

**Winston-Salem/Forsyth County
Board of Education**

Comprehensive Annual
Financial Statements

For the Year Ended June 30, 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the **Winston-Salem/Forsyth County Board of Education**
Winston-Salem, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Winston-Salem/Forsyth County Board of Education**, as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Winston-Salem/Forsyth County Board of Education's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Winston-Salem/Forsyth County Board of Education** as of June 30, 2012, and the respective changes in financial position and its cash flows, where appropriate, thereof and the respective budgetary comparison for the General and State Public School funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2012 on our consideration of the **Winston-Salem/Forsyth County Board of Education's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of 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 and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-10 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 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, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the **Winston-Salem/Forsyth County Board of Education**. The individual nonmajor fund schedules, combining schedules and budgetary 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The individual nonmajor fund financial schedules, combining schedules, budgetary schedules, and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 nonmajor fund financial schedules, combining schedules, budgetary schedules, and the 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.

Dixon Hughes Goodman LLP

November 28, 2012

Management's Discussion and Analysis

Introduction

This section of the Winston-Salem/Forsyth County Board of Education (the "Board") financial report represents our discussion of the financial performance of the Board for the year ended June 30, 2012. This information should be read along with the following audited financial statements and the notes thereto.

Governmental Accounting Standards Board (GASB) Statement #34 has changed the financial reporting environment for the Board. The Board's financial reports include the customary fund statements and government-wide statements. The fund statements are prepared as always, with the proprietary funds prepared on a full accrual basis of accounting and the remainder (governmental funds) prepared on a modified accrual basis of accounting. The modified accrual basis of accounting does not require that assets acquired by resources of the fund be tied to and depreciated within that fund nor that long-term financing arrangements and other long-term liabilities be accounted for within the fund that benefited from those financing sources.

Financial Highlights

The Board provides the public pre-kindergarten through 12th grade education services in metropolitan Winston-Salem and surrounding Forsyth County, North Carolina. The official student enrollment for 2011-12, as measured by a membership formula by the North Carolina Department of Public Instruction, was 52,556, an increase of 338 students over the previous year. Additionally, the Board's local current expense appropriation from the Forsyth County Commissioners must be shared on a per-pupil basis with approximately 1,700 students who reside in Forsyth County and attend state-authorized charter schools.

The Board's mission statement is "To provide students with an educational program that will ensure that they become academically proficient, responsible citizens and productive workers in a rapidly changing world." The resources to accomplish that mission are primarily people. Over 90% of the Board's total non-capital budget is spent on salaries and benefits of its staff. Teachers, principals, assistant principals, teacher assistants, housekeepers, and other school-based staff are the vast majority of the Board's people resources, supported by central services, maintenance, and student transportation staff.

Although the state of North Carolina provides the majority of the public education dollars for the Board, local property taxes, federal and other grants, and other local resources provide slightly over 40% of the total funds at the Board's disposal. Because of the increasing student population and state and local efforts to reduce class size, the Board has been aggressively building new schools, adding onto existing schools, and refurbishing older schools to meet the need for modern, safe, and conducive classrooms to carry out the Board's mission. The majority of the funds for capital construction have come from bonds approved through local referenda. Forsyth County residents approved a \$250 million bond referendum in November 2006, which allows the Board to continue building new schools, replacing aging facilities, and renovating structures as necessary.

The Board is facing a number of financial challenges in future years. Like most every other school board in the country, the need for an increasing number of teachers and competition for a dwindling supply of teachers are putting pressure on recruitment and incentives to attract and retain teachers. While the economic downturn has increased the number of people applying to be "lateral entry"

Management's Discussion and Analysis (Continued)

teachers (people with degrees in a subject area but without a teaching degree), providing support and training for those teachers is critical to their success. The federal "No Child Left Behind" is requiring the Board to accelerate programs to get lateral entry teachers fully licensed. The loss of governmental revenues due to the economy is straining state and local budgets and requiring reductions in education spending. However, with its quality people resources and solid financial management processes, the Board is poised to face these challenges and will continue to achieve its educational mission.

Overview of the Financial Statements

The audited financial statements of the Board consist of three components. They are:

- Management's Discussion and Analysis
- Basic Financial Statements
- Required supplementary information section that presents budget and actual statements for certain major governmental funds, non-major governmental funds and business-type 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 (district-wide) statements*. These district-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities. The Statement of Net Assets includes all of the Board's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity (assets) and due date (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 this information. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second type of statement included in the basic financial statements is the *fund financial statements*, which are presented for the Board's governmental and business-type funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The 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 district-wide statements is required. The district-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of the Board's major funds.

District-wide Statements

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

Management's Discussion and Analysis (Continued)

The two district-wide statements report the Board's net assets and how they have changed. Net assets - the difference between the total assets and total liabilities - is one way to measure the Board's financial health or position.

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

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

- Governmental activities: Most of the Board's basic services are included here, such as regular and special instructional services, transportation, and administration. state and federal grants plus Forsyth County funding finance most of these activities.
- Business-type activities: The Board charges fees to help it cover the costs of certain services it provides. School food and childcare services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's funds, focusing on its most important or major funds - not the district 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, such as the State Public School Fund, are required by law. The General Fund includes another legally required fund, the Local Current Expense Fund. The Board establishes 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.

The Board has two categories 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, a reconciliation at the bottom of the governmental funds statements explains the relationship (or differences) between them. The Board has several governmental funds - the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Federal Grants Fund and the Special Revenue Fund.
- Proprietary funds: Services for which the Board charges some or all customers a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same basis of accounting as the district-wide statements - full accrual. The Board has two proprietary funds, both enterprise funds, the Child Nutrition Fund and the Day Care Fund.

Management's Discussion and Analysis (Continued)

Until 2007-08, in an arrangement unique among North Carolina school districts, the Board was not allowed by Forsyth County to keep any fund balance from local current expense and capital outlay appropriations. Since unspent state and federal funds typically revert to those governments, the Board has had little or no fund balance to report in any fund other than enterprise, or business-type, funds. For the first time in over three decades, the Board will have an unassigned fund balance (available for appropriation) in its Local Current Expense Fund.

Continuing a trend from last year, state revenues are down and federal revenues are up. As we get near to completing the projects anticipated in the 2006 Bond Referendum, Capital Projects Fund expenditures are higher than normal. The Capital Projects Fund reports \$49.5 million in expenditures, down \$30.1 million from the year before. The Board's capital expenditures will begin to tail off rapidly as the \$250 million of bond funds are exhausted. Because of unique laws in North Carolina, school boards have title to the capital assets (schools and their contents) while counties and the state assume the underlying debt.

The Board is not aware of any other potentially significant matters that would negatively (or positively) impact its financial condition.

Financial Analysis of the District as a Whole

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities (net assets) by \$629 million as of June 30, 2012, an increase of \$43.8 million over the preceding year. Investments in capital assets, net of related debt, total \$638.2 million.

The following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets
as of June 30, 2012 and 2011

	Governmental Activities	Business- type Activities	Total Primary Government	
			June 30, 2012	June 30, 2011
Current assets	\$ 45,711,207	\$ 8,474,223	\$ 54,185,430	\$ 44,995,600
Capital assets	636,367,207	4,719,569	641,086,776	610,794,213
Total assets	<u>682,078,414</u>	<u>13,193,792</u>	<u>695,272,206</u>	<u>655,789,813</u>
Current liabilities	29,405,932	1,011,544	30,417,476	34,887,210
Long-term liabilities	35,310,071	575,815	35,885,886	35,712,978
Total liabilities	<u>64,716,003</u>	<u>1,587,359</u>	<u>66,303,362</u>	<u>70,600,188</u>
Invested in capital assets, net of related debt	633,517,215	4,719,569	638,236,784	603,498,533
Restricted net assets	7,643,128	-	7,643,128	7,895,559
Unrestricted net assets (deficit)	<u>(23,797,932)</u>	<u>6,886,864</u>	<u>(16,911,068)</u>	<u>(26,204,467)</u>
Total net assets	<u>\$ 617,362,411</u>	<u>\$ 11,606,433</u>	<u>\$ 628,968,844</u>	<u>\$ 585,189,625</u>

Management's Discussion and Analysis (Continued)

The following table is a summary of the revenues, expenses, and changes in net assets for the Board for the current fiscal year:

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	Governmental Activities	Business- type Activities	Total Primary Government	
			June 30, 2012	June 30, 2011
Revenues				
Program revenues				
Charges for services	\$ 540,568	\$ 6,526,684	\$ 7,067,252	\$ 8,151,211
Operating grants and contributions	342,667,918	17,737,962	360,405,880	357,522,687
Other revenues	<u>163,203,149</u>	<u>62,678</u>	<u>163,265,827</u>	<u>187,071,234</u>
Total revenues	<u>506,411,635</u>	<u>24,327,324</u>	<u>530,738,959</u>	<u>552,745,132</u>
Expenses				
Governmental activities				
Instructional programs	370,311,732	-	370,311,732	373,021,693
Support services	70,850,255	-	70,850,255	68,335,438
Charter school payments	995,636	-	995,636	921,687
Nonprogrammed charges	4,139,221	-	4,139,221	6,610,904
Interest	122,891	-	122,891	141,077
Depreciation - unallocated	17,398,149	-	17,398,149	15,144,402
Business-type activities				
Food service	-	22,645,536	22,645,536	22,170,565
Day care	-	<u>496,320</u>	<u>496,320</u>	<u>622,178</u>
Total expenses	<u>463,817,884</u>	<u>23,141,856</u>	<u>486,959,740</u>	<u>486,967,944</u>
Increase in net assets	42,593,751	1,185,468	43,779,219	65,777,188
Beginning net assets	<u>574,768,660</u>	<u>10,420,965</u>	<u>585,189,625</u>	<u>519,412,437</u>
Ending net assets	<u>\$ 617,362,411</u>	<u>\$ 11,606,433</u>	<u>\$ 628,968,844</u>	<u>\$ 585,189,625</u>

Financial Analysis of the Board's Funds

School district financial reports are difficult to interpret. However, the N.C. Department of Public Instruction implemented a new financial chart of accounts for 2007-08. The new chart better captures total program costs, better categorizes costs as instructional or support, better segregates costs as school-based or central, and generally provides better financial management information for all financial statement users.

The Board is constantly striving to be as efficient as possible in providing supporting services so that the vast majority of its resources are for direct instructional services. Increased local, state, and national accountability for student outcomes require that resources be prioritized and focused. The Board supplements state, local, and federal governmental services appropriations by applying for and winning competitive state, local, and federal instructional grants. The Board also supports an increasing number of state-funded NC Pre-K classrooms for pre-school children to provide prospective students with a better start to their education.

The following financial statements reflect the Board's instructional priorities, its commitment to its mission, and its record of total accountability for the funds entrusted to it. They cannot, however, show the results of those priorities for children. The additional teachers to reduce class size and additional pay for teachers at schools with high percentages of free/reduced lunch-eligible students,

Management's Discussion and Analysis (Continued)

the ever-increasing number of National Board for Professional Teaching Standards-certified teachers who are paid additional salary for attaining the additional, measurable teaching skills, the local commitment to provide schools with far more than the state-required funds for staff development - all of these financial commitments are included in the attached statements but would never announce their presence without someone to point them out.

Budget variances

Despite required funding reductions by both The state of North Carolina and Forsyth County during 2011-12, conservative budgeting and the availability of federal stimulus funding allowed the Board to eliminate all fund deficits and begin to build a fund balance in the local current expense fund.

Capital assets

Because of consistent funding for construction projects, net assets of the Board have been increasing steadily. It must be noted, again, that all of the construction-related debt is in the name of Forsyth County and the state of North Carolina and does not appear on the financial statements of the Board. The Board holds title to all assets reported herein.

The Board is not responsible for, nor does it own, any material amount of infrastructure. Immaterial amounts of infrastructure are capitalized and depreciated (if appropriate) with the associated land and land improvements owned by the Board.

At June 30, 2012, the Board had approximately \$641.1 million invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This investment represents an increase of \$30.3 million.

A major school replacement project and several major school addition projects were completed and operational for 2011-12. Additionally, through a 2008 bond referendum for Forsyth Technical Community College and the Board of Education, the Board sold its previous central office facility to Forsyth Technical Community College and purchased/renovated two facilities for a new central office and training/storage, occupying those buildings in July/August 2010. The second stage of this project was to transfer to Forsyth Technical Community College the Board's Career Education Center and the building of a new Career Education Center on land already owned by the Board. This stage of the project was completed during 2011-12.

Management's Discussion and Analysis (Continued)

The following table is a summary of the capital assets, net of depreciation:

Table 3
Summary of Capital Assets
as of June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total Primary Government	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Land	\$ 18,224,561	\$ 17,625,581	\$ -	\$ -	\$ 18,224,561	\$ 17,625,581
Buildings and improvements	765,302,272	629,856,190	-	-	765,302,272	629,856,190
Equipment, furniture and vehicles	81,002,714	80,018,563	12,343,367	11,168,895	93,346,081	91,187,458
Construction in progress	24,659,684	113,778,022	-	-	24,659,684	113,778,022
Total assets	889,189,231	841,278,356	12,343,367	11,168,895	901,532,598	852,447,251
Less accumulated depreciation	(252,822,024)	(234,365,241)	(7,623,798)	(7,287,797)	(260,445,822)	(241,653,038)
	\$ 636,367,207	\$ 606,913,115	\$ 4,719,569	\$ 3,881,098	\$ 641,086,776	\$ 610,794,213

With interest rates so low, in accordance with authorization in state law, the Board has been financing certain instructional equipment and vehicle purchases in the last seven years. Classroom computers and musical instruments have been purchased for immediate use by students with funds budgeted annually to retire the debt. All intended purchases are consolidated and the debt is bid to obtain the lowest financing rate possible, with the term of each debt agreement being three years. The debt is secured by liens on such equipment and vehicles.

Outstanding debt at June 30, 2012 consists of notes payable of \$1,666,449 for the purchase of equipment and vehicles. Additionally, the state of North Carolina entered into an installment purchase agreement to replace school buses to which the Board holds title. The total debt under this agreement, and other installment purchases, is \$1,183,543. Both of these are reductions from the previous year.

GASB Statement #45 requires government entities to calculate liabilities for non-pension-related benefits provided to employees who have retired from service. The General Assembly mandates a state health plan for school district employees and retirees, funding the retirees' health benefits through the Teachers' and State Employees' Retirement System. These benefits are not the financial responsibility of the board of education. However, the board of education does provide dental benefits to current employees and certain eligible retirees. In accordance with GASB Statement #45, we have estimated a future liability of \$9.7 million, as of June 30, 2012, to provide those future dental benefits to retirees.

Management's Discussion and Analysis (Continued)

Requests for Information

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

Mr. William M. Bucher, Jr., Finance Officer
Winston-Salem/Forsyth County Schools
P.O. Box 2513
Winston-Salem, NC 27102

Basic Financial Statements

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2012

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and investments	\$ 22,639,687	\$ 7,726,995	\$ 30,366,682
Receivables	22,127,267	427,782	22,555,049
Internal balances	10,555	(10,555)	-
Inventories	933,698	330,001	1,263,699
TOTAL CURRENT ASSETS	<u>45,711,207</u>	<u>8,474,223</u>	<u>54,185,430</u>
Capital assets			
Land and construction in progress	42,884,245	-	42,884,245
Other capital assets, net of accumulated depreciation	<u>593,482,962</u>	<u>4,719,569</u>	<u>598,202,531</u>
TOTAL CAPITAL ASSETS, NET	<u>636,367,207</u>	<u>4,719,569</u>	<u>641,086,776</u>
TOTAL ASSETS	<u>682,078,414</u>	<u>13,193,792</u>	<u>695,272,206</u>
LIABILITIES			
Current liabilities			
Accounts payable	23,281,671	851,402	24,133,073
Unearned revenue	3,311,388	160,142	3,471,530
Current portion of long-term obligations	<u>2,812,873</u>	-	<u>2,812,873</u>
TOTAL CURRENT LIABILITIES	29,405,932	1,011,544	30,417,476
Noncurrent liabilities			
Compensated absences	25,172,952	575,815	25,748,767
Claims and judgments	400,000	-	400,000
Non-current portion of long-term obligations	<u>9,737,119</u>	-	<u>9,737,119</u>
TOTAL LIABILITIES	<u>64,716,003</u>	<u>1,587,359</u>	<u>66,303,362</u>
NET ASSETS			
Invested in capital assets, net of related debt	633,517,215	4,719,569	638,236,784
Restricted for			
Stabilization by State Statute	2,868,544	-	2,868,544
Individual schools	4,774,584	-	4,774,584
Unrestricted (deficit)	<u>(23,797,932)</u>	<u>6,886,864</u>	<u>(16,911,068)</u>
	<u>\$ 617,362,411</u>	<u>\$ 11,606,433</u>	<u>\$ 628,968,844</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities			
Instructional services:			
Regular instructional	\$ 212,672,756	\$ 210,333	\$ 178,332,334
Special populations	57,836,543	-	53,046,823
Alternative programs	28,060,743	-	27,489,884
School leadership	26,266,274	-	18,185,603
Co-curricular	15,912,075	-	12,326,749
School-based support	29,563,341	-	22,192,570
System-wide support services:			
Support and development	2,673,305	-	1,405,566
Special population support and development	1,802,177	-	1,039,933
Alternative programs and services support and development	1,170,459	-	686,497
Technology support	2,950,512	-	475,946
Operational support	53,527,584	330,235	25,129,190
Financial and human resource	4,482,930	-	227,986
Accountability	922,205	-	270,621
System-wide pupil support	770,413	-	52,320
Policy, leadership and public relations	2,550,670	-	760,727
Ancillary services	995,636	-	618,369
Nonprogrammed charges	4,139,221	-	426,800
Interest	122,891	-	-
Depreciation-unallocated	17,398,149	-	-
Total governmental activities	<u>463,817,884</u>	<u>540,568</u>	<u>342,667,918</u>
Business-type activities			
Child nutrition	22,645,536	6,030,263	17,737,962
Day care	496,320	496,421	-
Total business-type activities	<u>23,141,856</u>	<u>6,526,684</u>	<u>17,737,962</u>
Total primary government	<u>\$ 486,959,740</u>	<u>\$ 7,067,252</u>	<u>\$ 360,405,880</u>
General revenues			
Unrestricted state appropriations - capital			
Unrestricted county appropriations - operating			
Unrestricted county appropriations - capital			
Unrestricted investment earnings			
Unrestricted, miscellaneous			
Total general revenues			
Change in net assets			
Net assets-beginning			
Net assets-ending			

Notes to the basic financial statements are an integral part of this statement.

EXHIBIT 2

Net (Expenses) Revenues and Changes in Net Assets		
Government Activities	Business- type Activities	Total
\$ (34,130,089)	\$ -	\$ (34,130,089)
(4,789,720)	-	(4,789,720)
(570,859)	-	(570,859)
(8,080,671)	-	(8,080,671)
(3,585,326)	-	(3,585,326)
(7,370,771)	-	(7,370,771)
(1,267,739)	-	(1,267,739)
(762,244)	-	(762,244)
(483,962)	-	(483,962)
(2,474,566)	-	(2,474,566)
(28,068,159)	-	(28,068,159)
(4,254,944)	-	(4,254,944)
(651,584)	-	(651,584)
(718,093)	-	(718,093)
(1,789,943)	-	(1,789,943)
(377,267)	-	(377,267)
(3,712,421)	-	(3,712,421)
(122,891)	-	(122,891)
(17,398,149)	-	(17,398,149)
<u>(120,609,398)</u>	<u>-</u>	<u>(120,609,398)</u>
-	1,122,689	1,122,689
-	101	101
<u>-</u>	<u>1,122,790</u>	<u>1,122,790</u>
<u>(120,609,398)</u>	<u>1,122,790</u>	<u>(119,486,608)</u>
994,351	-	994,351
109,924,287	-	109,924,287
48,266,225	-	48,266,225
12,406	44,730	57,136
4,005,880	17,948	4,023,828
<u>163,203,149</u>	<u>62,678</u>	<u>163,265,827</u>
42,593,751	1,185,468	43,779,219
<u>574,768,660</u>	<u>10,420,965</u>	<u>585,189,625</u>
<u>\$ 617,362,411</u>	<u>\$ 11,606,433</u>	<u>\$ 628,968,844</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	Major Funds			
	General	State Public School	Individual Schools	Capital Outlay
ASSETS				
Cash and investments	\$ 15,803,707	\$ -	\$ 5,025,594	\$ 1,661,354
Receivables				
Forsyth County	160,115	-	-	5,580,794
State of North Carolina	201,211	12,821,542	-	74,156
Federal and other	467,573	-	-	283
Due from other funds	261,083	-	-	-
Inventories	933,698	-	-	-
TOTAL ASSETS	\$ 17,827,387	\$ 12,821,542	\$ 5,025,594	\$ 7,316,587
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,673,121	\$ 12,821,542	\$ -	\$ 4,893,232
Due to other funds	-	-	251,010	-
Unearned revenues	699,835	-	-	1,704,063
TOTAL LIABILITIES	4,372,956	12,821,542	251,010	6,597,295
Fund balances				
Nonspendable				
Inventories	933,698	-	-	-
Restricted				
Stabilization by State Statute	1,979,411	-	-	719,292
Individual Schools	-	-	4,774,584	-
Unassigned	10,541,322	-	-	-
TOTAL FUND BALANCES	13,454,431	-	4,774,584	719,292
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,827,387	\$ 12,821,542	\$ 5,025,594	\$ 7,316,587

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

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

Some liabilities, including compensated absences and long-term obligations, are not due and payable in the current period and therefore are not reported in the funds

Net assets of governmental activities

Notes to the basic financial statements are an integral part of this statement.

EXHIBIT 3

Non-major Fund Other Governmental	Total Governmental Funds
\$ 149,032	\$ 22,639,687
-	5,740,909
-	13,096,909
2,821,593	3,289,449
482	261,565
-	933,698
<u>\$ 2,971,107</u>	<u>\$ 45,962,217</u>
\$ 1,893,776	\$ 23,281,671
-	251,010
907,490	3,311,388
<u>2,801,266</u>	<u>26,844,069</u>
-	933,698
169,841	2,868,544
-	4,774,584
-	10,541,322
<u>169,841</u>	<u>19,118,148</u>
<u>\$ 2,971,107</u>	
	636,367,207
	<u>(38,122,944)</u>
	<u>\$ 617,362,411</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Major Funds			
	General	State Public School	Individual Schools	Capital Outlay
REVENUES				
Forsyth County	\$ 109,924,287	\$ -	\$ -	\$ 48,266,225
State of North Carolina	-	272,616,075	-	994,351
Federal	-	-	-	-
Other	3,206,647	-	12,257,787	961,029
TOTAL REVENUES	113,130,934	272,616,075	12,257,787	50,221,605
EXPENDITURES				
Current				
Instructional services:				
Regular instructional	32,144,753	164,156,176	-	-
Special populations	4,576,360	43,271,710	-	-
Alternative programs	570,855	7,872,619	-	-
School leadership	7,812,458	15,240,724	-	-
Co-curricular	3,306,532	-	12,393,241	-
School-based support	7,370,769	18,062,766	-	-
System-wide support services:				
Support and development	1,260,273	770,259	-	-
Special population support and development	723,015	565,840	-	-
Alternative programs and support services and development	461,693	897	-	-
Technology support	2,266,137	460,053	-	-
Operational support	26,590,167	21,269,971	-	-
Financial and human resource	4,236,203	142,529	-	-
Accountability	651,584	-	-	-
System-wide pupil support	738,818	-	-	-
Policy, leadership and public relations	1,789,918	740,290	-	-
Ancillary services	377,267	62,241	-	-
Nonprogrammed charges	3,712,421	-	-	-
Capital outlay				
Real property and buildings	-	-	-	42,446,259
Furniture and equipment	-	-	-	6,013,810
Buses and motor vehicles	-	-	-	18,977
Debt service				
Interest	122,891	-	-	-
Principal	3,397,968	-	-	1,047,720
TOTAL EXPENDITURES	102,110,082	272,616,075	12,393,241	49,526,766

Notes to the basic financial statements are an integral part of this statement.

EXHIBIT 4

Non-major Fund Other Governmental	Total Governmental Funds
\$ -	\$ 158,190,512
1,583,196	275,193,622
49,163,540	49,163,540
7,475,531	23,900,994
<u>58,222,267</u>	<u>506,448,668</u>
14,314,480	210,615,409
9,775,113	57,623,183
19,617,265	28,060,739
2,944,879	25,998,061
68,962	15,768,735
4,129,804	29,563,339
635,307	2,665,839
474,093	1,762,948
685,600	1,148,190
15,893	2,742,083
4,189,454	52,049,592
65,836	4,444,568
270,621	922,205
31,595	770,413
20,437	2,550,645
556,128	995,636
426,800	4,139,221
-	42,446,259
-	6,013,810
-	18,977
-	122,891
-	4,445,688
<u>58,222,267</u>	<u>494,868,431</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Major Funds			
	General	State Public School	Individual Schools	Capital Outlay
Revenues over (under) expenditures	11,020,852	-	(135,454)	694,839
FUND BALANCES				
Beginning of year	2,354,113	-	4,910,038	24,453
Decrease in reserve for inventories	<u>79,466</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 13,454,431</u>	<u>\$ -</u>	<u>\$ 4,774,584</u>	<u>\$ 719,292</u>

Amounts reported for governmental activities in the Statement of Activities are different because
 Net change in fund balances - total governmental funds

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 as annual depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from disposal of capital assets

Increase in reserve for inventories

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.

- OPEB obligation
- Compensated absences
- Loss on disposal of capital assets

Total changes in net assets of governmental activities

Notes to the basic financial statements are an integral part of this statement.

**EXHIBIT 4
(CONTINUED)**

Non-major Fund Other Governmental	Total Governmental Funds
-	11,580,237
169,841	7,458,445
-	79,466
<u>\$ 169,841</u>	<u>\$ 19,118,148</u>
	\$ 11,580,237
	29,686,906
	4,445,688
	(37,033)
	79,466
	(1,000,000)
	(1,965,732)
	(195,781)
	<u>\$ 42,593,751</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL
GENERAL AND STATE PUBLIC SCHOOL
For the Fiscal Year Ended June 30, 2012

	General Fund			Variance With Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Forsyth County	\$ 109,924,287	\$ 109,924,287	\$ 109,924,287	\$ -
State of North Carolina	-	-	-	-
U.S. Government	-	-	-	-
Other	2,685,000	3,105,102	3,206,647	101,545
Total revenues	112,609,287	113,029,389	113,130,934	101,545
EXPENDITURES AND ENCUMBRANCES				
Instructional services:				
Regular instructional	39,347,718	33,810,581	32,139,650	1,670,931
Special populations	4,675,100	5,399,520	4,591,437	808,083
Alternative programs	1,056,159	1,038,159	567,399	470,760
School leadership	11,537,886	11,499,236	7,812,458	3,686,778
Co-curricular	3,388,400	3,452,500	3,353,814	98,686
School-based support	8,254,738	9,247,286	7,308,119	1,939,167
Total instructional services	68,260,001	64,447,282	55,772,877	8,674,405
System-wide support services:				
Support and development	1,684,868	1,658,340	1,260,237	398,103
Special population support and development	712,216	794,716	722,659	72,057
Alternative programs and services support and development	493,232	488,232	461,693	26,539
Technology support	2,286,659	2,277,659	2,266,053	11,606
Operational support	26,526,503	27,233,073	26,341,996	891,077
Financial and human resource	4,309,970	4,318,670	4,202,420	116,250
Accountability	700,005	687,305	642,102	45,203
System-wide pupil support	865,866	851,077	735,534	115,543
Policy, leadership and public relations	2,153,967	2,086,176	1,801,081	285,095
Total system-wide support services	39,733,286	40,395,248	38,433,775	1,961,473
Ancillary services	366,000	416,000	377,267	38,733
Nonprogrammed charges	4,250,000	4,250,000	3,712,421	537,579
Debt service				
Interest	-	122,891	122,891	-
Principal	-	3,397,968	3,397,968	-
Total debt service	-	3,520,859	3,520,859	-
Total expenditures and encumbrances	112,609,287	113,029,389	101,817,199	11,212,190

Notes to the basic financial statements are an integral part of this statement.

EXHIBIT 5

State Public School Fund			
Budgeted Amounts		Actual	Variance With
Original	Final	Amounts	Final Budget
			Favorable
			(Unfavorable)
\$ -	\$ -	\$ -	\$ -
277,498,182	290,472,237	272,616,075	(17,856,162)
-	-	-	-
-	-	-	-
<u>277,498,182</u>	<u>290,472,237</u>	<u>272,616,075</u>	<u>(17,856,162)</u>
173,304,406	178,393,400	164,156,176	14,237,224
39,933,199	43,844,444	43,271,710	572,734
8,060,425	8,462,073	7,872,619	589,454
15,141,036	16,228,546	15,240,724	987,822
-	-	-	-
17,121,661	19,237,092	18,062,766	1,174,326
<u>253,560,727</u>	<u>266,165,555</u>	<u>248,603,995</u>	<u>17,561,560</u>
732,631	826,925	770,259	56,666
579,032	642,630	565,840	76,790
25,000	25,910	897	25,013
-	460,053	460,053	-
21,454,552	21,304,425	21,269,971	34,454
200,737	211,234	142,529	68,705
-	-	-	-
-	-	-	-
875,503	765,505	740,290	25,215
<u>23,867,455</u>	<u>24,236,682</u>	<u>23,949,839</u>	<u>286,843</u>
<u>70,000</u>	<u>70,000</u>	<u>62,241</u>	<u>7,759</u>
-	-	-	-
-	-	-	-
-	-	-	-
<u>277,498,182</u>	<u>290,472,237</u>	<u>272,616,075</u>	<u>17,856,162</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL AND STATE PUBLIC SCHOOL
For the Fiscal Year Ended June 30, 2012**

	General Fund			Variance With Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues and other financing sources over expenditures and encumbrances	<u>\$ -</u>	<u>\$ -</u>	11,313,735	<u>\$ 11,313,735</u>
FUND BALANCE				
Beginning of year			2,354,113	
Increase in reserve for inventories			79,466	
Decrease in reserve for encumbrances			<u>(292,883)</u>	
End of year			<u>\$ 13,454,431</u>	

Notes to the basic financial statements are an integral part of this statement.

**EXHIBIT 5
(CONTINUED)**

State Public School Fund			
Budgeted Amounts		Actual	Variance With
Original	Final	Amounts	Final Budget
			Favorable (Unfavorable)
\$ -	\$ -	-	\$ -
		-	
		-	
		-	
		\$ -	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
June 30, 2012

EXHIBIT 6

	Enterprise Funds		
	Major Fund	Non-major Fund	Total
	Child Nutrition	Day Care	
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 7,726,995	\$ -	\$ 7,726,995
Receivables, net	427,748	34	427,782
Due from other funds	-	155,763	155,763
Inventories	330,001	-	330,001
TOTAL CURRENT ASSETS	<u>8,484,744</u>	<u>155,797</u>	<u>8,640,541</u>
CAPITAL ASSETS, NET	<u>4,719,569</u>	<u>-</u>	<u>4,719,569</u>
TOTAL ASSETS	<u>13,204,313</u>	<u>155,797</u>	<u>13,360,110</u>
LIABILITIES AND NET ASSETS (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	844,081	7,321	851,402
Due to other funds	482	165,836	166,318
Deferred revenues	160,142	-	160,142
TOTAL CURRENT LIABILITIES	<u>1,004,705</u>	<u>173,157</u>	<u>1,177,862</u>
COMPENSATED ABSENCES PAYABLE	<u>558,007</u>	<u>17,808</u>	<u>575,815</u>
TOTAL LIABILITIES	<u>1,562,712</u>	<u>190,965</u>	<u>1,753,677</u>
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	4,719,569	-	4,719,569
Unrestricted (deficit)	6,922,032	(35,168)	6,886,864
TOTAL NET ASSETS (DEFICIT)	<u>\$ 11,641,601</u>	<u>\$ (35,168)</u>	<u>\$ 11,606,433</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS**

For the Fiscal Year Ended June 30, 2012

	Enterprise Funds		
	Major Fund	Non-major Fund	Total
	Child Nutrition	Day Care	
OPERATING REVENUES			
Food sales	\$ 6,030,263	\$ -	\$ 6,030,263
Child care fees	-	496,421	496,421
Total operating revenues	<u>6,030,263</u>	<u>496,421</u>	<u>6,526,684</u>
OPERATING EXPENSES			
Food cost	8,268,412	-	8,268,412
Salaries and benefits	9,179,247	492,767	9,672,014
Materials and supplies	1,067,995	3,553	1,071,548
Equipment maintenance	75,886	-	75,886
Utilities and telephone	21,702	-	21,702
Contracted services	2,430,119	-	2,430,119
Indirect costs	937,284	-	937,284
Depreciation	664,891	-	664,891
Total operating expenses	<u>22,645,536</u>	<u>496,320</u>	<u>23,141,856</u>
Operating income (loss)	<u>(16,615,273)</u>	<u>101</u>	<u>(16,615,172)</u>
NONOPERATING REVENUES			
Federal reimbursements	15,636,209	-	15,636,209
Federal commodities	1,080,925	-	1,080,925
Interest earned on investments	44,730	-	44,730
Miscellaneous revenues	17,948	-	17,948
Total nonoperating revenues	<u>16,779,812</u>	<u>-</u>	<u>16,779,812</u>
Income before capital contributions	164,539	101	164,640
CAPITAL CONTRIBUTIONS			
	<u>1,020,828</u>	<u>-</u>	<u>1,020,828</u>
Change in net assets	1,185,367	101	1,185,468
NET ASSETS (DEFICIT)			
Beginning of year	<u>10,456,234</u>	<u>(35,269)</u>	<u>10,420,965</u>
End of year	<u>\$ 11,641,601</u>	<u>\$ (35,168)</u>	<u>\$ 11,606,433</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

EXHIBIT 8

	Enterprise Funds		
	Major Fund	Non-major Fund	Total
	Child Nutrition	Day Care	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 6,052,928	\$ 556,432	\$ 6,609,360
Cash paid for goods and services	(11,952,790)	(3,093)	(11,955,883)
Cash paid to employees for services	(9,142,190)	(553,339)	(9,695,529)
Net cash used by operating activities	<u>(15,042,052)</u>	<u>-</u>	<u>(15,042,052)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Federal reimbursements	15,975,379	-	15,975,379
Miscellaneous revenues	17,948	-	17,948
Net cash provided by noncapital financing activities	<u>15,993,327</u>	<u>-</u>	<u>15,993,327</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(484,182)	-	(484,182)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	44,730	-	44,730
Net increase in cash and cash equivalents	511,823	-	511,823
CASH AND CASH EQUIVALENTS			
Beginning of year	7,215,172	-	7,215,172
End of year	<u>\$ 7,726,995</u>	<u>\$ -</u>	<u>\$ 7,726,995</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012**

**EXHIBIT 8
(CONTINUED)**

	Enterprise Funds		
	Major Fund Child Nutrition	Non-major Fund Day Care	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES			
Operating income (loss)	<u>\$ (16,615,273)</u>	<u>\$ 101</u>	<u>\$ (16,615,172)</u>
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	664,891	-	664,891
Loss on disposal	1,648	-	1,648
Donated commodities consumed	1,080,925	-	1,080,925
(Increase) decrease in:			
Accounts receivable	-	60,239	60,239
Inventories	162,777	-	162,777
Increase (decrease) in:			
Accounts payable	(238,799)	460	(238,339)
Due to other funds	(137,769)	(62,742)	(200,511)
Deferred revenues	22,665	(228)	22,437
Compensated absences payable	16,883	2,170	19,053
Total adjustments	<u>1,573,221</u>	<u>(101)</u>	<u>1,573,120</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (15,042,052)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (15,042,052)</u></u>

Noncash investing, capital and financing activities

The School Food Service Fund received donated commodities with a value of \$1,080,925 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue on Exhibit 7.

Capital assets of \$1,020,828 were donated to the School Food Service Fund and were recognized as a capital contribution on Exhibit 7.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **Winston-Salem/Forsyth 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:

A. Reporting Entity

The **Winston-Salem/Forsyth 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 Forsyth County, North Carolina. The Board receives state, local and federal government funding and must adhere to the legal requirements of each funding entity.

B. Basis of Presentation

Government-wide Statements. The Statement of Net Assets and the Statement of Activities display information about the Board. These statements include the financial activities of the overall government. 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. The effects of interfund activity have been eliminated from the government-wide statements.

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 non-major 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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. **Basis of Presentation (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.

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

The Board reports the following major enterprise fund:

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

C. **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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (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 sixty days after year-end. These could include federal, state and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue 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. The Board has authorized the Superintendent to move moneys (up to \$5,000) from one function to another within a fund. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. All amendments must be approved by the governing board. Amendments, which alter the County appropriation or transfer monies to or from the capital projects fund, also require the approval of the Forsyth County Board of Commissioners. During the year, several amendments to the original budget were necessary. A budget calendar is included in North Carolina General Statutes, which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date each is required to be completed.

May 1 The Superintendent must submit the budget request along with a copy of the budget message to the Board of Education not later than May 1 [G.S. 115C-427].

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Data (Continued)

- May 15 The Board of Education should make changes, if necessary, to the budget request as submitted by the superintendent and forward an approved budget request to the Board of County Commissioners not later than May 15, unless the County Commissioners have established a later date [G.S. 115C-429(a)].
- July 1 The Board of County Commissioners must complete its actions on the Board of Education's school budget not later than July 1, unless a later date is agreed upon between the Board of Education and the County Commissioners [G.S. 115C-429(b)].
- July The Board of Education must adopt its balanced budget resolution after the Board of County Commissioners has decided upon the amount of appropriations to be provided by the county or after the appeal procedures [G.S. 115C-431].

As required by state law, the Board maintains encumbrance accounts, which are considered to be "budgetary accounts." Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures of liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Assets, Liabilities and Fund Equity

1. 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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Fund Equity (Continued)

1. Deposits and Investments (Continued)

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

The Board's investments with maturity of more than one year at acquisition and nonmoney-market 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. Money market investments that have a remaining maturity at the time of purchase of one year or less and nonparticipating interest-earning and investment contracts are reported at amortized cost.

2. Cash

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.

3. Inventories

The inventories of the Board are valued at cost using the first-in, first-out ("FIFO") flow assumption in determining cost. The inventories of the Board's general fund consist of expendable materials and supplies, which are recorded as expenditures when purchased.

Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Fund Equity (Continued)

4. 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 1, 1970 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 \$1,000 with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

	<u>Years</u>
Land improvements	20
Buildings	40
Equipment and furniture	4-12
Vehicles	4-10

5. Long-term Obligations

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

6. 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 and up to 10 days of bonus leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2012 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis.

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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Fund Equity (Continued)

7. Net Assets / Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The government fund types classify fund balances as follows:

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

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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 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.

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

Winston-Salem/Forsyth County Board of Education has a revenue spending policy 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, 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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Fund Equity (Continued)

8. 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 Assets.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide Statement of Net Assets. The net adjustment of \$598,244,263 consists of the following elements:

<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)	\$ 889,189,231
Less accumulated depreciation	<u>(252,822,024)</u>
Net capital assets	636,367,207
Liabilities that are not due and payable in the current period, and therefore do not require current resources to pay, are not recorded in the funds (long-term liabilities on government-wide statements in governmental activities column)	<u>(38,122,944)</u>
Net adjustment	<u>\$ 598,244,263</u>

- 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 balance includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets – governmental activities as reported in the government-wide statement of activities. The net adjustment of \$31,013,514 consists of the following elements:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the government-wide statements	\$ 51,540,399
Depreciation expense, the allocation of those assets over their useful lives, is recorded on the Statement of Activities but not in the fund statements	(21,853,493)

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Fund Equity (Continued)

8. Reconciliation of Government-wide and Fund Financial Statements (Continued)

<u>Description</u>	<u>Amount</u>
Proceeds of capital assets during the year is recorded as a source of funds on the fund statements; it has no effect on the Statement of Activities – it affects only the government-wide statement of net assets	(37,033)
Principal payments on debt owed are recorded as a use of funds on the fund statements, but affect only the Statement of Net Assets in the government-wide statements	4,445,688
Revenues reported in the Statement of Activities that do not provide current resources are not recorded as revenues in the fund statements	
Adjustment due to the use of consumption method of recording inventory in the government-wide statements	79,466
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, loss on disposal of capital assets, claims and judgments and OPEB obligations are reported in the government-wide statements but not in the fund statements because they do not use current resources	<u>(3,161,513)</u>
Net adjustment	<u>\$ 31,013,514</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2012, the Board incurred expenditures that violated state law [G.S. 115C-441] because they exceeded the amounts appropriated in the budget ordinance as follows:

Federal Grants Fund	
Ancillary services	\$ 1,489

Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

III. DETAIL NOTES ON ALL FUNDS

A. Assets

1. 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, 2012, the Board had deposits with financial institutions with a carrying amount of \$3,772,882. The bank balances with the financial institutions and the State Treasurer were \$6,424,267 and \$5,670,733, respectively. Of these balances, \$1,461,649 was covered by federal depository insurance and \$10,633,351 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2012**

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

The following is a summary of the Board's investments at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Commercial Paper	\$ 90,499	30-90 days	Various
Department of State Treasurer Short Term Investment Fund (STIF)	<u>26,503,301</u>	Weighted average maturity of 1.5 years	Unrated
Total	<u>\$ 26,593,800</u>		

Interest Rate Risk. The Board of Education does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department of State Treasurer Short Term Investment Fund (STIF) had a weighted average maturity of 1.5 years as of June 30, 2012.

Credit Risk. The Board's investments in Commercial Paper were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. The STIF is unrated and is authorized under NC General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate treasuries and agencies, and money market instruments. The Board has no policy on credit risk.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Accounts Receivable

The following is a summary of receivables at the government-wide level at June 30, 2012:

	Due From Other Funds <u>(Internal Balances)</u>	Due From Other <u>Governments</u>
Governmental activities		
General Fund	\$ 261,083	\$ 828,899
Other governmental activities	<u>(250,528)</u>	<u>21,298,368</u>
Total	<u>\$ 10,555</u>	<u>\$ 22,127,267</u>
Business-type activities		
Child nutrition fund	\$ (482)	\$ 427,748
Other business-type activities	<u>(10,073)</u>	<u>34</u>
Total	<u>\$ (10,555)</u>	<u>\$ 427,782</u>

Due from other governments consists of the following:

Governmental activities		
General Fund	\$ 201,211	Sales tax revenue from North Carolina
General Fund	160,115	Miscellaneous revenues from Forsyth County
General Fund	467,573	Miscellaneous revenues
State Public School Fund	12,821,542	Operating funds from DPI
Capital Outlay Fund	74,156	Sales tax revenue from North Carolina
Capital Outlay Fund	5,580,794	Capital projects revenue from Forsyth County
Capital Outlay Fund	283	Miscellaneous revenues
Federal Grants Fund	1,578,620	Federal grant funds
Special Revenue Fund	<u>1,242,973</u>	Miscellaneous revenues
Total	<u>\$ 22,127,267</u>	
Business activities		
Child Nutrition Fund	\$ 427,748	Federal grant funds
Day Care Fund	<u>34</u>	Miscellaneous other
	<u>\$ 427,782</u>	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Inventories

The General Fund inventories consist of supplies and bus parts of \$933,698, which are offset by fund balance reserves and do not reflect current appropriable resources.

Proprietary fund inventories consist of \$330,001 of food and supplies inventories used for the Board's school food service program.

5. Capital Assets

The following is a summary of capital asset activity for the year ended June 30, 2012:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 17,625,581	\$ 598,980	\$ -	\$ 18,224,561
Construction in progress	<u>113,778,022</u>	<u>47,175,433</u>	<u>136,293,771</u>	<u>24,659,684</u>
Total capital assets not being depreciated	<u>131,403,603</u>	<u>\$ 47,774,413</u>	<u>\$ 136,293,771</u>	<u>42,884,245</u>
Capital assets being depreciated				
Buildings and land improvements	629,856,190	\$ 135,710,815	\$ 264,733	765,302,272
Equipment, furniture and vehicles	<u>80,018,563</u>	<u>4,348,942</u>	<u>3,364,791</u>	<u>81,002,714</u>
Total capital assets being depreciated	<u>709,874,753</u>	<u>\$ 140,059,757</u>	<u>\$ 3,629,524</u>	<u>846,304,986</u>
Less accumulated depreciation	<u>234,365,241</u>	<u>\$ 21,853,493</u>	<u>\$ 3,396,710</u>	<u>252,822,024</u>
Total capital assets being depreciated, net	<u>475,509,512</u>			<u>593,482,962</u>
Governmental activity capital assets, net	<u>\$ 606,913,115</u>			<u>\$ 636,367,207</u>
Business-type activities				
Child nutrition fund				
Capital assets being depreciated				
Furniture, equipment and vehicles	\$ 11,168,895	<u>\$ 1,505,010</u>	<u>\$ 330,538</u>	\$ 12,343,367
Less accumulated depreciation for				
Furniture, equipment and vehicles	<u>7,287,797</u>	<u>\$ 664,891</u>	<u>\$ 328,890</u>	<u>7,623,798</u>
Business-type activity capital assets, net	<u>\$ 3,881,098</u>			<u>\$ 4,719,569</u>

The Board has entered into several planned construction projects for school construction and improvements as of June 30, 2012. These projects, amounting to \$37,700,607, are evidenced by contractual commitments with various contractors. Of the total commitments, \$24,659,684 has been spent to date. The projects are commitments of the capital projects fund which will be funded from the proceeds of a county-issued installment purchase and from state-issued school bonds.

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$17,398,149
Regular instructional	2,930,900
Co-curricular service	268,213
Operation support	<u>1,256,231</u>
Total	<u>\$21,853,493</u>

B. Liabilities

1. Pension Plan Obligations - Teachers' and State Employees' Retirement System

Plan Description. Winston-Salem/Forsyth 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 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 6% of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 7.44% of annual covered payroll. The contribution requirements of plan members and Winston-Salem/Forsyth 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, 2012, 2011 and 2010 were \$19,830,202, \$13,806,209 and \$10,428,795, respectively, equal to the required contributions for each year.

2. Other Postemployment Benefits (OPEB)

a. Postemployment Healthcare Benefits

Plan Description. The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

a) Postemployment Healthcare Benefits (Continued)

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 future retiree have 20 or more years of retirement service credit in order 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 retirees, the state will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the state's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2012, 2011 and 2010, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$13,326,749, \$13,722,196 and \$13,145,540, respectively. These contributions represented 5%, 4.9% and 4.5% of covered payroll, respectively.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

b. Long-term Disability Benefits

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

The state of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

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

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

b. Long-term Disability Benefits (Continued)

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

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2012, 2011 and 2010, the Board paid all annual required contributions to the DIPNC for disability benefits of \$1,385,985, \$1,456,233, and \$1,519,040, respectively. These contributions represented .52%, .52% and .52% of covered payroll, respectively.

c. Dental Benefits

Plan Description. The Board administers a single-employer dental benefit plan. As of July 1, 2009, this plan provides postemployment healthcare benefits to retirees of the Board, provided they have at least twenty years of creditable service with the state of North Carolina and at least five years of credible service with the Board. The Board pays the full cost of coverage for these benefits through private insurers. A separate report was not issued for the plan.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

c. Dental Benefits (Continued)

Funding Policy. The Board pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Board resolution that can be amended by the Board. The Board has chosen to fund the healthcare benefits on a pay as you go basis.

The Board estimates the ARC to approximate \$780,000. The Board obtains healthcare coverage through private insurers.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Board's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount estimated by the Board in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 780,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>220,000</u>
Annual OPEB cost (expense)	1,000,000
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	1,000,000
Net OPEB obligation, beginning of year	<u>8,700,000</u>
Net OPEB obligation, end of year	<u>\$ 9,700,000</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 780,000	8.0%	\$ 9,700,000

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Other Postemployment Benefits (Continued)

c. Dental Benefits (Continued)

Funded Status and Funding Progress. As of June 30, 2012, the plan was not funded. The estimated actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$9,700,000, given estimated annual OPEB dental costs of \$780,000. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Estimated Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The estimated actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 estimated actuarial valuation, the projected unit credit actuarial cost method was used. The estimated actuarial assumptions included a 5.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The UAAL is being amortized as a level projected benefit cost. The remaining amortization period at June 30, 2012, was 20 years.

3. Other Employment Benefits - Death Benefits

Plan Description. The Board provides disability benefits and death benefits, in accordance with state statutes, to certain employees. Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan).

Funding Policy. 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.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

4. Accounts Payable

The following is a summary of accounts payable at June 30, 2012:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental activities			
General Fund	\$ 921,491	\$ 2,751,630	\$ 3,673,121
Other governmental funds	<u>4,985,801</u>	<u>14,622,749</u>	<u>19,608,550</u>
Total governmental activities	<u>\$ 5,907,292</u>	<u>\$ 17,374,379</u>	<u>\$ 23,281,671</u>
Business-type activities			
Child Nutrition Fund	\$ 517,376	\$ 326,705	\$ 844,081
Day Care Fund	<u>457</u>	<u>6,864</u>	<u>7,321</u>
	<u>\$ 517,833</u>	<u>\$ 333,569</u>	<u>\$ 851,402</u>

5. Unearned Revenues

The following is a summary of unearned revenues at June 30, 2012:

Governmental activities	
Grants not yet earned (General Fund)	\$ 699,835
Grants not yet earned (Capital Outlay Fund)	1,704,063
Grants not yet earned (Special Revenue Fund)	<u>907,490</u>
Total governmental activities	<u>\$ 3,311,388</u>
Business-type activities	
Revenues not yet earned (Child Nutrition Fund)	<u>\$ 160,142</u>

6. 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, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from federal and local funds.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

6. Risk Management (Continued)

The state of North Carolina provides workers' compensation for employees to the extent they are paid from state funds. The Trust has an annual aggregate limit for general liability of \$2,000,000, and \$1,400,000 for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$100,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-funded risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. 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 pool of the state administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. In addition, employees had the option of receiving health care benefits through one of the health maintenance organizations (HMOs) offering coverage to teachers and state employees. Effective October 1, 2001, HMOs were no longer offered to Board employees. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

The finance officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

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

7. Contingent Liabilities

At June 30, 2012, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Board's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Board's financial position.

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

8. Long-term Obligations

a. Installment Purchase

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 monies 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 a special third party financing arrangement by DaimlerChrysler Services at total payments less than the purchase price. The Board has entered into installment purchase contracts to finance the purchase of the school buses. The financing contracts require principal only payments due at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,146,424	\$ 9,629
2014	<u>37,119</u>	<u>11,517</u>
Total	<u>\$ 1,183,543</u>	<u>\$ 21,146</u>

b. Notes Payable

Note payable at June 30, 2012 includes loans from Wachovia Bank for the purchase of equipment. Interest is paid annually at 2.75% to 3.00%. The note is collateralized by the equipment. The remaining principal balance is due in annual principal payments plus accrued interest through June 30, 2012.

The future payments of notes payable as of June 30, 2012 are as follows:

<u>Year Ending June 30</u>	
2013	\$ 1,666,449

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

III. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

8. Long-term Obligations (Continued)

c. Long-term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the year ended June 30, 2012:

	Balance June 30, 2011	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2012	<u>Current</u>
Governmental Activities:					
Installment purchase	\$ 2,329,200	\$ -	\$ 1,145,657	\$ 1,183,543	\$ 1,146,424
Notes payable	4,966,480	-	3,300,031	1,666,449	1,666,449
Net OPEB obligation	8,700,000	1,000,000	-	9,700,000	-
Compensated absences	23,207,220	1,965,732	-	25,172,952	-
Claims and judgments	400,000	-	-	400,000	-
	<u>\$ 39,602,900</u>	<u>\$ 2,965,732</u>	<u>\$ 4,445,688</u>	<u>\$ 38,122,944</u>	<u>\$ 2,812,873</u>
Business-type Activities:					
Compensated absences	<u>\$ 556,762</u>	<u>\$ 19,053</u>	<u>\$ -</u>	<u>\$ 575,815</u>	<u>\$ -</u>

IV. FUND BALANCE

The Board of Education has a revenue spending policy 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, 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.

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	\$13,454,431
Less:	
Inventories	933,698
Stabilization by State Statute	<u>1,979,411</u>
Remaining fund balance	<u>\$10,541,322</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

V. ENCUMBRANCES

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

General Fund	\$ 889,429
Capital Outlay Fund	865,438
Special Revenue	184,951

VI. 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.

Individual Fund Statements and Schedules

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

SCHEDULE 1

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Forsyth County			
County appropriation	<u>\$ 109,924,287</u>	<u>\$ 109,924,287</u>	<u>\$ -</u>
Other			
Fines and forfeitures	2,600,000	2,456,263	(143,737)
Tuition and fees	102,000	82,153	(19,847)
Other	<u>403,102</u>	<u>668,231</u>	<u>265,129</u>
Total other	<u>3,105,102</u>	<u>3,206,647</u>	<u>101,545</u>
Total revenues	<u>113,029,389</u>	<u>113,130,934</u>	<u>101,545</u>
EXPENDITURES AND ENCUMBRANCES			
Instructional services:			
Regular instructional	33,810,581	32,139,650	1,670,931
Special populations	5,399,520	4,591,437	808,083
Alternative programs	1,038,159	567,399	470,760
School leadership	11,499,236	7,812,458	3,686,778
Co-curricular	3,452,500	3,353,814	98,686
School-based support	<u>9,247,286</u>	<u>7,308,119</u>	<u>1,939,167</u>
Total instructional services	<u>64,447,282</u>	<u>55,772,877</u>	<u>8,674,405</u>
System-wide support services:			
Support and development	1,658,340	1,260,237	398,103
Special population support and development	794,716	722,659	72,057
Alternative programs and services support and development	488,232	461,693	26,539
Technology support	2,277,659	2,266,053	11,606
Operational support	27,233,073	26,341,996	891,077
Financial and human resource	4,318,670	4,202,420	116,250
Accountability	687,305	642,102	45,203
System-wide pupil support	851,077	735,534	115,543
Policy, leadership and public relations	<u>2,086,176</u>	<u>1,801,081</u>	<u>285,095</u>
Total supporting services	<u>40,395,248</u>	<u>38,433,775</u>	<u>1,961,473</u>

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 For the Fiscal Year Ended June 30, 2012

SCHEDULE 1
 (CONTINUED)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
EXPENDITURES AND ENCUMBRANCES (Continued)			
Ancillary services	416,000	377,267	38,733
Nonprogrammed charges	4,250,000	3,712,421	537,579
Debt service			
Interest	122,891	122,891	-
Principal	3,397,968	3,397,968	-
Total debt service	<u>3,520,859</u>	<u>3,520,859</u>	<u>-</u>
Total expenditures and encumbrances	<u>113,029,389</u>	<u>101,817,199</u>	<u>11,212,190</u>
Revenues over expenditures and encumbrances	<u>\$ -</u>	11,313,735	<u>\$ 11,313,735</u>
FUND BALANCE			
Beginning of year		2,354,113	
Increase in reserve for inventories		79,466	
Decrease in reserve for encumbrances		<u>(292,883)</u>	
End of year		<u>\$ 13,454,431</u>	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2012

SCHEDULE 2

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
State of North Carolina	\$ 1,078,923	\$ 994,351	\$ (84,572)
Forsyth County	70,395,938	48,266,225	(22,129,713)
Other	965,003	961,029	(3,974)
Total revenues	<u>72,439,864</u>	<u>50,221,605</u>	<u>(22,218,259)</u>
EXPENDITURES AND ENCUMBRANCES			
Capital outlay			
Real property and buildings	60,842,798	41,417,416	19,425,382
Furniture and equipment	9,440,555	4,861,454	4,579,101
Buses and motor vehicles	1,108,791	130,344	978,447
Total capital outlay	71,392,144	46,409,214	24,982,930
Debt service			
Principal	1,047,720	1,047,720	-
Total debt service	<u>1,047,720</u>	<u>1,047,720</u>	<u>-</u>
Total expenditures and encumbrances	<u>72,439,864</u>	<u>47,456,934</u>	<u>24,982,930</u>
Revenues over expenditures and encumbrances	<u>\$ -</u>	2,764,671	<u>\$ 2,764,671</u>
FUND BALANCE			
Beginning of year		24,453	
Decrease in reserve for encumbrances		<u>(2,069,832)</u>	
End of year		<u>\$ 719,292</u>	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012

SCHEDULE 3

	Federal Grants	Special Revenue	Total
ASSETS			
Cash	\$ -	\$ 149,032	\$ 149,032
Receivables	1,578,620	1,242,973	2,821,593
Due from other funds	-	482	482
TOTAL ASSETS	<u>\$ 1,578,620</u>	<u>\$ 1,392,487</u>	<u>\$ 2,971,107</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,578,620	\$ 315,156	\$ 1,893,776
Unearned revenues	-	907,490	907,490
TOTAL LIABILITIES	<u>1,578,620</u>	<u>1,222,646</u>	<u>2,801,266</u>
FUND BALANCES			
Restricted			
Stabilization by State Statute	-	169,841	169,841
TOTAL FUND BALANCES	<u>-</u>	<u>169,841</u>	<u>169,841</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,578,620</u>	<u>\$ 1,392,487</u>	<u>\$ 2,971,107</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2012**

SCHEDULE 4

	Federal Grants	Special Revenue	Total
REVENUES			
State of North Carolina			
More at Four	\$ -	\$ 1,583,196	\$ 1,583,196
U. S. Government	45,577,856	3,585,684	49,163,540
Other			
Tuition and fees	-	128,180	128,180
Rental of school property	-	330,235	330,235
Indirect cost		1,477,958	1,477,958
Other	-	5,539,158	5,539,158
Total other	-	7,475,531	7,475,531
Total revenues	45,577,856	12,644,411	58,222,267
EXPENDITURES			
Instructional services:			
Regular instructional	11,283,752	3,030,728	14,314,480
Special populations	9,064,283	710,830	9,775,113
Alternative programs	16,789,223	2,828,042	19,617,265
School leadership	2,908,948	35,931	2,944,879
Co-curricular	-	68,962	68,962
School-based support	3,382,642	747,162	4,129,804
Total instructional services	43,428,848	7,421,655	50,850,503

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2012**

**SCHEDULE 4
 (CONTINUED)**

	<u>Federal Grants</u>	<u>Special Revenue</u>	<u>Total</u>
EXPENDITURES (Continued)			
System-wide support services:			
Support and development	373,949	261,358	635,307
Special population support and development	474,093	-	474,093
Alternative programs and services support and development	683,410	2,190	685,600
Technology support	15,893	-	15,893
Operational support	36,227	4,153,227	4,189,454
Financial and human resource Accountability	-	65,836	65,836
System-wide pupil support	-	109,592	270,621
Policy, leadership and public relations	-	31,595	31,595
Total supporting services	<u>1,744,601</u>	<u>4,644,235</u>	<u>6,388,836</u>
Ancillary services	<u>15,489</u>	<u>540,639</u>	<u>556,128</u>
Nonprogrammed charges	<u>388,918</u>	<u>37,882</u>	<u>426,800</u>
Total expenditures	<u>45,577,856</u>	<u>12,644,411</u>	<u>58,222,267</u>
Revenues over expenditures	-	-	-
FUND BALANCE			
Beginning of year	<u>-</u>	<u>169,841</u>	<u>169,841</u>
End of year	<u>\$ -</u>	<u>\$ 169,841</u>	<u>\$ 169,841</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	Federal Grants Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
State of North Carolina	\$ -	\$ -	\$ -
U.S. Government	54,646,277	45,577,856	(9,068,421)
Other	-	-	-
Total revenues	<u>54,646,277</u>	<u>45,577,856</u>	<u>(9,068,421)</u>
EXPENDITURES AND ENCUMBRANCES			
Instructional services	52,233,495	43,428,848	8,804,647
System-wide support services	1,936,908	1,744,601	192,307
Ancillary services	14,000	15,489	(1,489)
Nonprogrammed charges	461,874	388,918	72,956
Total expenditures and encumbrances	<u>54,646,277</u>	<u>45,577,856</u>	<u>9,068,421</u>
Revenues over (under) expenditures and encumbrances	-	-	-
OTHER FINANCING SOURCES			
Proceeds from installment purchase	-	-	-
Revenues and other financing sources over (under) expenditures and encumbrances	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE			
Beginning of year		-	
Decrease in reserve for encumbrances		<u>-</u>	
End of year		<u>\$ -</u>	

SCHEDULE 5

Special Revenue Fund		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,598,580	\$ 1,583,196	\$ (15,384)
7,188,015	3,585,684	(3,602,331)
9,002,184	7,475,531	(1,526,653)
17,788,779	12,644,411	(5,144,368)
13,715,979	6,881,271	6,834,708
6,573,226	4,602,546	1,970,680
683,962	541,141	142,821
140,612	37,882	102,730
21,113,779	12,062,840	9,050,939
(3,325,000)	581,571	(3,906,571)
3,325,000	-	(3,325,000)
\$ -	581,571	\$ 581,571
	169,841	
	(581,571)	
	\$ 169,841	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND
 ACTUAL (NON-GAAP)
 CHILD NUTRITION FUND
 For the Fiscal Year Ended June 30, 2012

SCHEDULE 6

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Food sales	\$ 6,032,420	<u>\$ 6,030,263</u>	\$ (2,157)
OPERATING EXPENDITURES			
Food		8,105,635	
Salaries and benefits		9,156,582	
Materials and supplies		1,067,995	
Equipment maintenance		75,886	
Utilities and telephone		21,702	
Contracted services		2,430,119	
Indirect costs		937,284	
Capital outlay		<u>484,182</u>	
Total operating expenditures	<u>22,907,730</u>	<u>22,279,385</u>	<u>628,345</u>
Operating loss	(16,875,310)	<u>(16,249,122)</u>	626,188
NONOPERATING REVENUES			
Federal reimbursements		15,636,209	
Federal commodities		1,080,925	
Interest earned on investments		44,730	
Miscellaneous revenues		<u>17,948</u>	
Total nonoperating revenues	<u>16,875,310</u>	<u>16,779,812</u>	<u>(95,498)</u>
Revenues over expenditures	<u>\$ -</u>	530,690	<u>\$ 530,690</u>
Reconciliation of modified accrual to full accrual basis			
Depreciation		(664,891)	
Equipment acquisitions		484,182	
Increase in compensated absences payable		(22,665)	
Decrease in inventories		(162,777)	
Capital contributions		<u>1,020,828</u>	
Change in net assets		<u>\$ 1,185,367</u>	

WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND
 ACTUAL (NON-GAAP)
 DAY CARE FUND
 For the Fiscal Year Ended June 30, 2012

SCHEDULE 7

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Child care fees	\$ 735,578	<u>\$ 496,421</u>	\$ (239,157)
OPERATING EXPENDITURES			
Salaries and benefits		492,995	
Materials and supplies		<u>3,553</u>	
Total operating expenditures	<u>735,578</u>	<u>496,548</u>	<u>239,030</u>
Revenues under expenditures	<u>\$ -</u>	(127)	<u>\$ (127)</u>
Reconciliation of modified accrual to full accrual basis			
Decrease in compensated absences payable		<u>228</u>	
Change in net assets		<u>\$ 101</u>	

Compliance Section



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

To the **Winston-Salem/Forsyth County Board of Education**
Winston-Salem, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Winston-Salem/Forsyth County Board of Education**, as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 28, 2012. 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.

Internal Control Over Financial Reporting

Management of the **Winston-Salem/Forsyth County Board of Education** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the **Winston-Salem/Forsyth County Board of Education's** internal control over financial reporting as a basis for designing our auditing procedures 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 **Winston-Salem/Forsyth County Board of Education's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Winston-Salem/Forsyth County Board of Education's** internal control over financial reporting.

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 a 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control financial reporting described in the accompanying schedule of findings and responses that we consider to be significant

deficiencies in internal control over financial reporting: items 12-01 and 12-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Winston-Salem/Forsyth 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 grants, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as items 12-01 and 12-02.

We noted certain matters that we reported to management of the **Winston-Salem/Forsyth County Board of Education** in a separate letter dated November 28, 2012.

The Board's responses to the findings mentioned above are described in the accompanying schedule of findings and questioned costs. We did not audit the Board's responses and, accordingly, we express no opinion on them.

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

Dixon Hughes Goodman LLP

November 28, 2012



**Report on Compliance With Requirements Applicable to Each
Major Federal Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133 and the State Single Audit
Implementation Act**

To the **Winston-Salem/Forsyth County Board of Education**
Winston-Salem, North Carolina

Compliance

We have audited the compliance of the **Winston-Salem/Forsyth County Board of Education** with the types of compliance requirements described in the OMB 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 its major federal programs for the year ended June 30, 2012. The **Winston-Salem/Forsyth County Board of Education's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Winston-Salem/Forsyth County Board of Education's** management. Our responsibility is to express an opinion on the **Winston-Salem/Forsyth County Board of Education's** compliance based on our audit.

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

As described in item 12-04 in the accompanying schedule of findings and questioned costs, the **Winston-Salem/Forsyth County Board of Education** did not comply with requirements regarding allowable cost/cost principle that are applicable to its ARRA – Race to the Top program. Compliance with such requirements is necessary, in our opinion, for the **Winston-Salem/Forsyth County Board of Education** to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the **Winston-Salem/Forsyth County Board of Education** complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, 1 and the State Single Audit Implementation Act, 2 and which are described in the accompanying schedule of findings and questioned costs as items 12-03 and 12-05.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we can consider to be significant deficiencies.

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 combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-04 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-03 and 12-05 to be significant deficiencies.

The **Winston-Salem/Forsyth County Board of Education's** response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and, accordingly, we express no opinion on the response.

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

Dixon Hughes Goodman LLP

November 28, 2012



**Report on Compliance With Requirements Applicable to Each
Major State Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133 and the State Single Audit
Implementation Act**

To the **Winston-Salem/Forsyth County Board of Education**
Winston-Salem, North Carolina

Compliance

We have audited the compliance of the **Winston-Salem/Forsyth County Board of Education** with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission; that are applicable to each of its major state programs for the year ended June 30, 2012. The **Winston-Salem/Forsyth County Board of Education's** major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the **Winston-Salem/Forsyth County Board of Education's** management. Our responsibility is to express an opinion on the **Winston-Salem/Forsyth County Board of Education's** compliance based on our audit.

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

In our opinion, the **Winston-Salem/Forsyth County Board of Education** complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, which are described in the accompanying schedule of findings and questioned costs as items 12-06 and 12-07.

Internal Control Over Compliance

Management of **Winston-Salem/Forsyth County Board of Education** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered **Winston-Salem/Forsyth County Board of Education's** internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 12-07. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiency, 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.

The **Winston-Salem/Forsyth County Board of Education's** response to the finding mentioned above is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and, accordingly, we express no opinion on it.

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

Dixon Hughes Goodman LLP

November 28, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses yes none reported

Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses yes none reported

Type of auditor’s report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes no

SECTION I – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.010 84.389	Title I Part A Cluster Title I Grants to Local Education Agencies ARRA – Title I Grants to Local Education Agencies
84.027 84.173 84.391 84.392	Special Education Cluster Handicapped – State Grants Handicapped – Preschool Grants ARRA – Education of the Handicapped ARRA – Handicapped Preschool Grants
10.553 10.555 10.559	Child Nutrition Cluster Cash Assistance School Breakfast Program National School Lunch Program Summer Food Service Program for Children
10.555	Noncash Assistance Food Distribution Program
84.410	Education Jobs Fund
84.394	ARRA – Race to the Top
84.385A	ARRA – Teacher Incentive Fund – Project Star3

Dollar threshold used to distinguish between Type A and Type B Programs: \$1,976,420

Auditee qualified as low-risk auditee? _____ yes X no

State Awards

Internal control over major state programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses X yes _____ none reported

Type of auditor’s 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 X yes _____ no

SECTION I – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Identification of major state programs:

<u>Program Name</u>
State Public School Fund
NC Pre-K
Driver's Training
Vocational Education – Months of Employment
Vocational Education – Program Support
School Technology Fund

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 12-01

SIGNIFICANT DEFICIENCY

Criteria: GASB 45 requires a periodic actuarial valuation of certain postemployment benefits.

Condition: The Board did not engage an actuary to value the liability of its postemployment dental benefits.

Effect: The liability for the postemployment dental benefit may be misstated.

Cause: Management did not engage an actuary to value the liability of its postemployment dental benefits.

Recommendation: We recommend management engage an actuary to value the liability of its postemployment dental benefits.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

Finding 12-02

SIGNIFICANT DEFICIENCY

Criteria: G.S. 115C-432(b)(2) requires the Board of Education to fund the full amount of any deficit from the prior fiscal year when adopting the budget resolution for the subsequent year.

Condition: The Board had deficit in the following fund:

	<u>2011</u>	<u>2012</u>
Day Care	\$ 35,269	\$ 35,168

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Effect: The Board had a deficit in the Day Care Fund in both prior and current years.

Cause: Deficit from prior year was not funded in the current year.

Recommendation: We recommend that the deficit be funded immediately.

Views of Responsible Officials: The Board of Education agrees with this finding.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Education
Passed Through NC Department of Public Instruction
Program Name: Education Jobs Fund

Finding 12-03
SIGNIFICANT DEFICIENCY

Special Tests and Provisions

Criteria: New positions that will be paid for with ARRA funds should be posted with the local Employment Security Commission.

Condition: New positions funded with ARRA funds were not posted with the local Employment Security Commission.

Effect: The eleven new positions funded with ARRA funds were not advertised with the Employment Security Commission.

Cause: The directive to post the openings with the Employment Security Commission was not clearly communicated with LEAs across the state, therefore evidence of postings of positions was not retained.

Recommendation: We recommend management follow all ARRA guidelines and retain evidence supporting compliance.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. Department of Education
Passed Through NC Department of Public Instruction
Program Name: ARRA – Race to the Top

Finding 12-04
MATERIAL WEAKNESS

Allowable Cost/Cost Principle

Criteria: Purchases in excess of \$5,000 must follow ARRA purchasing requirements.

Condition: Various items purchased with ARRA funds did not follow ARRA purchasing requirements.

Effect and Questioned Cost: The Board purchased various goods and services with costs totaling \$1,313,737 with ARRA funds and ARRA purchasing requirements were not followed.

Cause: Management did not follow ARRA purchasing requirements.

Recommendation: We recommend management follow all ARRA purchasing requirements.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

Finding 12-05
SIGNIFICANT DEFICIENCY

Cash Management

Criteria: Funds must be received no more than two business days prior to the date of disbursement.

Condition: Federal funds were received more than two business days prior to the date of disbursement.

Effect: Cash management requirements were not met.

Cause: Using the State's Cash Certification Calendar, management could not accurately project cash needs.

Recommendation: We recommend management review process for requesting Federal funds and modify process to comply with the Federal cash management requirement.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

SECTION IV – STATE AWARD FINDINGS AND QUESTIONED COSTS

N.C. Department of Public Instruction
Program Name: State Public School Fund

Finding 12-06

Activities Allowed or Unallowed

Criteria: DPI allocates to LEAs funding for operations and a specific number of months of employment for classroom teachers, school building administration, instructional support, vocational education, family support nurses and literacy coaches.

Condition: Winston-Salem/Forsyth County Schools exceeded the funding allotment in several areas and the months of employment in classroom teachers, school building administration, instructional support and vocational education.

Effect and Questioned Cost: Winston-Salem/Forsyth County Schools refunded \$235,814 from the General Fund to the state.

Cause: The number of employees paid from the State Fund exceeded the allowable amount and the state allotment was overspent.

Recommendation: We recommend management develop processes to ensure compliance with state allotment requirements.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

SECTION IV – STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

N.C. Department of Public Instruction
Program Name: More at Four

Finding 12-07

SIGNIFICANT DEFICIENCY

Activities Allowed or Unallowed

Criteria: Health assessments are required of children entering the More at Four program on the first day of attendance or within 30 calendar days of written notice.

Condition: Four of the 35 students files tested did not have historical health assessments. These student files only had current health assessments.

Effect: Documentation of required health assessments was not available to determine that required procedures were performed.

Cause: The Board's More at Four staff was unaware of the need to retain historical health assessments.

Recommendation: We recommend management develop processes to ensure compliance with state requirements.

Views of Responsible Officials and Planned Corrective Actions: The Board of Education agrees with this finding.

Finding 12-01

Name of Contact Person: William Bucher

Corrective Action: In the past we have contacted actuarial firms attempting to contract for the actuarial study of our retiree dental plan, and no actuarial firm contacted was willing to contract for such a small engagement, with no potential for other business, at any price. We also attempted to “piggyback” our engagement on actuaries already approved by the Local Government Commission for counties and municipalities, and were not allowed to do so. We have estimated the future liability in-house, using certain actuarial methods and assumptions, and will continue to do so in future years. We are convinced that our estimate is materially accurate.

Proposed Completion Date: Unless an actuarial firm can be found that will contract for this type of small, limited engagement, this finding, a requirement of GASB Statement #45, will continue in future years.

Finding 12-02

Name of Contact Person: William Bucher

Corrective Action: Although we plan to remedy the fund deficit immediately, we continue to expect our Day Care programs to be self-funded and will work to adjust our cost structure and fees charged to more accurately reflect the actual costs of the program.

Proposed Completion Date: Immediately.

Finding 12-03

Name of Contact Person: William Bucher

Corrective Action: As of November, 2012, we have put procedures in place which will assure that the advertising requirements for vacant ARRA-funded positions will be met, and a meeting has been held with federal program administrators to ensure that they are aware of, and will support our efforts to carry out and document our compliance with these requirements.

Proposed Completion Date: December 1, 2012

Finding 12-04

Name of Contact Person: William Bucher

Corrective Action: The rules governing the acquisition of goods and services using ARRA funds and documenting compliance with these rules include requirements that are over and above current state and local purchasing rules and procedures. We have now familiarized the appropriate officials with compliance rules for ARRA funding and have put procedures in place to monitor and assure compliance.

Proposed Completion Date: December 1, 2012

Finding 12-05

Name of Contact Person: William Bucher

Corrective Action: Federal cash management requirements have recently become more stringent due to increasing attention to cash flow at the federal and state levels. Complicating this situation is the fact that the state requires five or more business days to process requests for federal funds, a delay which impacts our ability to pay federal program expenditures quickly and efficiently. We are adjusting our procedures to assure that amounts requested do not exceed actual cash needs to the greatest extent possible.

Proposed Completion Date: December 1, 2012

Finding 12-06

Name of Contact Person: William Bucher

Corrective Action: Maximizing the use of state allotments requires projecting expenditures through the end of the year, and the school district has always refunded overexpended allotments to the state as promptly as we can when we become aware of them. We will continue to monitor budget reports throughout the year in our efforts to reduce the occurrence of overused allotments, and budget amendments will be taken to the Board for approval as needed.

Proposed Completion Date: Immediately.

Finding 12-07

Name of Contact Person: William Bucher

Corrective Action: Although it is our contention that health assessments for More at Four participants have been reliably collected in every case, it appears that some members of our staff were unaware that older assessments for these students needed to be retained as documentation for our auditors after the child completed their participation in the program. We have assigned the management of these documents to a staff member who will educate the others and design procedures to retain the appropriate documentation in the future.

Proposed Completion Date: Immediately.

Finding 11-01

Corrected

Finding 11-02

Repeat, see finding 12-01

Finding 11-03

Corrected

Finding 11-04

Corrected

Finding 11-05

Corrected

Finding 11-06

Repeat, see finding 12-03

Finding 11-07

Repeat, see finding 12-04

Finding 11-08

Repeat, see finding 12-06

Finding 11-09

Repeat, see finding 12-07

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2012**

SCHEDULE 11

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
FEDERAL GRANTS		
Cash Assistance:		
U.S. Department of Education		
Direct programs		
Magnet School Assistance	84.165	\$ 141,269
ARRA - Teacher Incentive Fund - Project Star3	84.385A	2,198,172
Carol White Physical Education Program	84.215F	161,273
HeadStart	93.600	213,909
Passed through the NC Department of Public Instruction		
Improving America School Act of 1994 (IASA)		
Title I, Part A Cluster		
Educationally Deprived Children	84.010	13,851,143
ARRA - Title I, Grants to Local Educational Agencies	84.389	694
School Improvement Cluster		
School Improvement, Title I	84.010	808,262
School Improvement Grant 1003 (G)	84.377	566,613
ARRA - School Improvement	84.388	295,633
ARRA - School Improvement 1003 (G)	84.389	1,348,364
Vocational Education - Tech Prep Education		
	84.243	5,062
Title IV - Safe and Drug-Free Schools and Communities		
	84.186A	3,055
Education for Homeless Children and Youth Cluster		
Education for Homeless Children and Youth	84.196	4,920
ARRA - Education for Homeless Children and Youth	84.387	5,623
Improving Teacher Quality		
	84.367	1,828,098
Language Acquisition Grant		
	84.365	773,155
Math and Science Partnership		
	84.366	133,461
Special Education Cluster		
Handicapped State Grants	84.027	8,496,592
ARRA - Handicapped State Grants	84.391	-
ARRA - Handicapped Preschool Grants	84.392	58,210
Handicapped Preschool Grants	84.173	258,564
Special Needs Targeted Assistance	84.027	148,585
Carl D. Perkins Vocational and Applied Technology		
Education Act Amendments of 1990		
Basic Grants to States		
Program Development	84.048	698,513
ARRA - State Fiscal Stabilization Fund		
	84.394	4,054
Education Technology State Grants Cluster		
Education Technology State Grants	84.318	227,184
ARRA - Education Technology State Grants	84.386	19,853
Education Jobs Fund		
	84.410	9,373,740
ARRA - Race to the Top	84.395	6,668,478
Total U.S. Department of Education		<u>48,292,479</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Fiscal Year Ended June 30, 2012**

**SCHEDULE 11
 (CONTINUED)**

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
FEDERAL GRANTS (Continued)		
U.S. Department of Agriculture Child Nutrition Cluster Passed through the NC Department of Public Instruction Noncash Assistance Food Distribution Program	10.550	1,080,925
Passed through the NC Department of Public Instruction Cash Assistance National School Lunch Program	10.555	11,734,480
School Breakfast Program (Special Milk Program)	10.553	<u>3,901,729</u>
Total U.S. Department of Agriculture		<u>16,717,134</u>
U.S. Department of Defense Direct Program ROTC	None	<u>558,603</u>
U.S. Department of Commerce Passed through WinstonNet, Inc. ARRA - Broadband Technology Opportunities Program	11.557	<u>312,458</u>
Total federal assistance		<u>\$ 65,880,674</u>

**WINSTON-SALEM/FORSYTH COUNTY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Fiscal Year Ended June 30, 2012**

**SCHEDULE 11
 (CONTINUED)**

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
STATE GRANTS		
NC Department of Public Instruction		
Cash Assistance:		
State Public School Fund	N/A	\$ 261,235,714
Driver Training	N/A	970,200
School Technology Fund - SPSF	N/A	2,402,424
Vocational Education		
State Months of Employment	N/A	6,570,321
Program Support Funds	N/A	652,973
More at Four	N/A	1,583,196
Noncash Assistance:		
Textbooks	N/A	784,443
School buses	N/A	994,351
Total state assistance		<u>\$ 275,193,622</u>

Notes to the Schedule of Expenditures of Federal and State Awards

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of WINSTON-SALEM/FORSYTH 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.