

TRANSYLVANIA COUNTY SCHOOLS



ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2016



Annual Financial Report of the Transylvania County Schools

Brevard, North Carolina
For the Fiscal Year Ended June 30, 2016



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

Transylvania County Schools

Annual Financial Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Transylvania County, North Carolina

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the Transylvania County Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of

the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2016, 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, the Restricted Grants Fund, and the Federal Grants Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages four through eight and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on page forty-three, respectively 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.

Supplementary and Other Information

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 individual fund financial statements and budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements and budgetary schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied 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 individual fund financial statements and budgetary schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transylvania County Board of Education's internal control over financial reporting and compliance.



Brevard, North Carolina
November 11, 2016

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, 2016. 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 2016. The unemployment rate dropped to 5.9% as of June 2016, compared to the state average of 5.8%. 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 capital outlay 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 position and the statement of activities. The statement of net position includes all of the Board's assets, liabilities, and deferred outflows and inflows of resources. 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, deferred outflows and inflows of resources, 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.

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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 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, a 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 position includes all of the Board's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 position and how it has changed. Net position – the difference between the Board's assets and deferred outflows of resources, and the total of liabilities and deferred inflows of resources – is one way to measure the Board's financial health or position. Over time, increases or decreases in the Board's net position 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.

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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 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, the Restricted Grants 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, New Century Scholarship, and Connestee Scholarship are funds managed for the benefit of graduating Transylvania County Schools students. The Wenzlick Trust is used to enrich Career and Technical Education programs.

Financial Analysis of the Schools as a Whole

Table I - Condensed Statement of Net Position as of June 30, 2016						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 3,774,929	\$ 4,201,521	\$ 402,533	\$ 379,639	\$ 4,177,462	\$ 4,581,160
Capital assets	<u>35,085,936</u>	<u>36,069,106</u>	<u>99,711</u>	<u>129,658</u>	<u>35,185,647</u>	<u>36,198,764</u>
Total assets	\$ 38,860,865	\$ 40,270,627	\$ 502,244	\$ 509,297	\$ 39,363,109	\$ 40,779,924
Deferred outflows of resources	\$ 2,013,279	\$ 1,872,112	\$ 73,227	\$ 68,906	\$ 2,086,506	\$ 1,941,018
Current liabilities	1,256,910	1,212,544	10,351	19,157	1,267,761	1,231,701
Long-term liabilities	<u>7,510,791</u>	<u>3,821,488</u>	<u>233,448</u>	<u>114,517</u>	<u>7,744,239</u>	<u>3,936,005</u>
Total liabilities	\$ 8,767,701	\$ 5,034,032	\$ 243,799	\$ 133,674	\$ 9,011,500	\$ 5,167,706
Deferred inflows of resources	\$ 1,235,838	\$ 6,278,282	\$ 96,002	\$ 248,939	\$ 1,331,840	\$ 6,527,221
Net investment in capital assets	34,869,059	36,069,106	99,711	129,658	34,968,770	36,198,764
Restricted net position	1,036,832	1,040,229	-	-	1,036,832	1,040,229
Unrestricted net position (deficit)	<u>(5,035,286)</u>	<u>(6,278,910)</u>	<u>135,959</u>	<u>65,932</u>	<u>(4,899,327)</u>	<u>(6,212,978)</u>
Total net position	\$ 30,870,605	\$ 30,830,425	\$ 235,670	\$ 195,590	\$ 31,106,275	\$ 31,026,015

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Net position is an indicator of the fiscal health of the Board. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$31,106,275 as of June 30, 2016. The largest component of net position is net investment in capital assets of \$34,968,770.

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 Position						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues:						
Charges for services	\$ 1,341,687	\$ 1,420,909	\$ 438,419	\$ 469,992	\$ 1,780,106	\$ 1,890,901
Operating grants and contributions	23,297,137	23,975,719	1,565,856	1,521,496	24,862,993	25,497,215
Capital grants and contributions	15,315	457,926	-	-	15,315	457,926
General revenues:						
Other revenues	<u>12,741,340</u>	<u>12,081,140</u>	<u>271,813</u>	<u>269,596</u>	<u>13,013,153</u>	<u>12,350,736</u>
Total revenues	37,395,479	37,935,694	2,276,088	2,261,084	39,671,567	40,196,778
EXPENDITURES						
Governmental activities:						
Instructional services	28,956,247	29,324,545	-	-	28,956,247	29,324,525
Support services	7,452,389	7,434,252	-	-	7,452,389	7,434,252
Ancillary services	74,524	100,646	-	-	74,524	100,646
Non-programmed charges	778,774	677,168	-	-	778,774	677,168
Business-type activities:						
Food service	-	-	<u>2,329,373</u>	<u>2,185,068</u>	<u>2,329,373</u>	<u>2,185,068</u>
Total expenditures	37,261,934	37,536,611	2,329,373	2,185,068	39,591,307	39,721,679
Transfers in (out)	<u>(93,365)</u>	<u>(92,285)</u>	<u>93,365</u>	<u>92,285</u>	-	-
Increase (decrease) in net position	40,180	306,798	40,080	168,301	80,260	475,099
Beginning net position, previously reported	30,830,425	<u>34,028,315</u>	<u>195,590</u>	<u>27,289</u>	<u>30,846,015</u>	<u>34,055,682</u>
Beginning net position, restated	<u>30,830,425</u>	<u>30,523,627</u>	<u>195,590</u>	<u>27,289</u>	<u>31,026,015</u>	<u>30,550,916</u>
Ending net position	\$ 30,870,605	\$ 30,830,425	\$ 235,670	\$ 195,590	\$ 31,106,275	\$ 31,026,015

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Total governmental activities generated revenues of \$37.4 million while expenses and transfers out in this category totaled \$37.4 million for the year ended June 30, 2016. Comparatively, revenues were \$37.9 million and expenses totaled \$37.5 million for the year ended June 30, 2015. After transfers to the business-type activities, net position increased by \$40,180 at June 30, 2016, compared to an increase of \$306,798 in 2015. Instructional expenses comprised 77.5% of total governmental-type expenses while support services made up 20.0% of those expenses for 2016. County funding comprised 33.5% of total governmental revenue. Most of the remaining governmental revenue for 2016 consisted of restricted state and federal money. Business-type activities generated revenue of \$2.28 million and had expenses of \$2.33 million. Net position increased in the business-type activities by \$40,080, after transfers in from the governmental activities of \$93,365.

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, 2016						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land and improvements	\$ 12,212,646	\$ 12,042,766	\$ -	\$ -	\$ 12,212,646	\$ 12,042,766
Buildings	50,531,568	50,281,840	-	-	50,531,568	50,281,840
Furniture and equipment	978,363	990,237	665,515	665,515	1,643,878	1,655,752
Vehicles	3,939,529	3,638,503	104,130	104,130	4,043,659	3,742,633
Accumulated depreciation	(32,576,170)	(30,884,240)	(669,934)	(639,987)	(33,246,104)	(31,524,227)
Total	\$ 35,085,936	\$ 36,069,106	\$ 99,711	\$ 129,658	\$ 35,185,647	\$ 36,198,764

Debt Outstanding

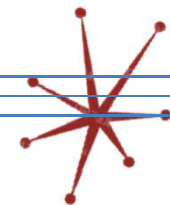
During the year the Board’s outstanding debt increased by \$216,877 reflecting the use of installment financing for the purchase of school buses.

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

TRANSYLVANIA COUNTY SCHOOLS



BASIC FINANCIAL STATEMENTS

Transylvania County Schools

Exhibit 1

Statement of Net Position

As of June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,770,338	\$ 205,913	\$ 2,976,251
Accounts receivable (net)	74,150	10,311	84,461
Due from other governments	930,441	63,113	993,554
Inventories	-	123,196	123,196
Capital assets (Note 1)			
Land, improvements, and construction in progress	12,212,646	-	12,212,646
Other capital assets, net of depreciation	22,873,290	99,711	22,973,001
Total capital assets	<u>35,085,936</u>	<u>99,711</u>	<u>35,185,647</u>
Total assets	<u>38,860,865</u>	<u>502,244</u>	<u>39,363,109</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,013,279</u>	<u>73,227</u>	<u>2,086,506</u>
LIABILITIES			
Accounts payable	127,904	10,351	138,255
Accrued salaries and wages payable	1,056,714	-	1,056,714
Long-term liabilities:			
Due in less than one year	72,292	-	72,292
Net pension liability	5,540,704	180,196	5,720,900
Due in more than one year	1,970,087	53,252	2,023,339
Total liabilities	<u>8,767,701</u>	<u>243,799</u>	<u>9,011,500</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,235,838</u>	<u>96,002</u>	<u>1,331,840</u>
NET POSITION			
Net investment in capital assets	\$ 34,869,059	99,711	34,968,770
Restricted:			
Individual schools	498,332	-	498,332
Stabilization by state statute	8,823	-	8,823
School capital outlay	529,677	-	529,677
Unrestricted	(5,035,286)	135,959	(4,899,327)
Total net position	<u>\$ 30,870,605</u>	<u>\$ 235,670</u>	<u>\$ 31,106,275</u>

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, 2016

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	\$ 16,380,346	\$ -	\$ 12,391,818	\$ -	\$ (3,988,528)	\$ -	\$ (3,988,528)
Special	3,938,586	-	3,509,923	-	(428,663)	-	(428,663)
Alternative	2,261,799	-	2,175,428	-	(86,371)	-	(86,371)
School-based leadership	2,183,549	-	1,186,210	-	(997,339)	-	(997,339)
Co-curricular	432,238	-	-	-	(432,238)	-	(432,238)
School-based support	3,759,729	1,278,218	1,383,894	-	(1,097,617)	-	(1,097,617)
Support services:							
Regular	447,143	-	233,435	-	(213,708)	-	(213,708)
Special	74,524	-	25,787	-	(48,737)	-	(48,737)
Alternative	59,619	-	55,985	-	(3,634)	-	(3,634)
Technology	149,048	-	63,083	-	(85,965)	-	(85,965)
Operational	5,544,576	-	1,890,851	15,315	(3,638,410)	-	(3,638,410)
Financial and human resources	640,905	-	119,892	-	(521,013)	-	(521,013)
Accountability	3,728	-	-	-	(3,728)	-	(3,728)
Policy and leadership	532,846	-	178,750	-	(354,096)	-	(354,096)
Ancillary services:							
Community services	74,524	63,469	-	-	(11,055)	-	(11,055)
Non-programmed charges	778,774	-	82,081	-	(696,693)	-	(696,693)
Total governmental activities	\$ 37,261,934	1,341,687	23,297,137	15,315	(12,607,795)	-	(12,607,795)

(continued)

Business-type Activities:

Child nutrition	2,329,373	438,419	1,565,856	-	-	(325,098)	(325,098)
Total business-type activities	2,329,373	438,419	1,565,856	-	-	(325,098)	(325,098)
Total government-wide	\$ 39,591,307	\$ 1,780,106	\$ 24,862,993	\$ 15,315	(12,607,795)	(325,098)	(12,932,893)

General revenues:

Unrestricted county appropriations - operating	10,911,610	250,000	11,161,610
Unrestricted county appropriations - capital	1,600,000	-	1,600,000
Investment earnings, unrestricted	6,431	208	6,639
Miscellaneous, unrestricted	223,299	21,605	244,904
Transfers	(93,365)	93,365	-
Total general revenues and transfers	12,647,975	365,178	13,013,153
Change in net assets	40,180	40,080	80,260
Net position-beginning, previously reported	34,335,191	195,590	34,530,781
Restatement	(3,504,766)	-	(3,504,766)
Net position-beginning, restated	30,830,425	195,590	31,026,015
Net position-ending	\$ 30,870,605	\$ 235,670	\$ 31,106,275

Transylvania County Schools

Exhibit 3

Balance Sheet Governmental Funds As of June 30, 2016

	Major Funds						Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Restricted Grants Fund	Federal Grants Fund	Individual Schools	
ASSETS							
Cash and cash equivalents	\$ 1,103,498	\$ 3,653	\$ 529,677	\$ 635,178	\$ -	\$ 498,332	\$ 2,770,338
Accounts receivable	8,823	-	-	65,327	-	-	74,150
Due from other governments	-	810,413	-	-	120,028	-	930,441
Total assets	\$ 1,112,321	\$ 814,066	\$ 529,677	\$ 700,505	\$ 120,028	\$ 498,332	\$ 3,774,929
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 122,970	\$ -	\$ -	\$ 4,934	\$ -	\$ -	\$ 127,904
Accrued salaries and benefits payable	120,103	810,865	-	8,886	116,860	-	1,056,714
Total liabilities	243,073	810,865	-	13,820	116,860	-	1,184,618
Deferred inflows of resources	-	3,201	-	-	3,168	-	6,369
Fund balances:							
Restricted:							
Individual schools	-	-	-	-	-	498,332	498,332
Stabilization by state statute	8,823	-	-	-	-	-	8,823
School capital outlay	-	-	269,177	-	-	-	269,177
Assigned:							
Technology	-	-	-	272,102	-	-	272,102
Medicaid reimbursement	-	-	-	280,774	-	-	280,774
Other	-	-	-	12,109	-	-	12,109
Subsequent year's expenditures	145,923	-	260,500	121,700	-	-	528,123
Unassigned	714,502	-	-	-	-	-	714,502
Total fund balances	869,248	-	529,677	686,685	-	498,332	2,583,942
Total liabilities, deferred inflows, and fund balances	\$ 1,112,321	\$ 814,066	\$ 529,677	\$ 700,505	\$ 120,028	\$ 498,332	

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.	35,085,936
Deferred outflows of resources related to pensions	2,013,279
Long-term debt is not due and payable in the current period and therefore are not reported in the funds.	(2,042,379)
Net pension liability	(5,540,704)
Deferred inflows of resources related to pensions	(1,229,469)
Net position of governmental activities	\$ 30,870,605

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, 2016

	Major Funds						Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Restricted Grants Fund	Federal Grants Fund	Individual Schools	
REVENUES							
State of North Carolina	\$ -	\$ 20,091,480	\$ 94,602	\$ 52,965	\$ -	\$ -	\$ 20,239,047
U.S. Government	-	-	-	318,083	2,818,791	-	3,136,874
Transylvania County	10,911,610	-	1,600,000	-	-	-	12,511,610
Other	108,001	-	15,370	106,359	-	1,278,218	1,507,948
Total revenues	11,019,611	20,091,480	1,709,972	477,407	2,818,791	1,278,218	37,395,479
EXPENDITURES							
Current:							
Instructional programs	6,755,062	17,539,470	685,444	431,473	2,755,786	1,206,036	29,373,271
Support and development	3,684,622	2,458,645	1,317,650	5,809	63,005	-	7,529,731
Ancillary	7,902	-	-	68,666	-	-	76,568
Non-programmed charges	889,815	-	-	-	-	-	889,815
Debt service:							
Principal	-	-	72,292	-	-	-	72,292
Total expenditures	11,337,401	19,998,115	2,075,386	505,948	2,818,791	1,206,036	37,941,677
Excess of revenues over (under) expenditures	(317,790)	93,365	(365,414)	(28,541)	-	72,182	(546,198)
OTHER FINANCING SOURCES (USES)							
Transfers to other funds	-	(93,365)	-	-	-	-	(93,365)
Installment purchase obligations issued	-	-	289,169	-	-	-	289,169
Total other financing sources (uses)	-	(93,365)	289,169	-	-	-	195,804
Net change in fund balance	(317,790)	-	(76,245)	(28,541)	-	72,182	(350,394)
Fund balances-beginning	1,187,038	-	605,922	715,226	-	426,150	2,934,336
Fund balances-ending	\$ 869,248	\$ -	\$ 529,677	\$ 686,685	\$ -	\$ 498,332	\$ 2,583,942

(continued)

Transylvania County Schools

Exhibit 4

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

For the Fiscal Year Ended June 30, 2016

Net changes in fund balances - total governmental funds \$ (350,394)

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. (979,707)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 1,876,593

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 position. 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. (216,877)

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.

Pension expense (571,624)

Net change in compensated absences 285,652

Loss on disposal of assets (3,463)

Total changes in net position of governmental activities \$ 40,180

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, 2016

	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	\$ -	\$ -	\$ -	\$ -	\$ 20,924,657	\$ 21,490,338	\$ 20,091,480	\$ (1,398,858)
Transylvania County	10,911,610	10,911,610	10,911,610	-	-	-	-	-
Other	110,000	110,000	108,001	(1,999)	-	-	-	-
Total revenues	11,021,610	11,021,610	11,019,611	(1,999)	20,924,657	21,490,338	20,091,480	(1,398,858)
Expenditures:								
Current:								
Instructional programs:								
Regular	3,835,820	4,092,555	4,047,869	44,686	12,429,665	12,574,719	12,092,166	482,553
Special	377,389	497,389	480,500	16,889	2,561,696	2,679,581	2,546,863	132,718
Alternative	77,352	134,852	129,743	5,109	584,494	609,388	460,686	148,702
School-based leadership	1,028,600	1,035,600	1,018,246	17,354	1,172,876	1,202,062	1,186,210	15,852
Co-curricular	366,190	344,190	343,580	610	-	-	-	-
School-based support	720,016	722,587	735,124	(12,537)	1,585,118	1,598,770	1,253,545	345,225
Total instructional programs	6,405,367	6,827,173	6,755,062	72,111	18,333,849	18,664,520	17,539,470	1,125,050
Support and development:								
Regular	374,431	226,431	217,819	8,612	274,390	237,460	233,435	4,025
Special	48,674	46,674	45,631	1,043	54,793	55,993	19,538	36,455
Alternative	-	4,600	4,593	7	-	-	-	-
Technology	-	92,000	89,249	2,751	4,000	64,161	63,083	1,078
Operational	2,696,588	2,390,838	2,443,968	(53,130)	1,762,184	1,964,678	1,843,947	120,731
Financial and human resources	417,725	527,669	526,717	952	222,746	227,596	119,892	107,704
Accountability	9,132	2,326	1,996	330	-	-	-	-
Policy and leadership	365,636	352,436	354,649	(2,213)	178,738	181,163	178,750	2,413
Total support and development	3,912,186	3,642,974	3,684,622	(41,648)	2,496,851	2,731,051	2,458,645	272,406

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, 2016

Ancillary services	8,057	8,057	7,902	155	-	-	-	-
Non-programmed charges	696,000	890,000	889,815	185	-	-	-	-
Total expenditures	<u>11,021,610</u>	<u>11,368,204</u>	<u>11,337,401</u>	<u>30,803</u>	<u>20,830,700</u>	<u>21,395,571</u>	<u>19,998,115</u>	<u>1,397,456</u>
Revenues over (under) expenditures	<u>-</u>	<u>(346,594)</u>	<u>(317,790)</u>	<u>28,804</u>	<u>93,957</u>	<u>94,767</u>	<u>93,365</u>	<u>(1,402)</u>
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	(93,957)	(94,767)	(93,365)	1,402
Appropriated fund balance	-	346,594	-	(346,594)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>346,594</u>	<u>-</u>	<u>(346,594)</u>	<u>(93,957)</u>	<u>(94,767)</u>	<u>(93,365)</u>	<u>1,402</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(317,790)</u>	<u>\$ (317,790)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			1,187,038				-	
Fund balances, end of year			<u>\$ 869,248</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 Funds For the Fiscal Year Ended June 30, 2016

	Restricted Grants Fund				Federal Grants Fund			
	Original Budget	Final Budget	Actual Amounts	Variance	Original Budget	Final Budget	Actual Amounts	Variance
Revenues:								
State of North Carolina	\$ 73,498	\$ 73,498	\$ 52,965	\$ (20,533)	\$ -	\$ -	\$ -	\$ -
Federal government	93,443	240,943	318,083	77,140	2,803,203	3,038,028	2,818,791	(219,237)
Transylvania County	-	-	-	-	-	-	-	-
Other	114,822	117,722	106,359	(11,363)	-	-	-	-
Total revenues	281,763	432,163	477,407	45,244	2,803,203	3,038,028	2,818,791	(219,237)
Expenditures:								
Current:								
Instructional programs:								
Regular	31,357	67,997	66,671	1,326	211,084	214,198	210,743	3,455
Special	-	112,000	109,761	2,239	763,336	847,775	841,717	6,058
Alternative	30,498	31,498	31,158	340	1,535,251	1,711,221	1,663,685	47,536
School-based leadership	-	-	-	-	-	-	-	-
Co-curricular	-	2,900	2,825	75	-	-	-	-
School-based support	179,157	221,517	221,058	459	40,102	48,427	39,641	8,786
Total instructional programs	241,012	435,912	431,473	4,439	2,549,773	2,821,621	2,755,786	65,835
Support and development:								
Regular	-	1,000	48	952	-	-	-	-
Special	-	7,500	5,505	1,995	69,045	21,045	6,249	14,796
Alternative	-	-	-	-	26,884	56,194	55,985	209
Technology	-	-	-	-	-	-	-	-
Operational	81,000	1,000	256	744	-	1,000	771	229
Financial and human resources	-	-	-	-	-	-	-	-
Accountability	-	-	-	-	-	-	-	-
Policy and leadership	-	-	-	-	-	-	-	-
Total support and development	81,000	9,500	5,809	3,691	95,929	78,239	63,005	15,234

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, 2016

Ancillary services	94,451	82,451	68,666	13,785	-	-	-	-
Non-programmed charges	-	-	-	-	157,501	138,168	-	138,168
Total expenditures	<u>416,463</u>	<u>527,863</u>	<u>505,948</u>	<u>21,915</u>	<u>2,803,203</u>	<u>3,038,028</u>	<u>2,818,791</u>	<u>219,237</u>
Revenues over (under) expenditures	<u>(134,700)</u>	<u>(95,700)</u>	<u>(28,541)</u>	<u>67,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	-	-	-	-
Appropriated fund balance	<u>134,700</u>	<u>95,700</u>	<u>-</u>	<u>(95,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>134,700</u>	<u>95,700</u>	<u>-</u>	<u>(95,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(28,541)</u>	<u>\$ (28,541)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>715,226</u>				<u>-</u>	
Fund balances, end of year			<u><u>\$ 686,685</u></u>				<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 Position

Proprietary Fund

As of June 30, 2016

	<u>Major Fund</u> <u>Child Nutrition</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 205,913
Due from other governments	63,113
Receivables (net)	10,311
Inventories	123,196
Total current assets	<u>402,533</u>
Noncurrent assets:	
Capital assets, net of depreciation	99,711
Total assets	<u>502,244</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>73,227</u>
LIABILITIES	
Current liabilities:	
Accounts payable	10,351
Total current liabilities	<u>10,351</u>
Noncurrent liabilities:	
Net pension liability	180,196
Compensated absences	53,252
Total liabilities	<u>243,799</u>
DEFERRED INFLOWS OF RESOURCES	<u>96,002</u>
NET POSITION	
Net investment in capital assets	99,711
Unrestricted	<u>135,959</u>
Total net position	<u>\$ 235,670</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 Position

Proprietary Fund

For the Fiscal Year Ended June 30, 2016

	<u>Major Fund</u> <u>Child Nutrition</u>
OPERATING REVENUES	
Food sales	\$ 438,419
Other	21,605
Total operating revenues	<u>460,024</u>
OPERATING EXPENSES	
Salaries and benefits	1,129,413
Contracted services	31,434
Materials and supplies	130,892
Food cost:	
Purchase of food	731,889
Donated commodities	117,227
Indirect costs	158,571
Depreciation	29,947
Total operating expenses	<u>2,329,373</u>
Operating income (loss)	<u>(1,869,349)</u>
NONOPERATING REVENUES (EXPENSES)	
Federal reimbursements	1,282,073
Federal commodities	117,909
Federal and state grants	7,303
County appropriation	250,000
Interest earned	208
Indirect costs not paid	158,571
Total nonoperating revenue (expenses)	<u>1,816,064</u>
Income (loss) before contributions and transfers	(53,285)
Transfers from other funds	93,365
Change in net position	40,080
Total net position - beginning	195,590
Total net position - ending	<u>\$ 235,670</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, 2016

	<u>Major Fund</u> <u>Child Nutrition</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 455,858
Cash paid for goods and services	(804,238)
Cash paid to employees for services	(1,167,670)
Net cash provided (used) by operating activities	<u>(1,516,050)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal, state, and local grants and reimbursements	<u>1,551,906</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>208</u>
Net increase (decrease) in cash and cash equivalents	36,064
Balance - beginning	169,849
Balance - ending	<u>\$ 205,913</u>

(continued)

Transylvania County Schools

Exhibit 8

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2016

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

Operating income (loss)	\$ (1,869,349)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	29,947
Donated commodities consumed	117,227
Salaries paid by State Public School Fund	93,365
Indirect costs not paid	158,571
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,096)
(Increase) decrease in inventory	5,418
Increase in net pension liability	117,244
(Increase) in deferred outflows	(4,321)
(Decrease) in deferred inflows	(152,937)
Increase (decrease) in accounts payable and accrued liabilities	(8,806)
Increase (decrease) in long-term liabilities	1,687
Total adjustments	<u>353,299</u>
Net cash provided by operating activities	<u>\$ (1,516,050)</u>

Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$93,365 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 \$158,571 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 \$117,909 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$117,227 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 Position

As of June 30, 2016

	<u>Private-Purpose Trust Fund</u>
Assets	
Cash and cash equivalents	\$ 341,195
Total Assets	<u>341,195</u>
Net Position	<u><u>\$ 341,195</u></u>

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2015

	<u>Private-Purpose Trust Fund</u>
Additions:	
Contributions and other revenue	\$ 24,489
Deductions:	
Scholarships	<u>(31,175)</u>
Change in net position	<u>(6,686)</u>
Beginning net position	<u>347,881</u>
Ending net position	<u><u>\$ 341,195</u></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 position 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. 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 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.
- ◆ *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.
- ◆ *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.
- ◆ *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 no nonmajor governmental funds:

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.

Annual Financial Report

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 position 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.

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.

Annual Financial Report

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 amortized cost or at fair value as determined by either quoted market prices or a matrix pricing model. Bank deposits and the NCCMT are measured at amortized cost, which is the NCCMT's share price. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. 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 with original maturities of three months or less 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:

Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. 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

Deferred outflows and inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has two items that meet this criterion – a pension related deferral and contributions made to the pension plan subsequent to the measurement date. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has three items that meet this criterion - unearned grant revenues in the State Public School Fund

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and Federal Grants Fund, prepaid items in the Enterprise Fund, and pension related deferrals.

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, 2016 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 position/Fund Balances:

Net position - Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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.

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- ◆ 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, 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.

B. Excess of Expenditures over Appropriations

During the fiscal year ended June 30, 2016, the Board reported expenditures within the General Fund that violated State law [G.S. 115C-441] because they exceeded the amounts appropriated in the budget ordinance by \$67,880. Revenue was received to fund the excess appropriations but a corresponding budget amendment was not approved prior to the close of the fiscal year. Management will amend procedures to ensure compliance with preaudit requirements.

Detail Notes on All Funds

A. 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, 2016, the Board had deposits with financial institutions with a carrying amount of \$2,697,765 and with the State Treasurer of \$3,653. The bank balances with the financial institutions and the State Treasurer were \$3,484,100 and \$1,139,902, respectively. Of these balances, \$452,086 was covered by federal depository insurance and \$4,174,916 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. At June 30, 2016 the Board had \$154 cash on hand.

Investments:

At June 30, 2016, the Board of Education had \$615,874 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, 2016. 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.

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Table I - Changes in Governmental Capital Assets				
	7/1/15			6/30/16
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land and improvements	\$ 12,042,766	\$ 169,880	\$ -	\$ 12,212,646
Buildings	50,281,840	249,728	-	50,531,568
Furniture and equipment	990,237	-	(11,874)	978,363
Vehicles	3,638,503	364,800	(63,774)	3,939,529
Accumulated depreciation	(30,884,240)	(1,764,115)	72,185	(32,576,170)
TOTAL	\$ 36,069,106	\$ (979,707)	\$ (3,463)	\$ 35,085,936

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

Table II - Changes in Proprietary Capital Assets				
	7/1/15			6/30/16
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Furniture and equipment	\$ 665,515	\$ -	\$ -	\$ 665,515
Vehicles	104,130	-	-	104,130
Accumulated depreciation	(639,987)	(29,947)	-	(669,934)
TOTAL	\$ 129,658	\$ (29,947)	\$ -	\$ 99,711

Financing Commitments:

Recent legislation permits the State Board of Education to finance the purchase of replacement school buses through installment purchases. The Board has entered into an agreement to purchase 4 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 Board out of funds allocated. Because future resources will be used to fund the payments under the installment agreement, no encumbrance of fund balance at June 30, 2016, has been recorded.

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B. Liabilities

Pension Plan and Other Postemployment Obligations:

Teachers' and State Employees' Retirement System

Plan Description. The Board is a participating employer in 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 membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable

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service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2016, was 9.15% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$1,934,034 for the year ended June 30, 2016.

Refunds of Contributions – Board employees who have terminated service as a contributing member of TSERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by TSERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Board reported a liability of \$5,720,900 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2015 and at June 30, 2014, the Board's proportion was 0.15524% and 0.15125% respectively.

For the year ended June 30, 2016, the Board recognized pension expense of \$589,121. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 650,468
Net difference between projected and actual earnings		
on pension plan investments		619,812
Changes in proportion and differences between Board contributions and proportionate share of contributions	\$ 152,472	35,394
Board contributions subsequent to the measurement date	1,934,034	
Total	\$ 2,086,506	\$ 1,305,674

\$1,934,034 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	\$ (715,348)
2018	(715,348)
2019	(689,177)
2020	966,671
Total	\$ (1,153,202)

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	3.0 percent
Salary increases	4.25 to 9.10 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed

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income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension asset to changes in the discount rate. The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	\$ 17,218,334	\$ 5,720,901	\$ (4,035,996)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

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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, 2016, 2015, and 2014, the School Board paid all annual required

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contributions to the Plan for postemployment healthcare benefits of \$1,183,671, \$1,165,218, and \$1,097,732, respectively. These contributions represented 5.6%, 5.49%, and 5.4%, 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 payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one

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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, 2016, 2015, and 2014, the Board paid all annual required contributions to the DIPNC for disability benefits of \$86,661, \$87,020, and \$89,445, respectively. These contributions represented 0.41%, 0.41%, and 0.44% of covered payroll, respectively.

Deferred Inflows of Resources:

Deferred inflows of resources in the State Public School Fund and Federal Grants Fund represent unearned grant revenue, and in the Enterprise Fund represent prepaid lunch sales. Deferred inflows in the governmental and business type activities include pension related deferrals.

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.

C. Financing Commitments

Long-Term Obligations:

Table III is a summary of changes in the Board's outstanding debt for the year ended June 30, 2016.

Table III - Changes in Long-term Debt				
	7/1/2015			6/30/2016
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Installment purchase	\$ -	\$ 289,169	\$ (72,292)	\$ 216,877
Compensated absences	<u>2,162,719</u>	<u>-</u>	<u>(283,965)</u>	<u>1,878,754</u>
TOTAL	\$ 2,162,719	\$ 289,169	\$ (356,257)	\$ 2,095,631

Interfund Balances and Activity:

Transfers of \$93,365 were made from the State Public School Fund to the Child Nutrition Fund for administrative costs as of June 30, 2016.

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.

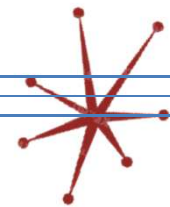
B. Prior Period Adjustment

During the fiscal year ended June 30, 2016, management determined that depreciation on capital assets had not been properly recorded in governmental activities. Therefore, an adjustment to beginning net position has been recorded to account for these capital assets, the net effect of which decreased beginning net position in governmental activities by \$3,504,766.

C. Subsequent Events

Subsequent events have been evaluated through November 11, 2016, which is the date the financial statements were available to be issued.

TRANSYLVANIA COUNTY SCHOOLS



INDIVIDUAL STATEMENTS AND SCHEDULES

Transylvania County Schools

Statement of Net Position

Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability (Asset)

Teachers' and State Employees' Retirement System

Last Three Fiscal Years

	2016		2015		2014
Board's proportion of the net pension liability (asset)	0.15524%		0.15125%		0.15230%
Board's proportionate share of the net pension liability (asset)	\$ 5,720,900	\$	1,773,286	\$	9,246,162
Board's covered-employee payroll	\$ 21,213,316	\$	20,330,813	\$	19,974,710
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.97%		8.72%		46.29%
Plan fiduciary net position as a percentage of the total pension liability	94.64%		98.24%		90.60%

Schedule of Contributions

Teachers' and State Employees' Retirement System

Last Three Fiscal Years

	2016		2015		2014
Contractually required contribution	\$ 1,934,034	\$	1,941,018	\$	1,773,286
Contributions in relation to the contractually required contribution	1,934,034		1,941,018		1,773,286
Contribution deficiency (excess)	\$ -	\$	-	\$	-
Board's covered-employee payroll	\$ 21,136,984	\$	21,213,316	\$	20,330,813
Contributions as a percentage of covered-employee payroll	9.15%		9.15%		8.72%

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, 2016

	2016		
	Budget	Actual	Variance
Revenues:			
State of North Carolina:			
Public School Building Capital Fund	\$ 243,044	\$ -	\$ (243,044)
Sales taxes and grants	10,500	22,310	11,810
State appropriations-buses	-	72,292	72,292
Total State of North Carolina	253,544	94,602	(158,942)
Transylvania County:			
County appropriations	1,600,000	1,600,000	-
Total Transylvania County	1,600,000	1,600,000	-
Other:			
Donations	2,500	-	(2,500)
Miscellaneous	100	15,370	15,270
Total Other	2,600	15,370	12,770
Total Revenues	1,856,144	1,709,972	(146,172)
Expenditures:			
Instructional programs:			
Regular	152,956	122,975	29,981
Co-curricular	91,395	90,340	1,055
School-based support	476,600	472,129	4,471
Total instructional programs	720,951	685,444	35,507
Support services:			
Operational	1,699,532	1,314,267	385,265
Policy and leadership	3,500	3,383	117
Total support services	1,703,032	1,317,650	385,382
Debt Service:			
Principal	72,292	72,292	-

(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, 2016

Total expenditures	2,496,275	2,075,386	420,889
Excess of revenues over expenditures	(640,131)	(365,414)	274,717
Other financing sources (uses):			
Installment purchase obligations issued	285,831	289,169	3,338
Fund balance appropriated	354,300	-	(354,300)
Total other financing sources	640,131	289,169	(350,962)
Revenues and other financing sources over expenditures	<u>\$ -</u>	(76,245)	<u>\$ (76,245)</u>
Fund balance - beginning		605,922	
Fund balance - ending		<u>\$ 529,677</u>	

Transylvania County Schools

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

Child Nutrition Fund

For the Fiscal Year Ended June 30, 2016

	2016		Variance
	Budget	Actual	
Operating revenues, food sales		\$ 438,419	
Other		21,605	
Total operating revenues	\$ 577,191	460,024	\$ (117,167)
Operating expenditures:			
Salaries and benefits		1,167,670	
Contracted services		31,434	
Materials and supplies		130,892	
Purchase of food		726,471	
Donated commodities		117,227	
Indirect costs		158,571	
Total operating expenditures	2,475,621	2,332,265	143,356
Nonoperating revenues (expenditures):			
Federal reimbursements		1,282,073	
Federal commodities		117,909	
State reimbursements		7,303	
County appropriation		250,000	
Interest earned		208	
Total nonoperating revenues (expenditures)	1,898,430	1,657,493	(240,937)
Excess of revenues over (under) expenditures before other financing sources	-	(214,748)	(214,748)
Other financing sources (uses):			
Transfers from other funds	-	93,365	93,365
Excess of revenues and other sources over (under) expenditures	\$ -	\$ (121,383)	\$ (121,383)

Transylvania County Schools

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

Child Nutrition Fund

For the Fiscal Year Ended June 30, 2016

Reconciliation of modified accrual to full accrual basis:

Excess of revenues and other sources over (under) expenditures	\$ (121,383)
Reconciling items:	
Depreciation	(29,947)
Net pension liability	(117,244)
Deferred outflows - pensions	4,321
Deferred inflows - pensions	152,867
Indirect cost not paid	158,571
(Increase) decrease in accrued vacation pay	(1,687)
Increase (decrease) in inventory	(5,418)
Change in net position (full accrual)	<u>\$ 40,080</u>

