

**Davie County  
Board of Education**

Financial Statements  
For the Year Ended  
June 30, 2013

# DAVIE COUNTY BOARD OF EDUCATION

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ANDERSON SMITH & WIKE PLLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Davie County Board of Education  
Mocksville, 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 Davie County Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board'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 the 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 misstatements, whether due to fraud or error.

### ***Auditors' 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 auditors' 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 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, business-type activities, each major fund, and the aggregate remaining fund information of the Davie County Board of Education as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, the State Public School Fund, and the Federal Grants Fund for the year then ended in 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 4 through 11 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 Davie County Board of Education's basic financial statements. The individual non-major fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual non-major fund financial statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards 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 non-major fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and

State awards are fairly stated, in all material respects, in relation to the basic 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 October 25, 2013 on our consideration of Davie 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 Davie County Board of Education's internal control over financial reporting and compliance.

*Anderson Smith & Wike PLLC*

October 25, 2013  
Statesville, North Carolina  
(704) 562-5039

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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This section of the Davie County Board of Education's (*the Board*) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2013. This information should be read in conjunction with the audited financial statements included in this report.

***Financial Highlights***

- The Board expended an average of \$7,882 of state, local, and federal dollars per student in fiscal year 2013.
- The Board experienced an increase in enrollment from 6,423 in fiscal year 2012 to 6,429 in fiscal year 2013. This is an increase of 6 students (or less than 1%).
- The Board was required to revert \$1,562,296 to the State due to the economic downturn.
- The Board used \$761,992 of ADM and Lottery Public School Building Capital Funds (PSBCF) for various projects at the schools.

***Overview of the Financial Statements***

The audited financial statements of the Davie County Board of Education consist of four components. They are as follows:

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Required supplemental section that presents budgetary statements for non-major governmental funds and budgetary statements for 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 and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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**Overview of the Financial Statements (Continued)**

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 fund. 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, 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 each of the Board's major funds.

**Government-wide Statements**

The government-wide statements report information about the unit 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 and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Board's net position and how it has changed. Net position – the difference between the Board's assets and liabilities – is one way to measure the unit's financial health or position.

- Over time, increases or decreases in the Board's net position is an indicator of whether its financial position is improving or deteriorating.
- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in Davie County's (the "County") property tax base and the condition of its school buildings and other physical assets.

The unit'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. The school food service fund is included here.

The government-wide statements are shown as Exhibits 1 and 2 of this report.

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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***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 unit 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 has 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.

Davie County Board of Education has two 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 the reader determine whether there are more or fewer financial resources that can be spent in the coming year 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 the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

The governmental fund statements are shown as Exhibits 3, 4 and 5 of this report.

*Proprietary fund:* Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. Davie County Board of Education has one proprietary fund – an enterprise fund – the School Food Service Fund.

The proprietary fund statements are shown as Exhibits 6, 7, and 8 of this report.

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

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$49.2 million as of June 30, 2013. The largest component of net position is net investment in capital assets, of \$47.1 million. It comprises 95.8% of the total net position.

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**Financial Analysis of the Schools as a Whole (Continued)**

Following is a summary of the Statement of Net Position:

<b>Table 1</b>						
<b>Condensed Statement of Net Position</b>						
<b>As of June 30, 2013 and 2012</b>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Current assets	\$ 5,659,472	\$ 6,807,405	\$ 1,009,790	\$ 1,213,004	\$ 6,669,262	\$ 8,020,409
Capital assets	47,450,748	48,178,677	418,415	375,831	47,869,163	48,554,508
Total assets	<u>53,110,220</u>	<u>54,986,082</u>	<u>1,428,205</u>	<u>1,588,835</u>	<u>54,538,425</u>	<u>56,574,917</u>
Current liabilities	2,970,680	3,118,811	84,990	84,641	3,055,670	3,203,452
Long-term liabilities	2,243,454	1,850,060	54,508	33,633	2,297,962	1,883,693
Total liabilities	<u>5,214,134</u>	<u>4,968,871</u>	<u>139,498</u>	<u>118,274</u>	<u>5,353,632</u>	<u>5,087,145</u>
Net investment in capital assets	46,687,139	47,121,229	418,415	375,831	47,105,554	47,497,060
Restricted net position	1,401,751	2,092,378	-	-	1,401,751	2,092,378
Unrestricted net position	<u>(192,804)</u>	<u>803,604</u>	<u>870,292</u>	<u>1,094,730</u>	<u>677,488</u>	<u>1,898,334</u>
Total net assets	<u>\$ 47,896,086</u>	<u>\$ 50,017,211</u>	<u>\$ 1,288,707</u>	<u>\$ 1,470,561</u>	<u>\$ 49,184,793</u>	<u>\$ 51,487,772</u>

The net position of the Board's governmental activities decreased \$2.1 million during the year, from \$50 million at June 30, 2012 to \$47.9 million at June 30, 2013, indicating a decline in the financial condition of the Board. This decline is mainly attributable to a decrease of \$1.4 million in unrestricted net position and a decrease restricted net position of \$.5 million.

The net position of the Board's business-type activities decreased \$182,000 from \$1.5 million at June 30, 2012 to \$1.3 million at June 30, 2013. This decrease is the net loss generated by our school food service operations during the 2013 fiscal year

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Revenues:						
<b>Program revenues:</b>						
Charges for services	\$ 484,125	\$ 357,158	\$ 1,250,824	\$ 1,271,875	\$ 1,734,949	\$ 1,629,033
Operating grants and contributions	38,187,655	37,748,421	2,067,581	1,913,550	40,255,236	39,661,971
Capital grants and contributions	185,339	41,746	-	-	185,339	41,746
<b>General revenues:</b>						
Other revenues	14,980,429	15,079,201	2,225	4,304	14,982,654	15,083,505
<b>Total revenues</b>	<u>53,837,548</u>	<u>53,226,526</u>	<u>3,320,630</u>	<u>3,189,729</u>	<u>57,158,178</u>	<u>56,416,255</u>
Expenses:						
<b>Governmental activities:</b>						
Instructional services	46,519,047	45,632,797	-	-	46,519,047	45,632,797
System-wide support services	9,058,633	9,592,464	-	-	9,058,633	9,592,464
Ancillary services	30,058	28,441	-	-	30,058	28,441
Non-programmed charges	20,990	9,954	-	-	20,990	9,954
Interest	24,262	28,319	-	-	24,262	28,319
Unallocated depreciation	262,962	310,554	-	-	262,962	310,554
<b>Business-type activities:</b>						
Food service	-	-	3,545,205	3,169,008	3,545,205	3,169,008
<b>Total expenses</b>	<u>55,915,952</u>	<u>55,602,529</u>	<u>3,545,205</u>	<u>3,169,008</u>	<u>59,461,157</u>	<u>58,771,537</u>
Transfers in (out)	<u>(42,721)</u>	<u>(45,301)</u>	<u>42,721</u>	<u>45,301</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(2,121,125)	(2,421,304)	(181,854)	66,022	(2,302,979)	(2,355,282)
Beginning net position	<u>50,017,211</u>	<u>52,438,515</u>	<u>1,470,561</u>	<u>1,404,539</u>	<u>51,487,772</u>	<u>53,843,054</u>
Ending net position	<u>\$ 47,896,086</u>	<u>\$ 50,017,211</u>	<u>\$ 1,288,707</u>	<u>\$ 1,470,561</u>	<u>\$ 49,184,793</u>	<u>\$ 51,487,772</u>

Total governmental activities generated revenues of \$53.8 million while expenses in this category totaled \$55.9 million for the year ended June 30, 2013. Comparatively, revenues were \$53.2 million and expenses totaled \$55.6 million for the year ended June 30, 2012. The decrease in net position stands at \$2.1 million at June 30, 2013, compared to a decrease of \$2.4 million in 2012. Instructional services comprised 83% of total governmental-type expenses while system-wide support

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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**Financial Analysis of the Schools as a Whole (Continued)**

services made up 16% of those expenses for 2013. County funding comprised 20% of total governmental revenue in the current year. In 2012, county funding was also 20%. Much of the remaining 80% of total governmental revenue for 2013 consists of restricted State and federal money. This revenue also represented 80% of total revenue in 2012. Business-type activities generated revenue of \$3.32 million and had expenses of \$3.55 million in 2013. Net position, after transfers, decreased in the business-type activities by \$182,000 during 2013.

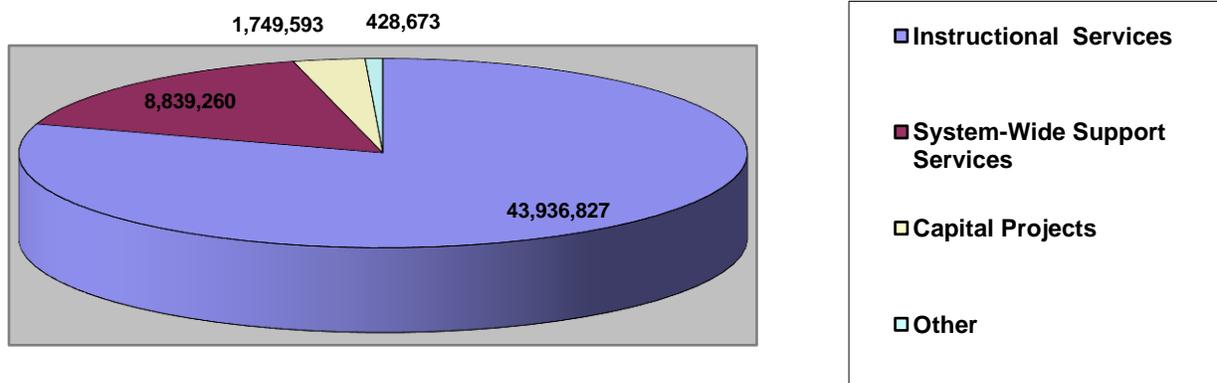
**Financial Analysis of the Board's Funds**

**Governmental Funds:** The focus of Davie County Board of Education's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Board's financing requirements.

The Board's governmental funds reported a combined fund balance of \$4.71 million, a \$1.11 million decrease from last year. The General Fund reported a \$1.1 million decrease in fund balance.

**Proprietary Fund:** The Board's business-type fund, the School Food Service Fund, had a decrease in net position in the current year of \$182,000.

**Categorization of Expenditures for Governmental Funds**



Expenditures are presented on the modified accrual basis of accounting.

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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**General Fund Budgetary Highlights**

Over the course of the year, the Board revised the budget several times to account for changes in expenditures.

**Capital Assets**

Capital assets decreased by \$685,000 from the previous year. This was attributable to an excess of depreciation expense over capital additions for the year. The following is a summary of the capital assets, net of depreciation at year-end.

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Land	\$ 1,010,522	\$ 1,010,522	\$ -	\$ -	\$ 1,010,522	\$ 1,010,522
Construction in progress	41,213	783,507	-	-	41,213	783,507
Buildings and improvements	41,527,259	41,215,984	-	-	41,527,259	41,215,984
Equipment and furniture	2,297,088	2,476,942	418,415	375,831	2,715,503	2,852,773
Vehicles	2,574,666	2,691,722	-	-	2,574,666	2,691,722
Total	<u>\$ 47,450,748</u>	<u>\$ 48,178,677</u>	<u>\$ 418,415</u>	<u>\$ 375,831</u>	<u>\$ 47,869,163</u>	<u>\$ 48,554,508</u>

**Debt Outstanding**

During the year the Board's outstanding debt decreased \$294,000 from \$1.1 million at June 30, 2012 to \$764,000 million at June 30, 2013. The Board is limited by North Carolina General Statues with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds the majority of the debt issued for school construction.

**DAVIE COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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***Economic Factors***

The unemployment rate in Davie County at June 30, 2013 was 8.3% which is a .4% decrease over the 8.7% rate at June 30, 2012. The County's unemployment rate continues to be lower than the N.C. statewide and exceed the national unemployment rates which were 9.3% and 7.8%, respectively, at June 30, 2013

***Requests for Information***

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

Deborah A. Smink, Chief Financial Officer  
Davie County Board of Education  
220 Cherry Street  
Mocksville, NC 27028

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,071,970	\$ 926,826	\$ 5,998,796
Due from other governments	546,862	53,134	599,996
Receivables (net)	28,995	3,515	32,510
Inventories	-	37,960	37,960
Internal balance	11,645	(11,645)	-
Capital assets:			
Land, improvements, and construction in progress	1,051,735	-	1,051,735
Other capital assets, net of depreciation	46,399,013	418,415	46,817,428
Total capital assets	47,450,748	418,415	47,869,163
Total assets	53,110,220	1,428,205	54,538,425
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	388,473	4,505	392,978
Accrued salaries and wages payable	557,328	-	557,328
Unavailable revenue	-	38,026	38,026
Long-term liabilities:			
Due within one year	2,004,778	42,459	2,047,237
Due in more than one year	2,263,555	54,508	2,318,063
Total liabilities	5,214,134	139,498	5,353,632
<b>NET POSITION</b>			
Net investment in capital assets	46,687,139	418,415	47,105,554
Restricted for:			
Stabilization by State statute	25,695	-	25,695
School capital outlay	523,590	-	523,590
Individual schools activities	852,466	-	852,466
Unrestricted	(192,804)	870,292	677,488
Total net position	\$ 47,896,086	\$ 1,288,707	\$ 49,184,793

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2013**

*Exhibit 2*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
Instructional services:				
Regular instructional	\$ 29,013,857	\$ 456,264	\$ 20,532,473	\$ -
Special populations	7,490,272	-	6,632,038	-
Alternative programs	3,552,216	-	2,742,916	-
School leadership	2,884,996	-	1,878,641	-
Co-curricular	330,827	-	-	-
School-based support	3,246,879	-	2,108,682	-
System-wide support services:				
Support and development	353,749	-	114,752	-
Special populations	448,699	-	322,542	-
Alternative programs	252,097	-	156,342	-
Technology support	749,846	-	315,937	-
Operational support services	5,582,623	27,861	3,088,521	185,339
Accountability	704,231	-	105,240	-
System-wide pupil support services	143,232	-	-	-
Policy, leadership and public relations	117,106	-	-	-
Ancillary services	707,050	-	189,571	-
Non-programmed charges	30,058	-	-	-
Interest on long-term debt	20,990	-	-	-
Unallocated depreciation expense*	24,262	-	-	-
Unallocated depreciation expense*	262,962	-	-	-
Total governmental activities	<u>55,915,952</u>	<u>484,125</u>	<u>38,187,655</u>	<u>185,339</u>
Business-type activities:				
School food service	3,545,205	1,250,824	2,067,581	-
Total primary government	<u>\$ 59,461,157</u>	<u>\$ 1,734,949</u>	<u>\$ 40,255,236</u>	<u>\$ 185,339</u>

General revenues:  
 Unrestricted county appropriations - operating  
 Unrestricted county appropriations - capital  
 Unrestricted State appropriations - operating  
 Unrestricted State appropriations - capital  
 Investment earnings, unrestricted  
 Miscellaneous, unrestricted  
 Transfers  
 Total general revenues and transfers  
 Change in net position  
 Net position-beginning  
 Net position-ending

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

**Net (Expense) Revenue and Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (8,025,120)	\$ -	\$ (8,025,120)
(858,234)	-	(858,234)
(809,300)	-	(809,300)
(1,006,355)	-	(1,006,355)
(330,827)	-	(330,827)
(1,138,197)	-	(1,138,197)
(238,997)	-	(238,997)
(126,157)	-	(126,157)
(95,755)	-	(95,755)
(433,909)	-	(433,909)
(2,280,902)	-	(2,280,902)
(598,991)	-	(598,991)
(143,232)	-	(143,232)
(117,106)	-	(117,106)
(517,479)	-	(517,479)
(30,058)	-	(30,058)
(20,990)	-	(20,990)
(24,262)	-	(24,262)
(262,962)	-	(262,962)
<u>(17,058,833)</u>	<u>-</u>	<u>(17,058,833)</u>
-	(226,800)	(226,800)
<u>(17,058,833)</u>	<u>(226,800)</u>	<u>(17,285,633)</u>
9,507,445	-	9,507,445
1,153,691	-	1,153,691
649,950	-	649,950
929,718	-	929,718
17,440	2,782	20,222
2,722,185	(557)	2,721,628
(42,721)	42,721	-
<u>14,937,708</u>	<u>44,946</u>	<u>14,982,654</u>
(2,121,125)	(181,854)	(2,302,979)
50,017,211	1,470,561	51,487,772
<u>\$ 47,896,086</u>	<u>\$ 1,288,707</u>	<u>\$ 49,184,793</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2013**

**Exhibit 3**

	<b>Major Funds</b>			
	<b>General</b>	<b>State Public School</b>	<b>Individual Schools</b>	<b>Capital Outlay</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,221,548	\$ -	\$ 852,466	\$ 524,550
Receivables (net)	25,695	-	-	-
Due from other governments	-	484,360	-	33,965
Due from other funds	-	-	-	-
Total assets	<u>\$ 3,247,243</u>	<u>\$ 484,360</u>	<u>\$ 852,466</u>	<u>\$ 558,515</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 351,202	\$ -	\$ -	\$ 34,925
Accrued salaries and wages payable	39,768	484,360	-	-
Total liabilities	<u>390,970</u>	<u>484,360</u>	<u>-</u>	<u>34,925</u>
Fund balances:				
Restricted:				
Stabilization by State statute	25,695	-	-	-
School capital outlay	-	-	-	523,590
Individual schools	-	-	852,466	-
Assigned:				
Subsequent year's expenditures	981,834	-	-	-
Special Revenues	-	-	-	-
Unassigned:				
	<u>1,848,744</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,856,273</u>	<u>-</u>	<u>852,466</u>	<u>523,590</u>
Total liabilities and fund balances	<u>\$ 3,247,243</u>	<u>\$ 484,360</u>	<u>\$ 852,466</u>	<u>\$ 558,515</u>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net position of governmental activities

Federal Grants Fund	Other Special Revenue Fund	Total Governmental Funds
\$ -	\$ 473,406	\$ 5,071,970
-	3,300	28,995
28,537	-	546,862
-	11,645	11,645
<u>\$ 28,537</u>	<u>\$ 488,351</u>	<u>\$ 5,659,472</u>

\$ -	\$ 2,346	\$ 388,473
28,537	4,663	557,328
<u>28,537</u>	<u>7,009</u>	<u>945,801</u>

-	-	25,695
-	-	523,590
-	-	852,466
-	-	981,834
-	481,342	481,342
-	-	1,848,744
<u>-</u>	<u>481,342</u>	<u>4,713,671</u>
<u>\$ 28,537</u>	<u>\$ 488,351</u>	

47,450,748

(4,268,333)

\$ 47,896,086

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2013**

**Exhibit 4**

	<b>Major Funds</b>			
	<b>General</b>	<b>State Public School</b>	<b>Individual Schools</b>	<b>Capital Outlay</b>
<b>REVENUES</b>				
State of North Carolina	\$ -	\$ 34,888,034	\$ -	\$ 929,718
Davie County	9,507,445	-	-	1,339,030
U.S. Government	-	-	-	-
Other	262,068	-	1,589,576	50,462
Total revenues	<u>9,769,513</u>	<u>34,888,034</u>	<u>1,589,576</u>	<u>2,319,210</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services:				
Regular instructional	3,680,954	20,280,991	1,606,139	592,017
Special populations	462,132	5,102,804	-	-
Alternative programs	235,554	1,541,134	-	-
School leadership	975,316	1,878,641	-	-
Co-curricular	327,268	-	-	-
School-based support	968,058	2,093,295	-	-
System-wide support services:				
Support and development	235,191	114,205	-	-
Special populations	57,483	113,737	-	-
Alternative programs	67,739	58,212	-	-
Technology support	329,382	315,937	-	-
Operational support	2,340,782	3,051,546	-	93,044
Financial and human resource services	564,242	105,240	-	-
Accountability	141,691	-	-	-
System-wide pupil support services	-	-	-	-
Policy, leadership and public relations	509,872	189,571	-	-
Ancillary services:				
Community	-	-	-	-
Non-programmed charges	16,927	-	-	-
<b>Capital outlay</b>	-	-	-	1,749,593
<b>Debt service</b>	-	-	-	-
Principal	-	-	-	293,839
Interest	-	-	-	24,262
Total expenditures	<u>10,912,591</u>	<u>34,845,313</u>	<u>1,606,139</u>	<u>2,752,755</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	-	(42,721)	-	-
Net change in fund balance	<u>(1,143,078)</u>	<u>-</u>	<u>(16,563)</u>	<u>(433,545)</u>
Fund balances-beginning	3,999,351	-	869,029	957,135
Fund balances-ending	<u>\$ 2,856,273</u>	<u>\$ -</u>	<u>\$ 852,466</u>	<u>\$ 523,590</u>

<u>Federal Grants Fund</u>	<u>Other Special Revenue Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 649,950	\$ 36,467,702
-	-	10,846,475
3,385,063	75,294	3,460,357
-	1,208,590	3,110,696
<u>3,385,063</u>	<u>1,933,834</u>	<u>53,885,230</u>
288,925	219,685	26,668,711
1,501,801	315,810	7,382,547
1,180,223	535,760	3,492,671
-	-	2,853,957
-	-	327,268
15,111	135,209	3,211,673
537	-	349,933
205,059	63,887	440,166
96,370	25,323	247,644
-	96,459	741,778
36,311	219	5,521,902
-	27,172	696,654
-	-	141,691
-	49	49
-	-	699,443
-	29,735	29,735
60,726	3,184	80,837
-	-	1,749,593
-	-	293,839
-	-	24,262
<u>3,385,063</u>	<u>1,452,492</u>	<u>54,954,353</u>
-	-	(42,721)
-	481,342	(1,111,844)
-	-	5,825,515
<u>\$ -</u>	<u>\$ 481,342</u>	<u>\$ 4,713,671</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2013**

**Exhibit 4**  
**(Continued)**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ (1,111,844)

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. (680,247)

Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities. (22,797)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.  
 Loss on the disposal of capital assets (24,885)

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. 293,839

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.  
 Compensated absences (575,191)

Total changes in net position of governmental activities \$ (2,121,125)

**DAVIE COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL - GENERAL FUND AND ANNUALLY  
BUDGETED MAJOR SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2013**

**Exhibit 5**

	<b>General Fund</b>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Davie County	9,507,445	9,507,445	9,507,445	-
U.S. Government	-	-	-	-
Other	277,555	253,600	262,068	8,468
Total revenues	<u>9,785,000</u>	<u>9,761,045</u>	<u>9,769,513</u>	<u>8,468</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instructional services				
Regular instructional	3,653,272	3,697,194	3,680,954	16,240
Special populations	641,930	498,755	462,132	36,623
Alternative programs	174,718	238,644	235,554	3,090
School leadership	947,285	976,255	975,316	939
Co-curricular	298,325	328,106	327,268	838
School-based support	842,990	990,763	968,058	22,705
System-wide support services				
Support and development	231,900	239,336	235,191	4,145
Special populations	76,280	72,907	57,483	15,424
Alternative programs	54,080	86,595	67,739	18,856
Technology support	351,152	332,068	329,382	2,686
Operational support	2,555,212	2,349,824	2,340,782	9,042
Financial and human resource services	533,352	572,487	564,242	8,245
Accountability	137,732	142,208	141,691	517
System-wide pupil support services	-	-	-	-
Policy, leadership and public relations	592,581	533,512	509,872	23,640
Ancillary services				
Community	100	100	-	100
Non-programmed charges	12,500	20,700	16,927	3,773
Total expenditures	<u>11,103,409</u>	<u>11,079,454</u>	<u>10,912,591</u>	<u>166,863</u>
Revenues under expenditures	(1,318,409)	(1,318,409)	(1,143,078)	175,331
Other financing uses:				
Transfers to other funds	-	-	-	-
Revenues under expenditures and other uses	(1,318,409)	(1,318,409)	(1,143,078)	175,331
Appropriated fund balance	<u>1,318,409</u>	<u>1,318,409</u>	<u>-</u>	<u>(1,318,409)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,143,078)</u>	<u>\$ (1,143,078)</u>
Fund balances, beginning of year			<u>3,999,351</u>	
Fund balances, end of year			<u>\$ 2,856,273</u>	

State Public School Fund				Federal Grants Fund			
Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ 35,485,256	\$ 36,249,045	\$34,888,034	\$ (1,361,011)	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	3,957,167	4,262,440	3,385,063	(877,377)
-	-	-	-	-	-	-	-
<u>35,485,256</u>	<u>36,249,045</u>	<u>34,888,034</u>	<u>(1,361,011)</u>	<u>3,957,167</u>	<u>4,262,440</u>	<u>3,385,063</u>	<u>(877,377)</u>
21,354,796	21,506,443	20,280,991	1,225,452	425,661	472,602	288,925	183,677
4,883,808	5,117,204	5,102,804	14,400	1,484,218	1,685,286	1,501,801	183,485
1,580,088	1,575,893	1,541,134	34,759	1,287,723	1,410,441	1,180,223	230,218
1,955,074	1,931,868	1,878,641	53,227	-	-	-	-
-	-	-	-	-	-	-	-
1,973,161	2,098,015	2,093,295	4,720	19,500	21,419	15,111	6,308
116,115	114,788	114,205	583	-	600	537	63
95,845	119,763	113,737	6,026	211,787	209,881	205,059	4,822
49,396	58,796	58,212	584	108,562	102,210	96,370	5,840
201,964	316,252	315,937	315	-	-	-	-
2,966,503	3,066,401	3,051,546	14,855	57,270	53,002	36,311	16,691
109,704	107,961	105,240	2,721	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
155,484	192,602	189,571	3,031	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	362,446	306,999	60,726	246,273
<u>35,441,938</u>	<u>36,205,986</u>	<u>34,845,313</u>	<u>1,360,673</u>	<u>3,957,167</u>	<u>4,262,440</u>	<u>3,385,063</u>	<u>877,377</u>
43,318	43,059	42,721	(338)	-	-	-	-
<u>(43,318)</u>	<u>(43,059)</u>	<u>(42,721)</u>	<u>338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		<u>\$ -</u>				<u>\$ -</u>	

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**June 30, 2013**

**Exhibit 6**

	<b>School Food Service</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 926,826
Due from other governments	53,134
Accounts receivable (net)	3,515
Inventories	37,960
Total current assets	<u>1,021,435</u>
Noncurrent assets:	
Capital assets, net	418,415
Total assets	<u>1,439,850</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	4,505
Due to other funds	11,645
Compensated absences	42,459
Unavailable revenues	38,026
Total current liabilities	<u>96,635</u>
Noncurrent liabilities:	
Compensated absences	54,508
Total liabilities	<u>151,143</u>
<b>NET POSITION</b>	
Net investment in capital assets	418,415
Unrestricted	870,292
Total net position	<u>\$ 1,288,707</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET**  
**POSITION - PROPRIETARY FUND**  
**For the Year Ended June 30, 2013**

**Exhibit 7**

	<b>School Food Service</b>
<b>OPERATING REVENUES</b>	
Food sales	<u>\$ 1,250,824</u>
<b>OPERATING EXPENSES</b>	
Food cost:	
Purchase of food	1,619,821
Salaries and benefits	1,519,991
Supplies and materials	102,904
Repairs and maintenance	14,605
Indirect costs	163,896
Depreciation	81,291
Travel	9,711
Contracted services	12,170
Workshop expenses	12,635
Other	<u>8,181</u>
Total operating expenses	<u>3,545,205</u>
Operating loss	<u>(2,294,381)</u>
<b>NONOPERATING REVENUES</b>	
Federal reimbursements	1,858,094
Federal commodities	174,111
Fresh fruit and vegetable grant	26,516
State reimbursements	8,860
Interest earned	2,782
Loss on disposal of capital assets	<u>(557)</u>
Total nonoperating revenues	<u>2,069,806</u>
Loss before transfers	(224,575)
Transfers from other funds	<u>42,721</u>
Change in net position	(181,854)
Total net position - beginning	<u>1,470,561</u>
Total net position - ending	<u><u>\$ 1,288,707</u></u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**For the Year Ended June 30, 2013**

**Exhibit 8**

	<u>School Food Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,250,428
Cash paid for goods and services	(1,755,599)
Cash paid to employees for services	<u>(1,461,233)</u>
Net cash used by operating activities	<u>(1,966,404)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal and State reimbursements	<u>1,900,072</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	<u>(124,432)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>2,782</u>
Net decrease in cash and cash equivalents	(187,982)
Balances-beginning of the year	<u>1,114,808</u>
Balances-end of the year	<u><u>\$ 926,826</u></u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**For the Year Ended June 30, 2013**

**Exhibit 8**  
**(Continued)**

Reconciliation of operating loss to net cash used by operating activities	
Operating loss	<u>\$ (2,294,381)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	81,291
Donated commodities consumed	174,111
Salaries paid by State Public School Fund	42,721
Changes in assets and liabilities:	
Increase in accounts receivable	(2,261)
Increase in inventories	(754)
Increase in accounts payable	3,322
Increase in due to other funds	11,645
Increase in unavailable revenues	1,865
Increase in compensated absences	<u>16,037</u>
Total adjustments	<u>327,977</u>
Net cash used by operating activities	<u><u>\$ (1,966,404)</u></u>

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

The School Food Service Fund received donated commodities with a value of \$174,111 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue on Exhibit 7.

The State Public School Fund contributed \$42,721 to the School Food Service Fund during the fiscal year to provide assistance with the payment of administrative wages. This payment is reflected as a transfer in and an operating expense on Exhibit 7.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Davie County Board of Education conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

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

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. Separate statements for each fund category – *governmental and proprietary*– are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal 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. All expenses are considered to be operating expenses.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

---

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board reports the following major governmental funds:

*General Fund.* The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund is the “Local Current Expense Fund,” which is mandated by State law [G.S. 115C-426].

*State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.

*Federal Grants Fund.* The Federal Grants Fund includes appropriations from the federal government, generally the U.S. Department of Education, which are passed-through the North Carolina Department of Public Instruction for the current operating expenditures of the school system.

*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.

*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 Davie County appropriations, restricted sales tax moneys, proceeds of Davie County bonds issued for public school construction, as well as certain State assistance.

The Board reports the following major enterprise fund:

*School Food Service Fund.* The School Food Service Fund is used to account for the food service program within the school system.

Measurement Focus and Basis of Accounting

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary 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.

**DAVIE COUNTY BOARD OF EDUCATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*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 60 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.

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

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 funds, 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. All amendments must be approved by the governing board. Amendments that alter the County appropriation or transfer funds to or from the Capital Outlay Fund also require the approval of the Davie County Board of Commissioners. During the year, several 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.

Encumbrance accounting is employed in all governmental funds except the Individual Schools Fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no outstanding encumbrances at June 30, 2013.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. It consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

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

Cash and Cash Equivalents

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

Inventories

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

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1982 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. It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities such as student desks are capitalized. 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.

Davie County holds title to certain properties, which are 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:

	<u>Years</u>
Buildings	50
Modular Units	20
Improvements	20
Equipment and Furniture	5 – 10
Vehicles	10

Depreciation for building and equipment that serve multiple purposes cannot be allocated ratably and is therefore reported as “unallocated depreciation” on the Statement of Activities. The Board carries certain capital assets for which Davie County carries the offsetting debt.

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, 2013 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records, of the current portion of compensated absences.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through State statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of three 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:

*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.

*Assigned fund balance* – portion of fund balance that the Board of Education 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. The Board of Education approves the appropriation.

Special revenues – portion of fund balance that represents the residual amount of revenues from certain grants, reimbursements, indirect costs and other financial resources in excess of related expenditures that the Board of Education has assigned to be expended for educational services. This amount can be expended on instructional services, system-wide support services, ancillary services or non-programmed charges.

**DAVIE COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, and lastly board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of \$43,182,415 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 72,790,680
Less Accumulated Depreciation	<u>25,339,932</u>
Net capital assets	47,450,748
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	(3,504,724)
Installment purchases	<u>(763,609)</u>
Total adjustment	<u>\$ 43,182,415</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$1,009,281) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities.	\$ 1,435,385
Depreciation expenses, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	(2,115,632)
Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities	(22,797)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	
Loss on the disposal of capital assets	(24,885)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affects only the statement of net position in the government-wide statements.	293,839
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources.	<u>(575,191)</u>
Total adjustment	<u>\$ (1,009,281)</u>

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS

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, 2013, the Board had deposits with banks and savings and loans with a carrying amount of \$1,878,874 and with the State Treasurer of \$-0-. The bank balances with the financial institutions and the State Treasurer were \$1,902,484 and \$201,372, respectively. Of these balances, \$374,156 was covered by federal depository insurance and \$1,729,700 as covered by collateral held by authorized escrow agents in the name of the State Treasurer.

Investments

At June 30 2013, the Board had \$4,119,922 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.6 years at June 30, 2013. The Board has no policy for managing interest rate risk or credit risk.

**DAVIE COUNTY BOARD OF EDUCATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

Accounts Receivable

Receivables at the government-wide level at June 30, 2013, were as follows:

	Due from (to) other funds (Internal Balances)	Due from other governments	Other
Governmental activities:			
General Fund	\$ -	\$ -	\$ 25,695
Other Government Funds	11,645	546,862	3,300
Total	<u>\$ 11,645</u>	<u>\$ 546,862</u>	<u>\$ 28,995</u>
Business-type activities:			
School Food Service	<u>\$ (11,645)</u>	<u>\$ 53,134</u>	<u>\$ 3,515</u>

Due from other governments consists of the following:

Governmental activities:		
Federal Grants Fund	\$ 28,537	Federal grant funds
State Public School Fund	484,360	Operating funds from DPI
Capital Outlay Fund	33,965	Lottery funds from Davie County
Total	<u>\$ 546,862</u>	

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Retirements and transfers</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,010,522	\$ -	\$ -	\$ 1,010,522
Construction in progress	<u>783,507</u>	<u>743,999</u>	<u>1,486,293</u>	<u>41,213</u>
Total capital assets not being depreciated	<u>1,794,029</u>	<u>743,999</u>	<u>1,486,293</u>	<u>1,051,735</u>
Capital assets being depreciated:				
Buildings and improvements	59,243,839	2,089,205	95,425	61,237,619
Equipment and furniture	4,800,633	88,474	53,966	4,835,141
Vehicles	<u>5,809,311</u>	<u>-</u>	<u>143,126</u>	<u>5,666,185</u>
Total capital assets being depreciated	<u>69,853,783</u>	<u>2,177,679</u>	<u>292,517</u>	<u>71,738,945</u>
Less accumulated depreciation for:				
Buildings and improvements	18,027,855	1,735,614	53,109	19,710,360
Equipment and furniture	2,323,691	262,962	48,600	2,538,053
Vehicles	<u>3,117,589</u>	<u>117,056</u>	<u>143,126</u>	<u>3,091,519</u>
Total accumulated depreciation	<u>23,469,135</u>	<u>2,115,632</u>	<u>244,835</u>	<u>25,339,932</u>
Total capital assets being depreciated, net	<u>46,384,648</u>			<u>46,399,013</u>
Governmental activity capital assets, net	<u>\$ 48,178,677</u>			<u>\$ 47,450,748</u>

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and office equipment	\$ 1,523,311	\$ 124,432	\$ 91,625	\$ 1,556,118
Less accumulated depreciation for:				
Furniture and office equipment	<u>1,147,480</u>	<u>81,291</u>	<u>91,068</u>	<u>1,137,703</u>
School Food Service capital assets, net:	<u>\$ 375,831</u>			<u>\$ 418,415</u>

Depreciation was charged to governmental functions as follows:

Instructional services	\$ 1,735,614
System-wide support services	117,056
Unallocated depreciation	<u>262,962</u>
Total	<u>\$ 2,115,632</u>

Construction Commitments

Davie County has an on-going construction project as of June 30, 2013. At year-end, the County's commitments with contractors for school construction are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Total Commitment</u>
Construction and renovations	<u>\$ 41,213</u>	<u>\$ 105,000</u>

Liabilities

Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

*Plan Description.* Davie County Board of Education contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 8.33% of annual covered payroll. The contribution requirements of plan members and Davie County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2013, 2012, and 2011 were \$2,771,345, \$2,396,516, and \$1,543,964 respectively, equal to the required contributions for each year.

b. Other Post-employment Benefits

Post-employment Healthcare Benefits

*Plan Description.* The post-employment healthcare benefits are provided through a multiple-employer cost-sharing plans 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.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

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, 2013, 2012, and 2011, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$1,763,281, \$1,610,562, and \$1,543,569, respectively. These contributions represented 5.30%, 5.00%, and 4.90% of covered payroll, respectively.

2. Other Employment Benefits

In addition to providing pension and post employment healthcare benefits, the Board provides death benefits and disability benefits, in accordance with State statutes, to certain employees.

Death Benefits

Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. Employees who die in active service after one year of contributing membership service in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's highest 12 months salary in a row during the 24 months prior to his/her death with a minimum benefit of \$25,000 and a maximum of \$50,000.

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 another 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.

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

*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.

All short-term disability benefit payments are made by various State-administered plans. The Board has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Board during the first six months of the short-term period.

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which the member might be entitled should the member 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 is 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.

**DAVIE COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

The Board’s contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2013, 2012, and 2011, the Board paid all annual required contributions to the DIPNC for disability benefits of \$146,386, \$167,498, and \$162,852, respectively. These contributions represented 0.44%, 0.52%, and 0.52% of covered payroll, respectively.

Accounts Payable

Accounts payable at June 30, 2013, are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>
Governmental Activities		
General	\$ 351,202	\$ 39,768
Other Governmental	<u>37,271</u>	<u>517,560</u>
Total-governmental activities	<u>\$ 388,473</u>	<u>\$ 557,328</u>
Business-type Activities		
School Food Service	<u>\$ 4,505</u>	<u>\$ -</u>

Unavailable Revenues

The balance in unavailable revenues at year-end is composed of the following elements:

	<u>Unavailable Revenue</u>
Prepaid lunch balances (School Food Service Fund)	<u>\$ 38,026</u>

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

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 of \$2,550,000 for general liability 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 a through self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund provides coverage up to \$10 million per occurrence and \$20 million in aggregate annually. Excess reinsurance is purchased through commercial insurers, who participate in property losses in excess of the Fund's self-insured retention of \$10 million. A total limit of \$100 million per occurrence is purchased for covered catastrophic events, \$400 million maximum per occurrence for any one flood or earthquake.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing 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 of the Board's moneys at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

The Board carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and claims have not exceed coverage in any of the past three fiscal years.

Contingent Liabilities

As of the date of our report, the Board was a defendant to various legal claims. The Board's management and the Board's attorney have been unable to determine the amount of loss, if any, the Board will incur as a result of these legal matters.

**DAVIE COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

Long-Term Obligations

a. Installment Purchases

The Board is authorized by State law G.S. 115C-47(28a) to enter into installment purchase contracts to finance energy conservation measures that will reduce its operating costs. On October 12, 2005, the Board entered into such a contract to reduce the energy costs. The financing contract requires principal payments for 11 years beginning in the fiscal year 2005-2006, and ending in the fiscal year 2017, with an interest rate of 3.75%.

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through third party financing arrangements with various companies. At June 30, 2013, there are remaining annual payments due on two such agreements. These financing contract require annual payments ranging from \$20,874 to \$82,233 over the next three years.

The future minimum payments of the installment purchases as of June 30, 2013, including interest, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 218,607	\$ 20,101
2015	205,233	15,669
2016	131,000	10,973
2017	137,500	5,927
2018	71,269	1,016
Total	<u>\$ 763,609</u>	<u>\$ 53,686</u>

**DAVIE COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**

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NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

b. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2013:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Maturities
Governmental activities:					
Installment purchases	\$ 1,057,448	\$ -	\$ (293,839)	\$ 763,609	\$ 218,607
Compensated absences	<u>2,929,533</u>	<u>4,217,812</u>	<u>(3,642,621)</u>	<u>3,504,724</u>	<u>1,786,171</u>
Total	<u>\$ 3,986,981</u>	<u>\$ 4,217,812</u>	<u>\$ (3,936,460)</u>	<u>\$ 4,268,333</u>	<u>\$ 2,004,778</u>
Business-type activities:					
Compensated absences	<u>\$ 80,930</u>	<u>\$ 91,570</u>	<u>\$ (75,533)</u>	<u>\$ 96,967</u>	<u>\$ 42,459</u>

Compensated absences for governmental activities are typically liquidated by the general and other governmental funds.

Internal Balances

Internal balances at June 30, 2013 consist of \$11,645 payable from the School Food Service Fund to the Other Special Revenue Fund for reimbursement of operating expenses.

Transfers to/from other Funds

During the year ended June 30, 2013, the State Public School Fund transferred \$42,721 to the School Food Service Fund to pay for administrative costs.

Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance - General Fund	\$ 2,856,273
Less:	
Stabilization by State statute	(25,695)
Appropriated Fund Balance in 2014 budget	<u>(981,834)</u>
Remaining fund balance	<u>\$ 1,848,744</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2013**

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NOTE 3 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLES

The Board implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, or Net Position.

**DAVIE COUNTY BOARD OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2013**

	Budget	Actual	Positive (Negative) Variance
<b>Revenues:</b>			
Davie County			
Regular appropriation	9,507,445	9,507,445	-
Other :			
Fines and forfeitures		239,165	
Interest income		16,440	
Miscellaneous		6,463	
Total other	253,600	262,068	8,468
Total revenues	9,761,045	9,769,513	8,468
<b>Expenditures:</b>			
Instructional services:			
Regular instructional	3,697,194	3,680,954	16,240
Special populations	498,755	462,132	36,623
Alternative programs	238,644	235,554	3,090
School leadership	976,255	975,316	939
Co-curricular	328,106	327,268	838
School-based support	990,763	968,058	22,705
Total instructional services	6,729,717	6,649,282	80,435
System-wide support services:			
Support and development	239,336	235,191	4,145
Special populations support and development	72,907	57,483	15,424
Alternative programs	86,595	67,739	18,856
Technology support	332,068	329,382	2,686
Operational support	2,349,824	2,340,782	9,042
Financial and human resource services	572,487	564,242	8,245
Accountability	142,208	141,691	517
Policy, leadership and public relations	533,512	509,872	23,640
Total system-wide support services	4,328,937	4,246,382	82,555

**DAVIE COUNTY BOARD OF EDUCATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<i>Exhibit A-1 (Continued)</i>			
Ancillary services:			
Community	100	-	100
Non-Programmed charges			
Payments to other governments	20,700	16,927	3,773
Total expenditures	11,079,454	10,912,591	166,863
Revenues over (under) expenditures	(1,318,409)	(1,143,078)	175,331
Appropriated fund balance	1,318,409	-	(1,318,409)
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>(1,143,078)</u>	<u>\$ (1,143,078)</u>
Fund balances:			
Beginning of year, July 1		<u>3,999,351</u>	
End of year, June 30		<u>\$ 2,856,273</u>	

**DAVIE COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - CAPITAL OUTLAY FUND**  
**For the Year Ended June 30, 2013**

	<b>Exhibit B-1</b>		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 185,339	\$ 185,339	\$ -
Public School Building Capital Fund	30,000	33,965	3,965
State appropriations - lottery proceeds	1,214,604	710,414	(504,190)
Total State of North Carolina	<u>1,429,943</u>	<u>929,718</u>	<u>(500,225)</u>
Davie County:			
County appropriations	<u>1,214,870</u>	<u>1,339,030</u>	<u>124,160</u>
Other:			
Interest earned		1,000	1,000
Insurance proceeds		17,827	17,827
Other		31,635	31,635
Total other	<u>35,381</u>	<u>50,462</u>	<u>50,462</u>
Total revenues	<u>2,680,194</u>	<u>2,319,210</u>	<u>(325,603)</u>
Expenditures:			
Instructional services	594,004	592,017	1,987
System-wide support services	95,663	93,044	2,619
Capital Outlay:			
South Davie Middle roof		225,000	
North Davie Middle tennis courts		110,000	
North Davie Middle roof		191,557	
Davie High School renovations		108,118	
Other capital outlay		<u>1,114,918</u>	
Total Capital Outlay	<u>2,323,780</u>	<u>1,749,593</u>	<u>574,187</u>
Debt Service			
Principal		293,839	
Interest		24,262	
Total Debt Service	<u>318,101</u>	<u>318,101</u>	<u>-</u>
Total expenditures	<u>3,331,548</u>	<u>2,752,755</u>	<u>578,793</u>

**DAVIE COUNTY BOARD OF EDUCATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - CAPITAL OUTLAY FUND (Continued)  
 For the Year Ended June 30, 2013**

	<i>Exhibit B-1 (Continued)</i>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues under expenditures	(651,354)	(433,545)	217,809
Appropriated fund balance	<u>651,354</u>	<u>-</u>	<u>(651,354)</u>
Revenues and appropriated fund balance under expenditures	<u>\$ -</u>	<u>(433,545)</u>	<u>\$ (433,545)</u>
Fund balance:			
Beginning of year, July 1		<u>957,135</u>	
End of year, June 30		<u>\$ 523,590</u>	

**DAVIE COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET**  
**AND ACTUAL - OTHER SPECIAL REVENUE FUND**  
**For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Exhibit C-1</b>			
Revenues:			
State of North Carolina			
NC Pre-Kindergarten Program		\$ 540,070	
Project Can-Win		109,880	
	<u>717,654</u>	<u>649,950</u>	<u>(67,704)</u>
U. S. Government			
JROTC	<u>75,000</u>	<u>75,294</u>	<u>294</u>
Other:			
Rental of school property		27,861	
Tuition and fees		456,264	
Reimbursements		338,077	
Interest income		2,493	
Miscellaneous		126,854	
Indirect cost allocated		257,041	
	<u>1,159,931</u>	<u>1,208,590</u>	<u>48,659</u>
Total revenues	<u>1,952,585</u>	<u>1,933,834</u>	<u>(18,751)</u>
Expenditures:			
Instructional services			
Regular instructional	362,319	219,685	142,634
Special populations	461,975	315,810	146,165
Alternative programs	621,651	535,760	85,891
School-based support	169,865	135,209	34,656
Total instructional services	<u>1,615,810</u>	<u>1,206,464</u>	<u>409,346</u>
System-wide support services			
Special populations support and development	81,805	63,887	17,918
Alternative programs	64,920	25,323	39,597
Technology support	106,439	96,459	9,980
Operational support	318	219	99
Financial and human resource services	33,500	27,172	6,328
System-wide pupil support services	50	49	1
Total system-wide support services	<u>287,032</u>	<u>213,109</u>	<u>73,923</u>
Ancillary services	<u>29,743</u>	<u>29,735</u>	<u>8</u>
Non-Programmed charges	<u>20,000</u>	<u>3,184</u>	<u>16,816</u>
Total expenditures	<u>1,952,585</u>	<u>1,452,492</u>	<u>500,093</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>481,342</u>	<u>\$ 481,342</u>
Fund balances:			
Beginning of year, July 1		<u>-</u>	
End of year, June 30		<u>\$ 481,342</u>	

**DAVIE COUNTY BOARD OF EDUCATION  
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-  
GAAP) - SCHOOL FOOD SERVICE FUND  
For the Year Ended June 30, 2013**

**Exhibit D-1**

	Budget	Actual	Variance Positive (Negative)
Operating revenues	\$ 1,339,340	\$ 1,250,824	\$ (88,516)
Operating expenditures:			
Business support services		3,448,631	
Capital outlay		124,432	
Total operating expenditures	3,661,610	3,573,063	88,547
Operating loss	(2,322,270)	(2,322,239)	31
Nonoperating revenues:			
Federal reimbursements		1,858,094	
Federal commodities		174,111	
Fresh fruit and vegetable grant		26,516	
State reimbursements		8,860	
Interest earned		2,782	
Loss on disposal of capital assets		(557)	
Total nonoperating revenues	2,277,270	2,069,806	(207,464)
Revenues over (under) expenditures before other financing sources	(45,000)	(252,433)	(207,433)
Other financing sources:			
Transfer in	45,000	42,721	(2,279)
Revenues over (under) expenditures	\$ -	\$ (209,712)	\$ (209,712)
Reconciliation of modified accrual to full accrual basis:			
Revenues over expenditures		\$ (209,712)	
Depreciation		(81,291)	
Capital outlay		124,432	
Increase in inventory		754	
Increase in compensated absences payable		(16,037)	
Change in net position (full accrual)		\$ (181,854)	

**COMPLIANCE SECTION**



**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Davie County Board of Education  
Mocksville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Davie County Board of Education, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Davie County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 25, 2013.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Davie County Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Davie County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson Smith & Wike PLLC*

**October 25, 2013**  
**Statesville, North Carolina**



**Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; In Accordance with OMB  
Circular A-133; and the State Single Audit Implementation Act**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Davie County Board of Education  
Mocksville, North Carolina

*Report on Compliance for Each Major Federal Program*

We have audited the Davie County Board of Education's compliance with the types of compliance requirements described in the *OM) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Davie County Board of Education's major federal programs for the year ended June 30, 2013. The Davie County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Davie County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Davie County Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Davie County Board of Education's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the Davie County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### *Report on Internal Control Over Compliance*

Management of the Davie County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Davie County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Anderson Smith & Wike PLLC*

**October 25, 2013**  
**Statesville, North Carolina**



**Report on Compliance For Each Major State Program; Report on Internal Control Over Compliance; In Accordance with OMB Circular A-133; and the State Single Audit Implementation Act**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Davie County Board of Education  
Mocksville, North Carolina

*Report on Compliance for Each Major State Program*

We have audited the Davie County Board of Education's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Davie County Board of Education's major state programs for the year ended June 30, 2013. The Davie County Board of Education's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Davie County Board of Education's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Davie County Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Davie County Board of Education's compliance.

### *Opinion on Each Major State Program*

In our opinion, the Davie County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

### *Report on Internal Control Over Compliance*

Management of the Davie County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Davie County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Anderson Smith & Wike PLLC*

**October 25, 2013**  
**Statesville, North Carolina**

**Davie County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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Section I. Summary of Auditors' Results

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Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes    Xno
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_yes    Xnone reported

Noncompliance material to financial statements noted? \_\_\_yes    Xno

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_yes    Xno
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_yes    Xnone reported

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_yes    Xno

**Davie County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.027	Special Education Cluster: Grants to States Targeted Assistance Preschool Grants Special Risk Pool
84.027	
84.173	
84.027	
84.010	Title I - Educationally Deprived Children

Dollar threshold used to distinguish between Type A and Type B Programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes     no

State Awards

Internal control over major State programs:

- Material weakness(es) identified?  yes     no
- Significant deficiency(s) identified that are not considered to be material weaknesses?  yes     none reported

Type of auditors' report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

yes     no

Identification of major State programs:

Program Name  
State Public School Fund

**Davie County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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Section II. Financial Statement Findings

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Finding: None Reported

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Section III. Federal Award Findings and Questioned Costs

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Finding: None Reported

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Section IV. State Award Findings and Questioned Costs

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Finding: None Reported

**Davie County Board of Education  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013**

**Finding: 2012-01**  
Status: Corrected

**DAVIE COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
<b>Federal Grants:</b>			
<u>U. S. Department of Agriculture</u>			
<u>Food and Nutrition Service</u>			
Passed-through the N.C. Department of Public Instruction:			
<u>Child Nutrition Cluster:</u>			
Noncash Assistance (Commodities):	10.555		174,111
Cash Assistance:			
School Breakfast Program	10.553		488,742
National School Lunch Program	10.555		1,329,494
Summer Food Service Program for Children	10.559		39,858
Cash Assistance Subtotal			<u>1,858,094</u>
Total Child Nutrition Cluster:			<u>2,032,205</u>
Fresh Fruit and Vegetable Grant	10.582		<u>26,516</u>
Total U.S. Department of Agriculture			<u>2,058,721</u>
<u>U.S. Department of Education</u>			
<u>Office of Elementary and Secondary Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies			
Educationally Deprived Children	84.010	PRC 050	1,261,196
Career Technical Education - Tech Prep Education	84.243	PRC 023	189
Title VI-B, Education of the Handicapped	84.323	PRC 082	6,212
Race to the Top - ARRA	84.395	PRC 156	73,220
Teacher Quality Enhancement	84.367	PRC 103	145,744
21st CCLC - Summer Program	84.287	PRC 113	42,997
English Language Acquisition Grants	84.365	PRC 104	30,292
<u>Office of Special Education and Rehabilitative Services</u>			
Passed-through the N.C. Department of Public Instruction:			
<u>Special Education Cluster:</u>			
Individuals with Disabilities Education Act			
- Grants to States	84.027	PRC 060	1,496,126
- Targeted Assistance	84.027	PRC 118	18,692
- Title VI-B - EC Risk Pool	84.027	PRC 114	194,658
- Preschool Handicapped	84.173	PRC 049	39,166
Total Special Education Cluster:			<u>1,751,602</u>
Passed-through the N.C. Department of Public Instruction:			
Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990			
Basic Grants to States			
- Program Development	84.048	PRC 017	<u>73,611</u>
Total U.S. Department of Education			<u>3,385,063</u>

**DAVIE COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Defense</u></b>			
Direct Program:			
JROTC	NONE		75,294
Total federal assistance			<u>5,519,078</u>
<b>State Grants:</b>			
<b><u>N.C. Department of Public Instruction:</u></b>			
Direct Programs:			
State Public School Fund			33,741,525
Driver Training - SPSF		PRC 012	103,231
School Technology Fund - SPSF		PRC 015	129,339
Vocational Education			
- State Months of Employment		PRC 013	815,668
- Program Support Funds		PRC 014	93,316
Passed through Davie County:			
Public School Building Capital Fund			33,965
Public School Capital Fund - Lottery			710,414
Total N.C. Department of Public Instruction			<u>35,627,458</u>
<b><u>N.C. Department of Public Instruction:</u></b>			
School buses - Noncash			185,339
Textbooks - Noncash			4,955
Total N.C. Department of Public Instruction - Noncash			<u>190,294</u>
<b><u>N.C. Department of Health and Human Services:</u></b>			
Division of Child Development			
NC Pre-Kindergarten Program			540,070
<b><u>N.C. Department of Public Safety:</u></b>			
Division of Juvenile Justice			
Project Can-Win		PRC 414	109,880
<b><u>N.C. Department of Agriculture</u></b>			
State Breakfast Funds			8,860
Total State assistance			<u>36,476,562</u>
Total federal and State assistance			<u>\$ 41,995,640</u>

**DAVIE COUNTY BOARD OF EDUCATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
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The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Davie County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.