆ *General Fund.* The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund includes the “Local Current Expense Fund,” which is mandated by State law [G.S. 115C-426], and certain other internal funds established pursuant to N.C.G.S. 115C-426(c).
- ◆ *State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.
- ◆ *Federal Grants Fund.* The Federal Grants Fund includes appropriations from the federal Department of Education for the current operating expenditures of the public school system.
- ◆ *Capital Outlay Fund.* The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by Transylvania County appropriations, restricted sales tax moneys, proceeds of Transylvania County bonds issued for public school construction, and lottery proceeds, as well as certain State assistance.

The Board reports the following major enterprise fund:

- ◆ *Child Nutrition Fund.* The Child Nutrition Fund is used to account for the food service program within the school system.

The Board reports the following fiduciary fund:

- ◆ *Private-purpose Trust Fund* – The Connestee, Lollis, and Bjerg scholarships provide college tuition funds for the benefit of graduating students in the district. The Wenzlick Fund is used to account for endowment money under the control of the board for the enrichment of vocational education students in the district.

### C. Measurement Focus and Basis of Accounting

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements.** The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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**Governmental Fund Financial Statements.** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

All governmental and business-type activities and enterprise funds of the Board follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

### **D. Budgetary Data**

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue fund, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### **E. Assets, Liabilities, and Fund Equity**

#### Deposits and Investments:

All deposits of the Board are made in board-designated official depositories and are secured as required by State law [G.S. 115C-444]. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North



## Annual Financial Report

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Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Board also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF). The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with state laws and regulations. It is not registered with the SEC. The STIF consists of an internal portion and an external portion in which the board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

The Board's investments are reported at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

### Cash and Cash Equivalents:

The Board pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

### Inventories:

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

### Capital Assets:

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

**Annual Financial Report**

The Board capitalizes all expenditures for equipment costing \$5,000 or more with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Transylvania County holds title to certain properties, which are not reflected as capital assets in the financial statements of the Board. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board gives the schools full use of the facilities, full responsibility for maintenance of the facilities, and provides that the County will convey title of the property back to the Board, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings	40
Equipment and furniture	12
Vehicles	7
Computer equipment	5

Depreciation for buildings and equipment that serve multiple purposes cannot be allocated ratably and is therefore reported as “unallocated depreciation expense” on the Statement of Activities.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Compensated Absences:

The Board follows the State’s policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board’s liability for accumulated earned vacation and the salary-related payments as of June 30, 2010 is recorded in the government-wide and proprietary fund financial statements as the leave is earned.

## Annual Financial Report

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The sick leave policy of the Board provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Assets/Fund Balances:

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute. In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 115C-425(a)] restricts the appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and unearned revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

- ◆ Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.
- ◆ Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by unearned revenues.
- ◆ Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2010-2010 budget ordinance.
- ◆ Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

## Detail Notes On All Funds

### **A. Excess of Expenditures Over Appropriations**

During the fiscal year the Board reported expenditures within the Capital Outlay Fund that violated state law G.S. 115C-441 because

## Annual Financial Report

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they exceeded the amounts appropriated in the budget ordinance. These amounts were related to installment financing of replacement school buses. All funds are provided through allotments from the State Department of Public Instruction. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

### **B. Assets**

#### Deposits:

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Board has no policy regarding custodial credit risk for deposits.

At June 30, 2010, the Board had deposits with financial institutions with a carrying amount of \$2,485,581 and with the State Treasurer of \$24. The bank balances with the financial institutions and the State Treasurer were \$772,159 and \$1,399,576, respectively. Of these balances, \$356,721 was covered by federal depository insurance and \$1,815,014 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

#### Investments:

At June 30, 2010, the Board of Education had \$591,449 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.8 years at June 30, 2010. The Board has no policy for managing interest rate risk or credit risk.

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Capital Assets:

Table I is a summary of changes in the Board's governmental capital assets.

Table II is a summary of changes in the Board's Proprietary Fund capital assets.

**C Liabilities**

Pension Plan and Other Postemployment Obligations:

Teachers' and State Employees' Retirement System

*Plan Description* – The Board contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan

members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy* - Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 3.57% of annual covered payroll. The contribution requirements of plan members and the Board are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2010, 2009, and 2008 were \$731,075, \$725,735, and \$612,232, respectively, equal to the required contributions for each year.

<b>Table I - Changes in Governmental Capital Assets</b>				
	7/1/09 Balance	Additions	Retirements	6/30/10 Balance
Land and improvements	\$ 11,618,862	\$ -	\$ -	\$ 11,618,862
Buildings	46,317,543	167,681	-	46,485,224
Furniture and equipment	944,452	-	-	944,452
Vehicles	3,453,949	7,000	(255,992)	3,204,957
Accumulated depreciation	(19,327,926)	(1,458,020)	251,535	(20,534,411)
<b>TOTAL</b>	<b>\$ 43,006,880</b>	<b>\$ (1,283,339)</b>	<b>\$ (4,457)</b>	<b>\$ 41,719,084</b>

<b>Table II - Changes in Proprietary Capital Assets</b>				
	7/1/09 Balance	Additions	Retirements	6/30/10 Balance
Furniture and equipment	\$ 573,638	\$ 26,721	\$ -	\$ 600,358
Vehicles	125,947	-	-	125,947
Accumulated depreciation	(460,883)	(40,572)	-	(501,456)
<b>TOTAL</b>	<b>\$ 238,702</b>	<b>\$ (13,851)</b>	<b>\$ -</b>	<b>\$ 224,849</b>

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### Other Postemployment Benefits:

#### Healthcare Benefits

*Plan Description* - The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). 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.

*Funding Policy* - The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2010, 2009, and 2008, the School Board paid all annual required

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contributions to the Plan for postemployment healthcare benefits of \$921,523, \$885,569, and \$822,804, respectively. These contributions represented 4.5%, 4.1%, and 4.1% of covered payroll, respectively.

### Long-term Disability Benefits

*Plan Description* - Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. 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.

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

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the

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beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2010, 2009, and 2008, the Board paid all annual required contributions to the DIPNC for disability benefits of \$106,487, \$112,316, and \$104,343, respectively. These contributions represented 0.52%, 0.52%, and 0.52% of covered payroll, respectively.

**Unearned Revenues:**

Unearned revenues in the Enterprise Fund represent prepaid lunch sales.

**Risk Management:**

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for



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general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omissions claims. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers (or self-insured by the local board). Coverage is provided to the extent employees are paid from Federal or local funds. Workers' Compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds.

The Board participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

In accordance with G.S. 115C-442, the Board's employees who have custody at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000. The Board has not obtained separate flood insurance coverage due to the limited likelihood of Board property sustaining flood damage. The Board has determined that other property coverage is adequate. The Board carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past three fiscal years.

**D. Financing Commitments**

Long-Term Obligations:

Installment Purchase - Recent legislation permits the State Board of Education to finance the purchase of replacement school buses through installment purchases. Transylvania County Board of Education has entered into agreements to purchase 9 buses in this manner. The term of the financing cannot exceed three years and the Board must purchase the buses from vendors approved by the Department of Public Instruction. The Department of Public Instruction will make the payments to the lender on behalf of the Transylvania County Board of Education out of funds allocated to the Board. Because future resources will be used to fund the payments under the installment agreement, no encumbrance of fund balance at June 30, 2010, has been recorded.

Table III is a summary of the future minimum payments of the installment purchase as of June 30, 2010.

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 101,188	\$ 4,887
TOTAL	\$ 101,188	\$ 4,887

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Table IV is a summary of changes in the Board’s outstanding debt for the year ended June 30, 2010. Amounts represent accrued vacation pay and the installment purchase of seven school buses.

<b>Table IV - Changes in Long-term Debt</b>				
	7/1/08		6/30/09	
	Balance	Additions	Deletions	Balance
Installment purchase	\$ 322,179	\$ -	\$ (220,991)	\$ 101,188
Compensated absences	1,576,115	86,807	-	1,662,922
<b>TOTAL</b>	<b>\$ 1,898,294</b>	<b>\$ 86,807</b>	<b>\$ (220,991)</b>	<b>\$ 1,764,110</b>

# Significant Contingencies

**A. Federal and State Assisted Programs**

The Board receives proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds would be immaterial. No provision has been made in the accompanying financial statements for refund of grant monies.

**B. Contingent Liabilities**

At June 30, 2010, the Board was a defendant to a lawsuit. In the opinion of the Board’s management and the Board’s attorney, the ultimate effect of this legal matter will not have a material adverse effect on the Board’s financial position.



## Individual Statements and Schedules



# Transylvania County Schools

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

### Capital Outlay Fund

For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance
Revenues:			
State of North Carolina:			
Public School Building Capital Fund	-	137,842	137,842
Sales taxes and grants	10,000	11,184	1,184
State appropriations-buses	-	232,398	232,398
Total State of North Carolina	10,000	381,424	371,424
Transylvania County:			
County appropriations	1,046,963	1,046,963	-
Total Transylvania County	1,046,963	1,046,963	-
Other:			
QSCB Bond Proceeds	131,000	91,696	(39,304)
Disposition of school fixed assets	-	3,800	3,800
Miscellaneous	2,000	10,548	8,548
Total Other	133,000	106,044	(26,956)
Total Revenues	1,189,963	1,534,431	344,468
Expenditures:			
Instructional programs:			
Regular	115,776	103,176	12,600
Co-curricular	73,319	73,064	255
School-based support	403,100	371,047	32,053
Total instructional programs	592,195	547,287	44,908
Support services:			
Operational	51,968	48,724	3,244
Policy and leadership	2,200	-	2,200
Real property and buildings	885,474	848,364	37,110
Vehicles	75,400	-	75,400
Total support services	1,015,042	897,088	117,954

(continued)

Debt service:			
Principal	-	220,991	(220,991)
Interest	-	11,407	(11,407)
Total debt service	-	232,398	(232,398)
Contingency	18,000	-	18,000
Total expenditures	1,625,237	1,676,773	(51,536)
Excess of revenues over expenditures	(435,274)	(142,342)	292,932
Other financing sources (uses):			
Transfers to other funds	-	-	-
Installment purchase financing	-	-	-
Fund balance appropriated	435,274	-	(435,274)
Total other financing sources	435,274	-	(435,274)
Revenues and other financing sources over expenditures	\$ -	(142,342)	\$ (142,342)
Fund balance - beginning		779,673	
Fund balance - ending		\$ 637,331	

# Transylvania County Schools

## Schedule of Revenues and Expenditures Budget and Actual (Non-GAAP)

### Child Nutrition Fund

For the Fiscal Year Ended June 30, 2010

	2010		
	Budget	Actual	Variance
Operating revenues, food sales		\$ 617,171	
Other		13,582	
Total operating revenues	\$ 807,838	630,753	\$ (177,085)
Operating expenditures:			
Salaries and benefits		1,050,300	
Contracted services		28,148	
Materials and supplies		106,018	
Purchase of food		824,688	
Donated commodities		98,759	
Indirect costs		50,000	
Other		39,758	
Total operating expenditures	2,285,753	2,197,671	88,082
Capital outlay		25,031	
Nonoperating revenues (expenditures):			
Federal reimbursements		1,333,853	
Federal commodities		123,907	
County appropriation		100,000	
Interest earned		2,179	
Total nonoperating revenues (expenditures)	1,477,915	1,559,939	82,024
Excess of revenues over (under) expenditures before other financing sources	-	(32,010)	(32,010)
Other financing sources (uses):			
Transfers from other funds	-	106,205	106,205
Excess of revenues and other sources over (under) expenditures	\$ -	\$ 74,195	\$ 74,195

# Transylvania County Schools

## Schedule of Revenues and Expenditures Budget and Actual (Non-GAAP)

### Child Nutrition Fund

*For the Fiscal Year Ended June 30, 2010*

Reconciliation of modified accrual to full accrual basis:

Excess of revenues and other sources over (under) expenditures	\$ 74,195
Reconciling items:	
Depreciation	(40,572)
Equipment purchases	25,031
(Increase) decrease in accrued vacation pay	1,659
Increase (decrease) in inventory	(11,623)
Change in net assets (full accrual)	<u>\$ 48,690</u>



