

Transylvania County Schools

Annual Financial Report
for the Year Ended June 30, 2012



Annual Financial Report of the Transylvania County Schools

Brevard, North Carolina
For the Fiscal Year Ended June 30, 2012



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

Transylvania County Schools

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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 then ended June 30, 2012, 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'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, 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, 2012, and the respective changes in financial position and where applicable, the cash flows thereof and the respective budgetary comparisons 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 October 24, 2012 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 grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and on 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages three through seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transylvania County Board of Education's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual nonmajor fund financial statements and budgetary schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and budgetary schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.



October 25, 2011

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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, 2012. 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 2012. The unemployment rate rose to 9.9% as of June 2012, compared to the state average of 9.9%. 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 five 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 Career and Technical Education programs. The Supply Closet is used to provide school supplies to needy students.

Financial Analysis of the Schools as a Whole

Net assets is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$44,109,100 as of June 30, 2012. The largest component of net assets is invested in capital assets, net of debt, of \$41,044,569. It comprises 93.1% of total net assets.

Table I - Condensed Statement of Net Assets as of June 30, 2012						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 5,776,946	\$ 4,752,776	\$ 380,418	\$ 472,082	\$ 6,157,364	\$ 5,224,858
Capital assets	<u>40,838,565</u>	<u>40,839,682</u>	<u>206,004</u>	<u>198,045</u>	<u>41,044,569</u>	<u>41,037,727</u>
Total assets	\$ 46,615,511	\$ 45,592,458	\$ 586,422	\$ 670,127	\$ 47,201,933	\$ 46,262,585
Current liabilities	1,143,304	1,206,811	37,698	15,782	1,181,002	1,222,593
Long-term liabilities	<u>1,857,778</u>	<u>1,750,607</u>	<u>54,053</u>	<u>43,281</u>	<u>1,911,831</u>	<u>1,793,888</u>
Total liabilities	\$ 3,001,082	\$ 2,957,418	\$ 91,751	\$ 59,063	\$ 3,092,833	\$ 3,016,481
Invested in capital assets, net of related debt	40,838,565	40,839,682	206,004	198,045	41,044,569	41,037,727
Restricted net assets	1,058,151	977,128	-	-	1,058,151	977,128
Unrestricted net assets (deficit)	<u>1,717,713</u>	<u>818,230</u>	<u>288,667</u>	<u>413,019</u>	<u>2,006,380</u>	<u>1,231,249</u>
Total net assets	\$ 43,614,429	\$ 42,635,040	\$ 494,671	\$ 611,064	\$ 44,109,100	\$ 43,246,104

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

Table II - Condensed Statement of Revenues, Expenses, and Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues:						
Charges for services	\$ 1,270,984	\$ 1,300,863	\$ 546,944	\$ 583,980	\$ 1,817,928	\$ 1,884,843
Operating grants and contributions	23,476,059	22,920,032	1,689,578	1,682,596	25,165,637	24,602,628
Capital grants and contributions	202,517	96,806	-	-	202,517	96,806
General revenues:						
Other revenues	<u>11,705,861</u>	<u>10,499,268</u>	<u>124,873</u>	<u>110,719</u>	<u>11,830,734</u>	<u>10,609,987</u>
Total revenues	36,655,421	34,816,969	2,361,395	2,377,295	39,016,816	37,194,264
EXPENDITURES						
Governmental activities:						
Instructional services	28,720,824	27,943,416	-	-	28,720,824	27,943,416
Support services	6,207,297	6,092,877	-	-	6,207,297	6,092,877
Ancillary services	117,813	130,084	-	-	117,813	130,084
Non-programmed charges	517,443	361,192	-	-	517,443	361,192
Interest on long-term debt	-	4,887	-	-	-	4,887
Unallocated depreciation expense	-	-	-	-	-	-
Business-type activities:						
Food service	-	-	<u>2,590,443</u>	<u>2,470,985</u>	<u>2,590,443</u>	<u>2,470,985</u>
Total expenditures	35,563,377	34,532,456	2,590,443	2,470,985	38,153,820	37,003,441
Transfers in (out)	<u>(112,655)</u>	<u>(82,678)</u>	<u>112,655</u>	<u>82,678</u>	-	-
Increase (decrease) in net assets	979,389	201,835	(116,393)	(11,012)	862,996	190,823
Beginning net assets	<u>42,635,040</u>	<u>42,433,205</u>	<u>611,064</u>	<u>622,076</u>	<u>43,246,104</u>	<u>43,055,281</u>
Ending net assets	\$ 43,614,429	\$ 42,635,040	\$ 494,671	\$ 611,064	\$ 44,109,100	\$ 43,246,104

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Total governmental activities generated revenues of \$36.7 million while expenses in this category totaled \$35.6 million for the year ended June 30, 2012. Comparatively, revenues were \$34.8 million and expenses totaled \$34.5 million for the year ended June 30, 2011. After transfers to the business-type activities, net assets increased by \$979,389 at June 30, 2012, compared to an increase of \$201,835 in 2011. Instructional expenses comprised 80.8% of total governmental-type expenses while support services made up 19.2% of those expenses for 2012. County funding comprised 28.6% of total governmental revenue. Most of the remaining governmental revenue for 2012 consisted of restricted State and federal money. Business-type activities generated revenue of \$2.36 million and had expenses of \$2.59 million. Net assets decreased in the business-type activities by \$116,393, after transfers in from the governmental activities of \$112,655.

Capital Assets

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

Table III - Summary of Capital Assets as of June 30, 2012						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and improvements	\$ 11,618,862	\$ 11,618,862	\$ -	\$ -	\$ 11,618,862	\$ 11,618,862
Buildings	47,942,396	46,485,224	-	-	47,942,396	46,485,224
Furniture and equipment	944,452	944,452	644,914	614,736	1,589,366	1,559,188
Vehicles	3,857,619	3,829,572	104,131	106,817	3,961,750	3,936,389
Accumulated depreciation	(23,524,764)	(22,038,428)	(543,041)	(523,508)	(24,067,805)	(22,561,936)
Total	40,838,565	40,839,682	206,004	198,045	41,044,569	41,037,727

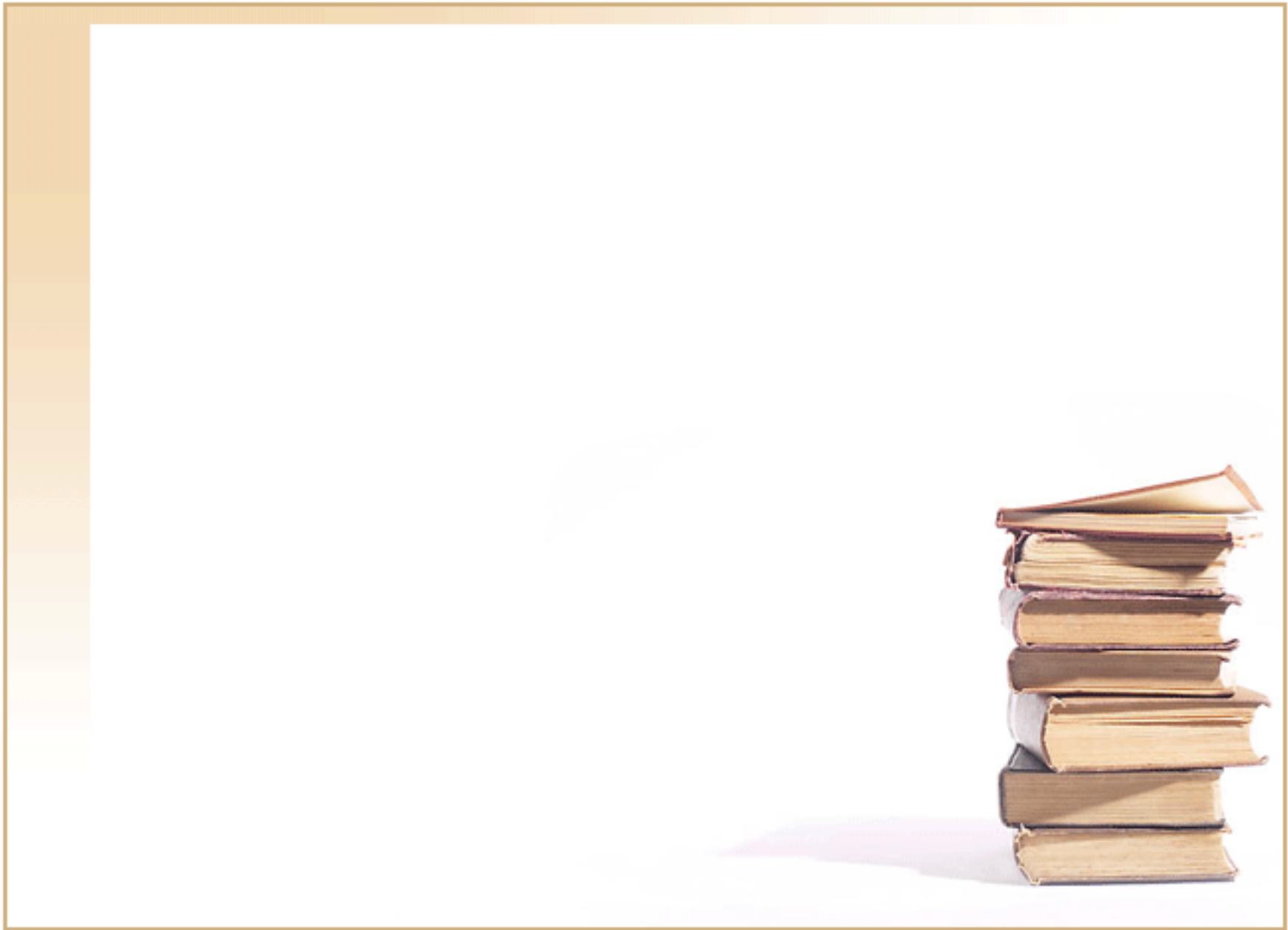
Debt Outstanding

During the year the Board’s outstanding debt increased by \$107,171 reflecting 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, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,564,703	\$ 219,162	\$ 4,783,865
Accounts receivable (net)	1,140,243	3,578	1,143,821
Due from other governments	72,000	29,620	101,620
Inventories	-	128,058	128,058
Capital assets (Note 1)			
Land, improvements, and construction in progress	11,618,862	-	11,618,862
Other capital assets, net of depreciation	29,219,703	206,004	29,425,707
Total capital assets	40,838,565	206,004	41,044,569
Total assets	46,615,511	586,422	47,201,933
LIABILITIES			
Accounts payable	122,712	21,378	144,090
Accrued salaries and wages payable	1,016,363	-	1,016,363
Unearned revenue	4,229	16,320	20,549
Long-term liabilities:			
Due in more than one year	1,857,778	54,053	1,911,831
Total liabilities	3,001,082	91,751	3,092,833
NET ASSETS			
Invested in capital assets, net of related debt	\$ 40,838,565	206,004	41,044,569
Restricted:			
Individual schools	415,316	-	415,316
Stabilization by state statute	187,741	-	187,741
School capital outlay	455,094	-	455,094
Unrestricted	1,717,713	288,667	2,006,380
Total net assets	\$ 43,614,429	\$ 494,671	\$ 44,109,100

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, 2011

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
Primary government:							
Governmental Activities:							
Instructional programs:							
Regular	\$ 16,532,960	\$ 8,550	\$ 12,929,885	\$ -	\$ (3,594,525)	\$ -	\$ (3,594,525)
Special	3,593,323	-	3,250,675	-	(342,648)	-	(342,648)
Alternative	2,300,755	-	2,141,350	-	(159,405)	-	(159,405)
School-based leadership	1,790,578	-	723,896	-	(1,066,682)	-	(1,066,682)
Co-curricular	447,524	-	-	-	(447,524)	-	(447,524)
School-based support	4,055,684	1,108,316	1,843,373	-	(1,103,995)	-	(1,103,995)
Support services:							
Regular	391,103	-	230,052	-	(161,051)	-	(161,051)
Special	117,068	-	68,694	-	(48,374)	-	(48,374)
Alternative	67,550	-	62,975	-	(4,575)	-	(4,575)
Technology	148,996	-	132,230	-	(16,766)	-	(16,766)
Operational	4,416,846	86,632	1,493,256	202,517	(2,634,441)	-	(2,634,441)
Financial and human resources	600,751	-	303,332	-	(297,419)	-	(297,419)
Accountability	7,735	-	-	-	(7,735)	-	(7,735)
Policy and leadership	457,248	-	136,830	-	(320,418)	-	(320,418)
Ancillary services:							
Community services	117,813	67,486	16,170	-	(34,157)	-	(34,157)
Non-programmed charges	517,443	-	143,341	-	(374,102)	-	(374,102)
Total governmental activities	35,563,377	1,270,984	23,476,059	202,517	(10,613,817)	-	(10,613,817)

(continued)

Business-type Activities:

Child nutrition	2,590,443	546,944	1,689,578	-	-	(353,921)	(353,921)
Total business-type activities	2,590,443	546,944	1,689,578	-	-	(353,921)	(353,921)
Total government-wide	\$ 38,153,820	\$ 1,817,928	\$ 25,165,637	\$ 202,517	(10,613,817)	(353,921)	(10,967,738)

General revenues:

Unrestricted county appropriations - operating	9,726,216	100,000	9,826,216
Unrestricted county appropriations - capital	746,963	-	746,963
Unrestricted federal grants - operating	1,130,941	-	1,130,941
Unrestricted State appropriation - capital	-	-	-
Investment earnings, unrestricted	14,599	700	15,299
Miscellaneous, unrestricted	87,142	24,173	111,315
Transfers	(112,655)	112,655	-
Total general revenues and transfers	11,593,206	237,528	11,830,734
Change in net assets	979,389	(116,393)	862,996
Net assets-beginning	42,635,040	611,064	43,246,104
Net assets-ending	\$ 43,614,429	\$ 494,671	\$ 44,109,100

Transylvania County Schools

Exhibit 3

Balance Sheet

Governmental Funds

As of June 30, 2012

	Major Funds				Non-major Funds		Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Federal Grants Fund	Restricted Grants Fund	Individual Schools	
ASSETS							
Cash and cash equivalents	\$ 3,297,665	\$ 3,201	\$ 528,604	\$ -	\$ 319,917	\$ 415,316	\$ 4,564,703
Accounts receivable	10,180	787,410	-	165,092	177,561	-	1,140,243
Due from other governments	-	-	72,000	-	-	-	72,000
Due from other funds	-	-	-	-	-	-	-
Total assets	<u>\$ 3,307,845</u>	<u>\$ 790,611</u>	<u>\$ 600,604</u>	<u>\$ 165,092</u>	<u>\$ 497,478</u>	<u>\$ 415,316</u>	<u>\$ 5,776,946</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 118,168	\$ -	\$ -	\$ -	\$ 4,544	\$ -	\$ 122,712
Unearned revenues	-	3,201	-	1,028	-	-	4,229
Accrued salaries and benefits payable	58,880	787,410	-	164,064	6,009	-	1,016,363
Total liabilities	<u>177,048</u>	<u>790,611</u>	<u>-</u>	<u>165,092</u>	<u>10,553</u>	<u>-</u>	<u>1,143,304</u>
Fund balances:							
Restricted:							
Individual schools	-	-	-	-	-	415,316	415,316
Stabilization by state statute	10,180	-	-	-	177,561	-	187,741
School capital outlay	-	-	455,094	-	-	-	455,094
Assigned:							
Subsequent year's expenditures	1,290,795	-	145,510	-	-	-	1,436,305
Unassigned	1,829,822	-	-	-	309,364	-	2,139,186
Total fund balances	<u>3,130,797</u>	<u>-</u>	<u>600,604</u>	<u>-</u>	<u>486,925</u>	<u>415,316</u>	<u>4,633,642</u>
Total liabilities and fund balances	<u>\$ 3,307,845</u>	<u>\$ 790,611</u>	<u>\$ 600,604</u>	<u>\$ 165,092</u>	<u>\$ 497,478</u>	<u>\$ 415,316</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.

Long-term debt is not due and payable in the current period and therefore are not reported in the funds.

40,838,565

(1,857,778)

Net assets of governmental activities

\$ 43,614,429

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, 2012

	Major Funds				Non-major Funds		Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Federal Grants Fund	Restricted Grants Fund	Individual Schools	
REVENUES							
State of North Carolina	\$ -	\$ 18,895,280	\$ 213,010	\$ -	\$ 190,321	\$ -	\$ 19,298,611
U.S. Government	-	-	-	3,876,666	461,986	-	4,338,652
Transylvania County	9,715,716	-	746,963	-	10,500	-	10,473,179
Other	100,455	-	1,135,500	-	200,708	1,108,316	2,544,979
Total revenues	9,816,171	18,895,280	2,095,473	3,876,666	863,515	1,108,316	36,655,421
EXPENDITURES							
Current:							
Instructional programs	5,392,653	16,619,874	539,633	3,673,350	200,559	1,114,228	27,540,297
Support and development	3,161,560	2,191,021	339,646	116,090	133,540	-	5,941,857
Ancillary	190	-	-	-	112,585	-	112,775
Non-programmed charges	458,487	-	-	58,956	-	-	517,443
Capital outlay	-	-	1,342,717	-	-	-	1,342,717
Total expenditures	9,012,890	18,810,895	2,221,996	3,848,396	446,684	1,114,228	35,455,089
Excess of revenues over (under) expenditures	803,281	84,385	(126,523)	28,270	416,831	(5,912)	1,200,332
OTHER FINANCING SOURCES (USES)							
Transfers to other funds	-	(84,385)	-	(28,270)	-	-	(112,655)
Net change in fund balance	803,281	-	(126,523)	-	416,831	(5,912)	1,087,677
Fund balances-beginning	2,327,516	-	727,127	-	70,094	421,228	3,545,965
Fund balances-ending	\$ 3,130,797	\$ -	\$ 600,604	\$ -	\$ 486,925	\$ 415,316	\$ 4,633,642

(continued)

Transylvania County Schools

Exhibit 4

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Fiscal Year Ended June 30, 2012

Net changes in fund balances - total governmental funds \$ 1,087,677

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. (1,117)

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 (107,171)

Total changes in net assets of governmental activities \$ 979,389

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 Funds

For the Fiscal Year Ended June 30, 2012

	General Fund				State Public School Fund			
	Original Budget	Final Budget	Actual Amounts	Variance	Original Budget	Final Budget	Actual Amounts	Variance
Revenues:								
State of North Carolina	\$ -	\$ -	\$ -	\$ -	\$ 20,237,195	\$ 20,335,316	\$ 18,895,280	\$ (1,440,036)
Transylvania County	9,815,716	9,815,716	9,715,716	(100,000)	-	-	-	-
Other	193,000	193,000	100,455	(92,545)	-	-	-	-
Total revenues	10,008,716	10,008,716	9,816,171	(192,545)	20,237,195	20,335,316	18,895,280	(1,440,036)
Expenditures:								
Current:								
Instructional programs:								
Regular	3,101,930	3,087,930	2,885,273	202,657	12,893,308	12,965,174	12,027,215	937,959
Special	334,137	334,137	190,177	143,960	2,302,952	2,303,195	2,170,210	132,985
Alternative	35,032	65,032	63,140	1,892	620,263	621,573	449,461	172,112
School-based leadership	1,105,289	1,105,289	990,112	115,177	755,198	755,198	723,896	31,302
Co-curricular	347,646	371,646	369,849	1,797	-	-	-	-
School-based support	802,430	895,430	894,102	1,328	1,312,603	1,314,041	1,249,092	64,949
Total instructional programs	5,726,464	5,859,464	5,392,653	466,811	17,884,324	17,959,181	16,619,874	1,339,307
Support and development:								
Regular	374,162	374,162	163,044	211,118	150,508	150,507	107,281	43,226
Special	2,972	46,972	43,368	3,604	20,584	20,584	18,646	1,938
Alternative	-	6,000	1,686	4,314	-	-	-	-
Technology	-	16,000	10,395	5,605	127,210	143,539	132,230	11,309
Operational	2,184,527	2,368,527	2,364,678	3,849	1,517,849	1,496,785	1,492,702	4,083
Financial and human resources	352,530	352,530	271,729	80,801	276,704	304,704	303,332	1,372
Accountability	15,532	15,532	7,404	8,128	-	-	-	-
Policy and leadership	1,019,053	628,053	299,256	328,797	173,770	173,770	136,830	36,940
Total support and development	3,948,776	3,807,776	3,161,560	646,216	2,266,625	2,289,889	2,191,021	98,868

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 Funds

For the Fiscal Year Ended June 30, 2012

Ancillary services	8,057	8,057	190	7,867	-	-	-	-
Non-programmed charges	457,000	465,000	458,487	6,513	-	-	-	-
Total expenditures	10,140,297	10,140,297	9,012,890	1,127,407	20,150,949	20,249,070	18,810,895	1,438,175
Revenues over (under) expenditures	(131,581)	(131,581)	803,281	934,862	86,246	86,246	84,385	(1,861)
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	(86,246)	(86,246)	(84,385)	1,861
Appropriated fund balance	131,581	131,581	-	(131,581)	-	-	-	-
Total other financing sources (uses)	131,581	131,581	-	(131,581)	(86,246)	(86,246)	(84,385)	1,861
Revenues and other sources over expenditures and other uses	\$ -	\$ -	803,281	\$ 803,281	\$ -	\$ -	-	\$ -
Fund balances, beginning of year			2,327,516				-	
Fund balances, end of year			\$ 3,130,797				\$ -	

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 Funds

For the Fiscal Year Ended June 30, 2012

	Federal Grants Fund			
	Original Budget	Final Budget	Actual Amounts	Variance
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Federal government	4,831,320	4,991,847	3,876,666	(1,115,181)
Transylvania County	-	-	-	-
Other	-	-	-	-
Total revenues	4,831,320	4,991,847	3,876,666	(1,115,181)
Expenditures:				
Current:				
Instructional programs:				
Regular	917,577	918,387	802,085	116,302
Special	1,088,819	1,120,730	1,050,500	70,230
Alternative	1,947,120	2,033,103	1,642,333	390,770
School-based leadership	-	-	-	-
Co-curricular	-	-	-	-
School-based support	186,309	188,809	178,432	10,377
Total instructional programs	4,139,825	4,261,029	3,673,350	587,679
Support and development:				
Regular	1,442	1,442	2,513	(1,071)
Special	70,211	70,211	50,048	20,163
Alternative	66,524	66,524	62,975	3,549
Technology	-	-	-	-
Operational	641	641	554	87
Financial and human resources	4,000	4,000	-	4,000
Accountability	-	-	-	-
Policy and leadership	-	-	-	-
Total support and development	142,818	142,818	116,090	26,728

Transylvania County Schools

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued) General Fund and Annually Budgeted Major Special Revenue Funds For the Fiscal Year Ended June 30, 2012

Ancillary services	-	-	-	-
Non-programmed charges	548,677	559,729	58,955	500,774
Total expenditures	<u>4,831,320</u>	<u>4,963,576</u>	<u>3,848,395</u>	<u>1,115,181</u>
Revenues over (under) expenditures	<u>-</u>	<u>28,271</u>	<u>28,271</u>	<u>-</u>
Other financing sources (uses):				
Transfers to other funds	-	(28,271)	(28,271)	-
Appropriated fund balance	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(28,271)</u>	<u>(28,271)</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			-	
Fund balances, end of year			<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, 2012

	<u>Major Fund</u> <u>Child Nutrition</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 219,162
Due from other governments	29,620
Receivables (net)	3,578
Inventories	128,058
Total current assets	<u>380,418</u>
Noncurrent assets:	
Capital assets, net of depreciation	206,004
Total assets	<u>586,422</u>
LIABILITIES	
Current liabilities:	
Accounts payable	21,378
Unearned revenue	16,320
Total current liabilities	<u>37,698</u>
Noncurrent liabilities:	
Compensated absences	54,053
Total liabilities	<u>91,751</u>
NET ASSETS	
Invested in capital assets	206,004
Unrestricted	288,667
Total net assets	<u>\$ 494,671</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, 2012

	<u>Major Fund</u> <u>Child Nutrition</u>
OPERATING REVENUES	
Food sales	\$ 546,944
Other	24,173
Total operating revenues	<u>571,117</u>
OPERATING EXPENSES	
Salaries and benefits	1,135,784
Contracted services	49,363
Materials and supplies	122,838
Food cost:	
Purchase of food	1,004,072
Donated commodities	134,942
Indirect costs	111,082
Depreciation	32,362
Total operating expenses	<u>2,590,443</u>
Operating income (loss)	<u>(2,019,326)</u>
NONOPERATING REVENUES (EXPENSES)	
Federal reimbursements	1,405,157
Federal commodities	103,964
Federal and state grants	94,375
County Appropriation	100,000
Interest earned	700
Indirect costs not paid	86,082
Total nonoperating revenue (expenses)	<u>1,790,278</u>
Income (loss) before contributions and transfers	(229,048)
Transfers from other funds	112,655
Change in net assets	<u>(116,393)</u>
Total net assets - beginning	611,064
Total net assets - ending	<u>\$ 494,671</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, 2012

	<u>Major Fund</u> <u>Child Nutrition</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 544,294
Cash paid for goods and services	(1,189,305)
Cash paid to employees for services	(1,040,627)
Other operating revenues	24,173
Net cash provided (used) by operating activities	<u>(1,661,465)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal, state, and local grants and reimbursements	<u>1,658,710</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(10,143)</u>
Net cash provided (used) by capital and related financing activities	<u>(10,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>700</u>
Net increase (decrease) in cash and cash equivalents	(12,198)
Balance - beginning	231,360
Balance - ending	<u>\$ 219,162</u>

(continued)

Transylvania County Schools

Exhibit 8

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2012

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

Operating income (loss)	\$ (2,019,326)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	32,362
Donated commodities consumed	134,942
Salaries paid by State Public School Fund	84,385
Indirect costs not paid	86,082
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,188)
(Increase) decrease in inventory	(9,410)
Increase (decrease) in accounts payable and accrued liabilities	21,378
Increase (decrease) in unearned revenue	538
Increase (decrease) in long-term liabilities	10,772
Total adjustments	<u>357,861</u>
Net cash provided by operating activities	<u>\$ (1,661,465)</u>

Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$84,385 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.

Indirect costs of \$86,082 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 \$103,964 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$134,942 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, 2012

	<u>Private-Purpose Trust Fund</u>
Assets	
Cash and cash equivalents	\$ 202,459
	<u>202,459</u>
Net Assets	<u>\$ 202,459</u>

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2012

	<u>Private-Purpose Trust Fund</u>
Additions:	
Contributions and other revenue	\$ 10,280
Deductions:	
Scholarships	(16,473)
Instructional costs	<u>(6,737)</u>
Change in net assets	<u>(12,930)</u>
Beginning net assets	<u>215,389</u>
Ending net assets	<u>\$ 202,459</u>

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

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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 local current expense fund mandated by state law. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.
- ◆ *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 nonmajor governmental funds:

- ◆ *Restricted Grants Fund.* The Restricted Grants Fund accounts for all revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax revenues distributed using the ad valorem method pursuant to G.S. 105-472(b)(2), sales tax refunds, gifts and grants restricted as to use, trust funds, federal grants restricted as to use, federal appropriations made directly to local school administrative units, funds received for prekindergarten programs, and special programs.
- ◆ *Individual Schools Fund.* The Individual Schools Fund includes revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds held on the behalf of various clubs and organizations, receipts from athletic events, and proceeds from various fund raising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs.

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, New Century Scholars, 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.

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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.

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

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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 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.

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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.

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

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

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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, 2012 is recorded in the government-wide and proprietary fund financial statements as the leave is earned.

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 - 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.

Fund Balance - In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- ◆ Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.
- ◆ Assets held for resale - portion of fund balance that is not an available resource because it represents the year-end balance of assets held for resale, which are not spendable resources.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

- ◆ Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 115C-425(a)].
- ◆ Restricted for School Capital Outlay- portion of fund balance that can only be used for School Capital Outlay. [G.S. 159-18 through 22]
- ◆ Restricted for Individual Schools – revenue sources restricted for expenditures for the various clubs and organizations,

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athletic events, and various fund raising activities for which they were collected.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes approved by the Board (highest level of decision-making authority) and, in certain instances, by the County’s governing body. Any changes or removal of specific purpose requires majority action by the governing bodies that approved the original action.

Assigned fund balance – portion of fund balance that the Board intends to use for specific purposes.

- ◆ Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Detail Notes on All Funds

A. Excess of Expenditures Over Appropriations

During the fiscal year the Board reported expenditures within the Federal Grants Fund, Restricted Grants Fund, and Child Nutrition Fund that violated state law G.S. 115C-441 because they exceeded the amounts appropriated in the budget ordinance. These amounts were related to utility expenses accrued in June but not billed until July, and additional food costs associated with increased school lunch sales. 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

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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, 2012, the Board had deposits with financial institutions with a carrying amount of \$2,380,337 and with the State Treasurer of \$3,201. The bank balances with the financial institutions and the State Treasurer were \$3,037,247 and \$423,321, respectively. Of these balances, \$362,306 was covered by federal depository insurance and \$3,098,262 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

Investments:

At June 30, 2012, the Board of Education had \$2,602,726 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.5 years at June 30, 2012. The Board has no policy for managing interest rate risk or credit risk.

Capital Assets:

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

Table I - Changes in Governmental Capital Assets				
	7/1/11			6/30/12
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land and improvements	\$ 11,618,862	\$ -	\$ -	\$ 11,618,862
Buildings	46,485,224	1,457,172	-	47,942,396
Furniture and equipment	944,452	-	-	944,452
Vehicles	3,829,572	58,000	(29,953)	3,857,619
Accumulated depreciation	(22,038,428)	(1,516,289)	29,953	(23,524,764)
TOTAL	\$ 40,839,682	\$ (1,117)	\$ -	\$ 40,838,565

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

Table II - Changes in Proprietary Capital Assets				
	7/1/11			6/30/12
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Furniture and equipment	\$ 614,736	\$ 30,178	\$ -	\$ 644,914
Vehicles	106,817	10,143	(12,829)	104,131
Accumulated depreciation	(523,508)	(32,362)	12,829	(543,041)
TOTAL	\$ 198,045	\$ 7,959	\$ -	\$ 206,004

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 7.44% 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, 2012, 2011, and 2010 were \$1,450,214, \$974,969, and \$731,075, respectively, equal to the required contributions for each year.

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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

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the Appropriations Bill. For the fiscal years ended June 30, 2012, 2011, and 2010, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$974,606, \$969,036, and \$921,523, respectively. These contributions represented 5.0%, 4.9%, and 4.5% 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.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last

Annual Financial Report

payable to the participant or beneficiary prior to the 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 another postemployment benefit. For the fiscal years ended June 30, 2012, 2011, and 2010, the Board paid all annual required contributions to the DIPNC for disability benefits of \$101,359, \$102,836, and \$106,487, 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 general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omissions claims. The Trust is reinsured

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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:

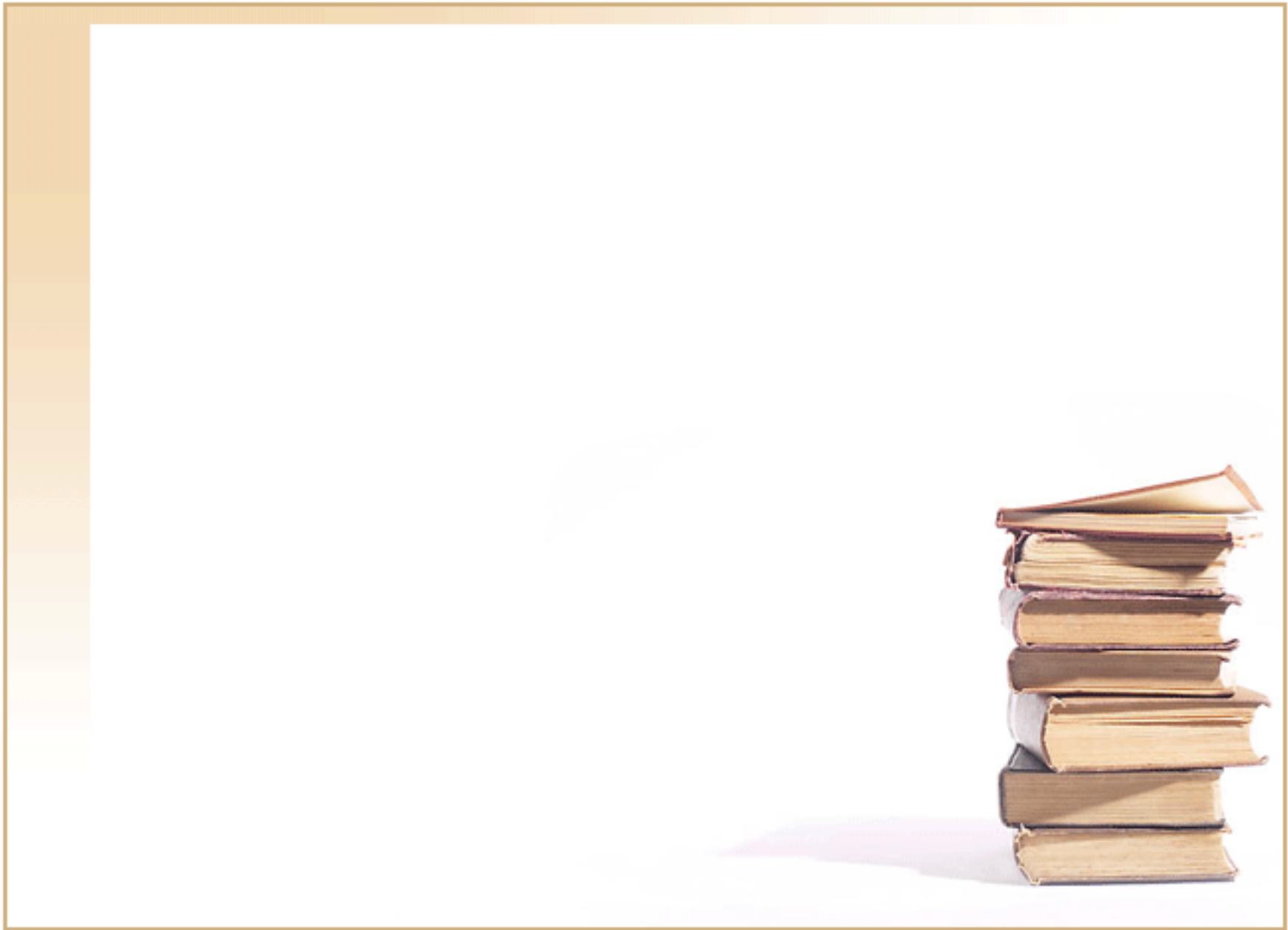
Table III is a summary of changes in the Board's outstanding debt for the year ended June 30, 2012. Amounts represent accrued vacation pay.

Table III - Changes in Long-term Debt				
	7/1/11 Balance	Additions	Deletions	6/30/12 Balance
Compensated absences	\$ 1,750,607	\$ 107,171	\$ -	\$ 1,857,778
TOTAL	\$ 1,750,607	\$ 107,171	\$ -	\$ 1,857,778

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.



Combining and Individual Statements and Schedules



Transylvania County Schools

Combining Balance Sheet Nonmajor Governmental Funds As of June 30, 2012

	Restricted Grants		Total Nonmajor
	Fund	Individual Schools	Governmental
			Funds
ASSETS			
Cash and cash equivalents	\$ 319,917	\$ 415,316	\$ 735,233
Accounts receivable	177,561	-	177,561
Total assets	<u>\$ 497,478</u>	<u>\$ 415,316</u>	<u>\$ 912,794</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,544	\$ -	\$ 4,544
Accrued salaries and benefits payable	6,009	-	6,009
Total liabilities	<u>10,553</u>	<u>-</u>	<u>10,553</u>
Fund balances:			
Restricted:			
Individual schools	-	415,316	415,316
Stabilization by state statute	177,561	-	177,561
Unassigned	309,364	-	309,364
Total fund balances	<u>486,925</u>	<u>415,316</u>	<u>902,241</u>
Total liabilities and fund balances	<u>\$ 497,478</u>	<u>\$ 415,316</u>	<u>\$ 912,794</u>

Transylvania County Schools

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2012

	Restricted Grants		Total Nonmajor
	Fund	Individual Schools	Governmental Funds
Revenues:			
State of North Carolina	\$ 190,321	\$ -	\$ 190,321
U.S. Government	461,986	-	461,986
Transylvania County	10,500	-	10,500
Other	200,708	1,108,316	1,309,024
Total revenues	863,515	1,108,316	1,971,831
Expenditures:			
Instructional programs:			
Regular	41,006	1,114,228	1,155,234
Alternative	47,435	-	47,435
School-based support	112,118	-	112,118
Total instructional programs	200,559	1,114,228	1,314,787
Support and development:			
Regular	101,540	-	101,540
Operational	32,000	-	32,000
Total support and development	133,540	-	133,540
Ancillary:			
Community Services	112,585	-	112,585
Total ancillary	112,585	-	112,585
Non-program charges	-	-	-
Total expenditures	446,684	1,114,228	1,560,912
Excess of revenues over expenditures	416,831	(5,912)	410,919
Fund balance - beginning	70,094	421,228	491,322
Fund balance - ending	\$ 486,925	\$ 415,316	\$ 902,241

Transylvania County Schools

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

Restricted Grants Fund

For the Fiscal Year Ended June 30, 2012

	2012		
	Budget	Actual	Variance
Revenues:			
State of North Carolina:			
NC Quest	\$ 150,000	\$ 120,258	\$ (29,742)
JCPC Project Rebound	47,435	49,556	2,121
Other	43,000	20,507	(22,493)
U.S. Government:			
Workforce Development	88,802	83,428	(5,374)
Other	10,000	378,558	368,558
Transylvania County	10,500	10,500	-
Other	210,136	200,708	(9,428)
Total revenues	<u>559,873</u>	<u>863,515</u>	<u>303,642</u>
Expenditures:			
Instructional programs:			
Regular	32,136	41,006	(8,870)
Alternative	47,435	47,435	-
School-based support	116,591	112,118	4,473
Total instructional programs	<u>196,162</u>	<u>200,559</u>	<u>(4,397)</u>
Support and development:			
Regular	150,000	101,540	48,460
Operational	81,000	32,000	49,000
Total support and development	<u>231,000</u>	<u>133,540</u>	<u>97,460</u>
Ancillary:			
Community services	132,711	112,585	20,126
Total ancillary	<u>132,711</u>	<u>112,585</u>	<u>20,126</u>
Total expenditures	<u>559,873</u>	<u>446,684</u>	<u>113,189</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>416,831</u>	<u>\$ 416,831</u>
Fund balance - beginning		70,094	
Fund balance - ending		<u>\$ 486,925</u>	

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, 2012

	2012		
	Budget	Actual	Variance
Revenues:			
State of North Carolina:			
Public School Building Capital Fund	\$ 200,000	\$ 200,000	\$ -
Sales taxes and grants	10,000	13,010	3,010
Total State of North Carolina	210,000	213,010	3,010
Transylvania County:			
County appropriations	746,963	746,963	-
Total Transylvania County	746,963	746,963	-
Other:			
QSCB Bond Poceeds	1,171,000	1,130,941	(40,059)
Disposition of school fixed assets	-	2,517	2,517
Miscellaneous	2,000	2,042	42
Total Other	1,173,000	1,135,500	(37,500)
Total Revenues	2,129,963	2,095,473	(34,490)
Expenditures:			
Instructional programs:			
Regular	96,890	70,390	26,500
Special	53,720	28,777	24,943
Co-curricular	58,861	58,538	323
School-based support	386,750	381,928	4,822
Total instructional programs	596,221	539,633	56,588
Support services:			
Operational	394,906	338,037	56,869
Policy and leadership	1,700	1,609	91
Real property and buildings	1,347,506	1,342,717	4,789
Total support services	1,744,112	1,682,363	61,749

(continued)

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, 2012

Total expenditures	<u>2,340,333</u>	<u>2,221,996</u>	<u>118,337</u>
Excess of revenues over expenditures	<u>(210,370)</u>	<u>(126,523)</u>	<u>83,847</u>
Other financing sources (uses):			
Fund balance appropriated	<u>210,370</u>	<u>-</u>	<u>(210,370)</u>
Total other financing sources	<u>210,370</u>	<u>-</u>	<u>(210,370)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>(126,523)</u>	<u>\$ (126,523)</u>
Fund balance - beginning		<u>727,127</u>	
Fund balance - ending		<u>\$ 600,604</u>	

Transylvania County Schools

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

Child Nutrition Fund

For the Fiscal Year Ended June 30, 2012

	2012		Variance
	Budget	Actual	
Operating revenues, food sales		\$ 546,944	
Other		24,173	
Total operating revenues	\$ 592,225	571,117	\$ (21,108)
Operating expenditures:			
Salaries and benefits		1,125,012	
Contracted services		49,363	
Materials and supplies		122,838	
Purchase of food		1,013,482	
Donated commodities		134,942	
Indirect costs		111,082	
Total operating expenditures	2,352,632	2,556,719	(204,087)
Capital outlay	-	10,143	(10,143)
Nonoperating revenues (expenditures):			
Federal reimbursements		1,405,157	
Federal commodities		103,964	
Federal grants		94,375	
County appropriation		186,082	
Interest earned		700	
Total nonoperating revenues (expenditures)	1,760,407	1,790,278	29,871
Excess of revenues over (under) expenditures before other financing sources	-	(205,467)	(205,467)
Other financing sources (uses):			
Transfers from other funds	-	112,655	112,655
Excess of revenues and other sources over (under) expenditures	\$ -	\$ (92,812)	\$ (92,812)

Transylvania County Schools

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

Child Nutrition Fund

For the Fiscal Year Ended June 30, 2012

Reconciliation of modified accrual to full accrual basis:

Excess of revenues and other sources over (under) expenditures	\$ (92,812)
Reconciling items:	
Depreciation	(32,362)
Equipment purchases	10,143
(Increase) decrease in accrued vacation pay	(10,772)
Increase (decrease) in inventory	9,410
Change in net assets (full accrual)	<u>\$ (116,393)</u>