

**MACON COUNTY
BOARD OF EDUCATION**

Franklin, North Carolina

Financial Statements

June 30, 2008

(with Independent Auditors' Report thereon)

MACON COUNTY BOARD OF EDUCATION

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June 30, 2008

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- Independent Auditors' Report -

To the Board of Education
Macon County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Macon County Board of Education (the "Board") as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 basic 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2008, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the general and the 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 19, 2008, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Board. The combining and individual non-major fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedules and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 19, 2008

Dixon Hughes PLLC

MACON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

This section of the Macon County Board of Education's (the Board) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2008. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

The 2007-2008 year reflects a normal trend with the exception of two major renovations to school property. The first was the renovation of the Franklin High School gym lobby, restrooms and concession stand at a total cost of \$580,626. The money from this project came from the Public School Capital Building Fund and the requisite 25% county match as well as from the regular capital outlay county appropriation to the schools. The second was a renovation project at East Franklin School funded by Qualified Zone Academy Bonds (QZAB) at a cost of \$945,456.

Macon County Schools started the 2007-2008 year with a rather large capital outlay fund balance that was a result of the sale of Otto School during the 2006-2007 school year. Plans had been made for the use of this money and it was expended during 2007-2008 for much needed capital projects including roofs and HVAC systems.

Based on the 10th day head count, enrollment increased by 58 students from 4,345 students in 2006-2007 to 4,493 students in 2007-2008.

Overview of the Financial Statements

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

- *Independent Auditors' Report*
- *Management's Discussion and Analysis.*
- *Basic Financial Statements.*
- *Required supplemental section that presents combining statements for non-major governmental and enterprise funds.*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the government-wide statements. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities. The statement of net assets includes all of the Board's assets and liabilities. Assets and liabilities are classified between current and long-term. This

statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

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

Government-wide Statements

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

The two government-wide statements report the Board's net assets and how they have changed. Net assets - the difference between the Board's assets and liabilities - 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 health, additional non-financial factors must be acknowledged. Changes in the County's property tax base, the condition of school buildings and other physical assets, and projected enrollment should be considered.

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

- *Governmental activities:* All of the Board's services with the exception of School Food Service are included here. These services include but are not limited to, regular and special education, transportation, and administration. County funding and state and federal aid finance most of these activities.
- *Business-type activities:* School Food Service is covered under this category, as fees are charged to help cover the program costs.

Fund Financial Statements

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

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

The Macon County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things - how cash and other assets can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements, in the form of a reconciliation, explains the relationship (or differences) between them. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

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

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Macon County Board of Education has one fiduciary fund - the Scholarship Fund, which is under the control of the administrative unit. This is accounted for as a private purpose trust fund.

Financial Analysis of the Board as a Whole

Net assets are an indicator of the fiscal health of the Board. Governmental assets exceeded liabilities by \$42,381,116 as of June 30, 2008. The largest component of governmental net assets is invested in capital assets net of related debt, of \$41,815,561. It comprises 99% of the total net assets.

Following is a summary of the Statement of Net Assets:

Table 1
Condensed Statement of Net Assets
As of June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,696,719	\$ 4,368,841	\$ 277,536	\$ 226,470	\$ 3,974,255	\$ 4,595,311
Capital assets	<u>41,727,460</u>	<u>38,919,416</u>	<u>281,851</u>	<u>279,236</u>	<u>42,009,311</u>	<u>39,198,652</u>
Total assets	<u>45,424,179</u>	<u>43,288,257</u>	<u>559,387</u>	<u>505,706</u>	<u>45,983,566</u>	<u>43,793,963</u>
Other liabilities	1,388,403	1,432,984	982	88	1,389,385	1,433,072
Long-term liabilities	<u>2,168,482</u>	<u>1,720,576</u>	<u>44,583</u>	<u>35,039</u>	<u>2,213,065</u>	<u>1,755,615</u>
Total liabilities	<u>3,556,885</u>	<u>3,153,560</u>	<u>45,565</u>	<u>35,127</u>	<u>3,602,450</u>	<u>3,188,687</u>
Invested in capital assets, net of related debt	41,533,710	38,752,514	281,851	279,236	41,815,561	39,031,750
Restricted net assets	675,724	1,064,134	-	-	675,724	1,064,134
Unrestricted net assets	<u>(342,140)</u>	<u>318,049</u>	<u>231,971</u>	<u>191,343</u>	<u>(110,169)</u>	<u>509,392</u>
Total net assets	<u>\$ 41,867,294</u>	<u>\$ 40,134,697</u>	<u>\$ 513,822</u>	<u>\$ 470,579</u>	<u>\$ 42,381,116</u>	<u>\$ 40,605,276</u>

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

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ending June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 507,340	\$ 1,112,500	\$ 1,122,666	\$ 1,103,098	\$ 1,630,006	\$ 2,215,598
Operating grants and contributions	28,897,113	27,652,509	1,412,402	1,362,561	30,309,515	29,015,070
Capital grants and contributions	769,175	278,178	-	-	769,175	278,178
General revenues:						
Macon County appropriations	9,960,085	6,492,001	-	-	9,960,085	6,492,001
U.S. Government	-	141,145	-	-	-	141,145
Other revenues	<u>731,028</u>	<u>593,707</u>	<u>7,665</u>	<u>7,164</u>	<u>738,693</u>	<u>600,871</u>
Total revenues	<u>40,864,741</u>	<u>36,270,040</u>	<u>2,542,733</u>	<u>2,472,823</u>	<u>43,407,474</u>	<u>38,742,863</u>
Expenses:						
Governmental activities:						
Instructional services	29,346,936	-	-	-	29,346,936	-
Instructional programs	-	25,570,531	-	-	-	25,570,531
System-wide support services	8,154,705	-	-	-	8,154,705	-
Supporting services	-	9,492,046	-	-	-	9,492,046
Ancillary services	373,019	-	-	-	373,019	-
Community services	-	333,624	-	-	-	333,624
Non-programmed charges	31,201	27,465	-	-	31,201	27,465
Interest on long-term debt	2,468	3,081	-	-	2,468	3,081
Unallocated depreciation	1,130,257	1,088,326	-	-	1,130,257	1,088,326
Business-type activities:						
School food service	-	-	<u>2,593,048</u>	<u>2,555,327</u>	<u>2,593,048</u>	<u>2,555,327</u>
Total expenses	<u>39,038,586</u>	<u>36,515,073</u>	<u>2,593,048</u>	<u>2,555,327</u>	<u>41,631,634</u>	<u>39,070,400</u>

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Net expenses	\$ 1,826,155	\$ (245,033)	\$ (50,315)	\$ (82,504)	\$ 1,775,840	\$ (327,537)
Transfers in (out)	<u>(93,558)</u>	<u>(123,449)</u>	<u>93,558</u>	<u>123,449</u>	<u>-</u>	<u>-</u>
Change in net assets	1,732,597	(368,482)	43,243	40,945	1,775,840	(327,537)
Net assets--beginning	<u>40,134,697</u>	<u>40,503,179</u>	<u>470,579</u>	<u>429,634</u>	<u>40,605,276</u>	<u>40,932,813</u>
Net assets--ending	\$ <u>41,867,294</u>	\$ <u>40,134,697</u>	\$ <u>513,822</u>	\$ <u>470,579</u>	\$ <u>42,381,116</u>	\$ <u>40,605,276</u>

Revenues increased \$4,942,789 in 2008. County appropriations increased from \$6,492,001 in 2007 to \$9,960,085 in 2008. A substantial part of this increase was a result of the county funded renovation projects at East Franklin School and Franklin High School. The regular county appropriation for capital outlay remained static at \$700,000.

The net change in expenses from 2007 to 2008 was an increase of \$2,561,234. Factors contributing to this change include:

- Increases in instructional programs due to substantial salary increases to licensed certified personnel
- Expenses in supporting services increased due to the high cost of petroleum products including gas, diesel fuel, heating oil and propane gas

The 2007-2008 fiscal year was the implementation year for the new chart of accounts for Boards of Education. There were significant changes to function/purpose codes and classifications. Due to these changes it is difficult to discuss comparative data from the previous year.

Financial Analysis of the Board’s Funds

The Board’s governmental funds reported a combined balance of \$2,308,316, a decrease of \$627,541 from last year. Of this, \$80,819 is designated for VIP (the after school program) and \$71,311 for the Summer Edventure program. In addition, \$23,498 is designated for the purpose of constructing a new live vocational house. Individual school money, which is restricted for use by the schools and is not available for use by the Board, accounts of \$501,770 of the balance reported.

The Capital Projects fund decrease of \$397,837 is a result of the expenditure of moneys from the sale of Otto School for designated capital improvements.

The Board’s business-type fund, the School Food Service Fund, experienced an increase in net assets of \$43,243 from last year. In the 2007 fiscal year net assets increased \$40,945. Two years of increase in net assets shows a positive trend developing.

Operating revenues increased in School Food Service by \$19,568 and operating expenses increased by \$37,721.

Governmental Funds Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations in all funds.

Major changes occurred in the following funds:

- The State Public School Fund increases included allotments for Exceptional Children that were special requests, a transfer from the Public School Building Capital Fund to state technology, second allotments as well as emergency funding for transportation, and a new grant for technology at Macon Early College.
- The Capital Outlay Fund increases accounted for over 50% of the total budget increase. The payment made by DPI for yellow school buses was recorded in the Capital Outland Fund. In addition all of the expenditures related to planning the building of the new 5-6 school were added to the budget as well as the money expended for renovations at East Franklin.
- Budget amendments in all other funds were minimal and reflected changes needed as the year progressed.

Capital Assets

Capital assets increased \$2,810,659 from the previous year. Construction in progress accounts for \$2,679,552 which is the bulk of this increase. In addition to the East Franklin School and Franklin High School capital projects, Macon County Schools was in the planning stages for two additional new schools (5-6 school and North Macon) and there has been significant cost in surveying, architects fees and testing.

**Table 3
Summary of Capital Assets, Net of Depreciation
As of June 30, 2008 and 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 2,310,306	\$ 2,310,306	\$ -	\$ -	\$ 2,310,306	\$ 2,310,306
Construction in progress	2,679,552	-	-	-	2,679,552	-
Buildings	34,919,408	35,299,225	-	-	34,919,408	35,299,225
Equipment and furniture	746,649	562,407	281,851	279,236	1,028,500	841,643
Vehicles	<u>1,071,545</u>	<u>747,478</u>	<u>-</u>	<u>-</u>	<u>1,071,545</u>	<u>747,478</u>
Total	<u>\$41,727,460</u>	<u>\$38,919,416</u>	<u>\$ 281,851</u>	<u>\$ 279,236</u>	<u>\$42,009,311</u>	<u>\$39,198,652</u>

Additional information regarding the Board’s capital assets can be found in Note III.A.4 of the notes to the financial statements.

Debt Outstanding

In 2007-2008, the State of North Carolina required local Board's of Education to finance the purchase of new school buses. Although the debt is paid by the Department of Public Instruction, the local Board of Education has signed for the loan; therefore, it must be reported. In addition, the Board of Education has entered into lease purchase agreements for telephone systems for three schools. These transactions are recorded in the capital outlay fund in the Board of Education's financial records.

Additional information regarding the Board's long-term debt can be found in Note III.B.5 of the notes to the financial statements.

Economic Factors

The Board relies on funding from local, state and federal sources for a majority of its revenue in the general fund. The Board receives federal and state distributions and donations from various agencies and individuals. The majority of local revenues are received from Macon County and are comprised of a portion of ad valorem property tax.

The business-type activity is primarily funded with user fees associated with this service and federal and state reimbursements.

The Board anticipates a steady increase in enrollment over the next few years.

Requests for Information

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

Betty Waldroop, Finance Officer
Macon County Board of Education
Post Office Box 1029
Franklin, NC 28744
Tel: 828-524-4414, Ext. 302
Fax: 828-369-7240

BASIC FINANCIAL STATEMENTS

MACON COUNTY BOARD OF EDUCATION

Statement of Net Assets

June 30, 2008

	Primary Government		
	Governmental	Business-type	Total
Assets:			
Cash and cash equivalents	\$ 2,304,674	\$ 226,032	\$ 2,530,706
Due from other governments	1,391,035	-	1,391,035
Receivables	1,010	502	1,512
Inventories	-	51,002	51,002
Capital assets:			
Land and construction in progress	4,989,858	-	4,989,858
Other capital assets, net of depreciation	36,737,602	281,851	37,019,453
Total capital assets	41,727,460	281,851	42,009,311
Total assets	45,424,179	559,387	45,983,566
Liabilities:			
Accounts payable	31,136	332	31,468
Accrued salaries and wages payable	1,357,267	-	1,357,267
Unearned revenue	-	650	650
Long-term liabilities:			
Due in one year	180,449	-	180,449
Due in more than one year	1,988,033	44,583	2,032,616
Total liabilities	3,556,885	45,565	3,602,450
Net assets:			
Invested in capital assets, net of related debt	41,533,710	281,851	41,815,561
Restricted for:			
Individual schools	501,770	-	501,770
Capital projects	173,954	-	173,954
Unrestricted	(342,140)	231,971	(110,169)
Total net assets	\$ 41,867,294	\$ 513,822	\$ 42,381,116

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

MACON COUNTY BOARD OF EDUCATION

Statement of Activities

For the Fiscal Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instructional services:				
Regular instructional	\$ 17,929,714	\$ 195,824	\$ 15,729,226	\$ -
Special populations	3,769,809	-	3,743,084	-
Alternative programs	1,979,969	-	1,766,367	-
School leadership	1,996,661	-	1,533,110	-
Co-curricular	1,685,847	-	1,411,420	-
School-based support	1,984,936	-	1,756,270	-
System-wide support services:				
Support and development	220,862	-	124,942	-
Special populations support and development	171,366	-	146,189	-
Alternative programs support and development	65,429	-	61,393	-
Technology support	822,311	-	24,331	-
Operational support	5,807,800	68,640	1,768,959	769,175
Financial and human resources	351,994	-	310,685	-
Accountability	90,114	-	82,806	-
System-wide pupil support	12,400	-	31,315	-
Policy, leadership and public relations	612,429	-	326,180	-
Ancillary services	373,019	242,876	-	-
Non-programmed charges	31,201	-	80,836	-
Interest on long-term debt	2,468	-	-	-
Unallocated depreciation expense**	1,130,257	-	-	-
Total governmental activities	39,038,586	507,340	28,897,113	769,175
Business-type activities:				
School food service	2,593,048	1,122,666	1,412,402	-
Total business-type activities	2,593,048	1,122,666	1,412,402	-
Total primary government	\$ 41,631,634	\$ 1,630,006	\$ 30,309,515	\$ 769,175
General revenues:				
Macon County appropriations				
Investment earnings, unrestricted				
Miscellaneous, unrestricted				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

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

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,004,664)	\$ -	\$ (2,004,664)
(26,725)	-	(26,725)
(213,602)	-	(213,602)
(463,551)	-	(463,551)
(274,427)	-	(274,427)
(228,666)	-	(228,666)
(95,920)	-	(95,920)
(25,177)	-	(25,177)
(4,036)	-	(4,036)
(797,980)	-	(797,980)
(3,201,026)	-	(3,201,026)
(41,309)	-	(41,309)
(7,308)	-	(7,308)
18,915	-	18,915
(286,249)	-	(286,249)
(130,143)	-	(130,143)
49,635	-	49,635
(2,468)	-	(2,468)
(1,130,257)	-	(1,130,257)
<u>(8,864,958)</u>	<u>-</u>	<u>(8,864,958)</u>
-	(57,980)	(57,980)
-	(57,980)	(57,980)
<u>(8,864,958)</u>	<u>(57,980)</u>	<u>(8,922,938)</u>
9,960,085	-	9,960,085
124,573	7,665	132,238
606,455	-	606,455
(93,558)	93,558	-
<u>10,597,555</u>	<u>101,223</u>	<u>10,698,778</u>
1,732,597	43,243	1,775,840
40,134,697	470,579	40,605,276
<u>\$ 41,867,294</u>	<u>\$ 513,822</u>	<u>\$ 42,381,116</u>

MACON COUNTY BOARD OF EDUCATION

Balance Sheet Governmental Funds

June 30, 2008

	Major Funds					
	General	State Public School	Individual Schools	Capital Outlay	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,778,957	\$ -	\$ 501,770	\$ 23,947	\$ -	\$ 2,304,674
Due from other governments	-	1,134,881	-	150,007	106,147	1,391,035
Accounts receivable	1,010	-	-	-	-	1,010
Total assets	\$ 1,779,967	\$ 1,134,881	\$ 501,770	\$ 173,954	\$ 106,147	\$ 3,696,719
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 27,030	\$ 3,470	\$ -	\$ -	\$ 636	\$ 31,136
Accrued salaries and wages payable	120,345	1,131,411	-	-	105,511	1,357,267
Total liabilities	147,375	1,134,881	-	-	106,147	1,388,403
Fund balances:						
Reserved for:						
State statute	1,010	-	-	150,007	-	151,017
Unreserved, reported in:						
General Fund	442,293	-	-	-	-	442,293
Special Revenue Funds	-	-	501,770	-	-	501,770
Capital Projects Fund	-	-	-	449	-	449
Unreserved, designated for:						
Live vocational project	-	-	-	23,498	-	23,498
VIP program	80,819	-	-	-	-	80,819
Summer Edventure	71,311	-	-	-	-	71,311
Subsequent budget	1,037,159	-	-	-	-	1,037,159
Total fund balances	1,632,592	-	501,770	173,954	-	2,308,316
Total liabilities and fund balances	\$ 1,779,967	\$ 1,134,881	\$ 501,770	\$ 173,954	\$ 106,147	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,727,460
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Installment financing agreement	(171,427)
Capital leases payable	(22,323)
Compensated absences	(1,974,732)
Net assets of governmental activities	\$ 41,867,294

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

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	State Public School	Individual Schools	Capital Outlay		
Revenues:						
State of North Carolina	\$ 127,738	\$ 25,025,713	\$ -	\$ 759,175	\$ -	\$ 25,912,626
Macon County	6,524,600	-	-	3,435,485	-	9,960,085
U.S. Government	1,250	-	-	-	2,293,290	2,294,540
Contributions	-	-	745,336	-	-	745,336
Other	1,320,971	-	666,084	22,589	-	2,009,644
Total revenues	<u>7,974,559</u>	<u>25,025,713</u>	<u>1,411,420</u>	<u>4,217,249</u>	<u>2,293,290</u>	<u>40,922,231</u>
Expenditures:						
Current:						
Instructional services:						
Regular instructional	1,957,285	15,427,570	-	-	295,583	17,680,438
Special populations	161,563	2,628,617	-	-	927,921	3,718,101
Alternative programs	215,140	917,405	-	-	826,252	1,958,797
School leadership	464,736	1,533,110	-	-	-	1,997,846
Co-curricular	283,854	-	1,401,993	-	-	1,685,847
School-based support	185,554	1,680,410	-	-	75,388	1,941,352
Total instructional programs	<u>3,268,132</u>	<u>22,187,112</u>	<u>1,401,993</u>	<u>-</u>	<u>2,125,144</u>	<u>28,982,381</u>
System-wide support services:						
Support and development	81,837	123,113	-	-	1,829	206,779
Special populations support and development	2,215	105,687	-	-	40,022	147,924
Alternative programs support and development	1,372	-	-	-	61,393	62,765
Technology support	520,219	24,331	-	-	-	544,550
Operational support	3,682,119	1,751,060	-	-	-	5,433,179
Financial and human resources	13,353	310,610	-	-	75	324,038
Accountability	2,518	82,806	-	-	-	85,324
System-wide pupil support	3,158	31,315	-	-	-	34,473
Policy, leadership and public relations	245,626	326,121	-	-	59	571,806
Total supporting services	<u>4,552,417</u>	<u>2,755,043</u>	<u>-</u>	<u>-</u>	<u>103,378</u>	<u>7,410,838</u>
Ancillary services	<u>359,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>359,218</u>
Non-programmed charge:	<u>33,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,768</u>	<u>98,691</u>

(continued)

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	State Public School	Individual Schools	Capital Outlay		
Capital outlay:						
Real property and buildings	\$ -	\$ -	\$ -	\$ 3,330,052	\$ -	\$ 3,330,052
Furniture and equipment	-	-	-	769,971	-	769,971
Buses and motor vehicles	-	-	-	539,443	-	539,443
Debt service:						
Principal	-	-	-	432,404	-	432,404
Interest	-	-	-	2,468	-	2,468
Total expenditures	8,213,690	24,942,155	1,401,993	5,074,338	2,293,290	41,925,466
Revenues over (under) expenditures	(239,131)	83,558	9,427	(857,089)	-	(1,003,235)
Other financing sources (uses):						
Proceeds from the sale of capital assets	-	-	-	10,000	-	10,000
Installment purchase contract issued	-	-	-	459,252	-	459,252
Transfers to other funds	-	(83,558)	-	(10,000)	-	(93,558)
Total other financing uses (sources)	-	(83,558)	-	459,252	-	375,694
Net change in fund balances	(239,131)	-	9,427	(397,837)	-	(627,541)
Fund balances--beginning	1,871,723	-	492,343	571,791	-	2,935,857
Fund balances--ending	\$ 1,632,592	\$ -	\$ 501,770	\$ 173,954	\$ -	\$ 2,308,316

(continued)

MACON COUNTY BOARD OF EDUCATION

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2008

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

Net changes in fund balances--total governmental funds	\$ (627,541)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The various capital outlay reconciling items are as follows:

Capital outlays	4,153,677
Current provision for depreciation	(1,345,633)

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:

Installment purchase contract issued	(459,252)
Repayment of long-term debt	432,404

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	<u>(421,058)</u>
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Total changes in net assets of governmental activities	<u><u>\$ 1,732,597</u></u>
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The notes to the basic financial statements are an integral part of this statement.

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	General Fund			Variance with Final Budget- (Negative) Variance
	Original Budget	Budget	Actual	
Revenues:				
State of North Carolina	\$ 416,996	\$ 410,424	\$ 127,738	\$ (282,686)
Macon County:				
Appropriation from general revenues	6,454,510	6,454,510	6,427,199	(27,311)
Timber receipts	97,601	97,601	97,401	(200)
U.S. Government	-	-	1,250	1,250
Other	949,279	1,238,109	1,320,971	82,862
Total revenues	7,918,386	8,200,644	7,974,559	(226,085)
Expenditures:				
Current:				
Instructional services:				
Regular instructional	2,404,058	2,357,888	1,957,285	400,603
Special populations	149,976	193,711	161,563	32,148
Alternative programs	140,688	215,801	215,140	661
School leadership	433,401	526,028	464,736	61,292
Co-curricular	294,864	297,182	283,854	13,328
School-based support	257,878	256,656	185,554	71,102
Total instructional programs	3,680,865	3,847,266	3,268,132	579,134
System-wide support services:				
Support and development	89,600	96,233	81,837	14,396
Special populations support and development	2,213	2,216	2,215	1
Alternative programs support and development	-	2,906	1,372	1,534
Technology support	535,314	549,727	520,219	29,508
Operational support	4,147,318	4,176,674	3,682,119	494,555
Financial and human resources	10,883	17,297	13,353	3,944
Accountability	4,689	2,648	2,518	130
System-wide pupil support	3,000	3,161	3,158	3
Policy, leadership and public relations	245,424	320,260	245,626	74,634
Total supporting services	5,038,441	5,171,122	4,552,417	618,705
Ancillary services	423,120	428,454	359,218	69,236
Non-programmed charges	40,000	40,000	33,923	6,077
Total expenditures	9,182,426	9,486,842	8,213,690	1,273,152
Revenues over (under) expenditures	(1,264,040)	(1,286,198)	(239,131)	1,047,067
Other financing sources (uses):				
Transfers out	-	-	-	-
Appropriated fund balance	1,264,040	1,286,198	-	(1,286,198)
Total other financing sources (uses)	1,264,040	1,286,198	-	(1,286,198)
Net change in fund balances	\$ -	\$ -	(239,131)	\$ (239,131)
Fund balances--beginning			1,871,723	
Fund balances--ending			\$ 1,632,592	

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

State Public School Fund

Original Budget	Budget	Actual	Variance with Final Budget- (Negative) Variance
\$ 24,223,712	\$ 25,477,890	\$ 25,025,713	\$ (452,177)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>24,223,712</u>	<u>25,477,890</u>	<u>25,025,713</u>	<u>(452,177)</u>
15,085,475	15,642,529	15,427,570	214,959
2,611,672	2,657,411	2,628,617	28,794
939,776	952,343	917,405	34,938
1,553,996	1,539,936	1,533,110	6,826
-	-	-	-
1,572,029	1,799,888	1,680,410	119,478
<u>21,762,948</u>	<u>22,592,107</u>	<u>22,187,112</u>	<u>404,995</u>
117,793	125,570	123,113	2,457
103,919	105,839	105,687	152
-	-	-	-
24,500	31,167	24,331	6,836
1,383,132	1,787,936	1,751,060	36,876
305,458	310,814	310,610	204
78,596	82,840	82,806	34
30,856	31,540	31,315	225
332,952	326,519	326,121	398
<u>2,377,206</u>	<u>2,802,225</u>	<u>2,755,043</u>	<u>47,182</u>
-	-	-	-
-	-	-	-
<u>24,140,154</u>	<u>25,394,332</u>	<u>24,942,155</u>	<u>452,177</u>
<u>83,558</u>	<u>83,558</u>	<u>83,558</u>	<u>-</u>
(83,558)	(83,558)	(83,558)	-
-	-	-	-
<u>(83,558)</u>	<u>(83,558)</u>	<u>(83,558)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		<u>-</u>	
		<u>\$ -</u>	

MACON BOARD OF EDUCATION

Statement of Net Assets
Proprietary Fund

June 30, 2008

	<u>School Food Service Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 226,032
Receivables	502
Inventories	51,002
Total current assets	<u>277,536</u>
Non-current assets:	
Capital assets:	
Furniture and office equipment, net of accumulated depreciation	<u>281,851</u>
Total assets	<u>559,387</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	332
Unearned revenue	650
Total current liabilities	<u>982</u>
Non-current liabilities:	
Compensated absences	<u>44,583</u>
Total liabilities	<u>45,565</u>
<u>Net Assets</u>	
Invested in capital assets	281,851
Unrestricted	<u>231,971</u>
Total net assets	<u><u>\$ 513,822</u></u>

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

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	<u>School Food Service Fund</u>
Operating revenues:	
Food sales	\$ 1,118,368
Other	4,298
Total operating revenues	<u>1,122,666</u>
Operating expenses:	
Food costs	981,248
Salaries and benefits	1,339,669
Other administrative costs	6,105
Depreciation	28,698
Repairs and maintenance	10,537
Supplies and equipment	21,776
Indirect cost	205,015
Total operating expenses	<u>2,593,048</u>
Operating loss	<u>(1,470,382)</u>
Non-operating revenues:	
Federal reimbursements	1,085,305
Federal commodities	100,000
State reimbursements	22,082
Interest on investments	7,665
Indirect costs not paid	205,015
Total non-operating revenues	<u>1,420,067</u>
Loss before operating transfers	(50,315)
Transfers in	<u>93,558</u>
Change in net assets	43,243
Net assets--beginning	<u>470,579</u>
Net assets--ending	<u><u>\$ 513,822</u></u>

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

MACON COUNTY BOARD OF EDUCATIONStatement of Cash Flows
Proprietary Fund

For the Fiscal Year Ended June 30, 2008

	<u>School Food Service Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,124,474
Cash paid for goods and services	(910,158)
Cash paid to employees for services	(1,246,567)
Net cash used by operating activities	<u>(1,032,251)</u>
Cash flows from non-capital financing activities:	
Federal reimbursements	1,085,305
State reimbursements	22,082
Transfers from other funds	10,000
Net cash provided by non-capital financing activities	<u>1,117,387</u>
Cash flows for capital and related financing activities:	
Acquisition of capital assets	<u>(31,313)</u>
Cash flows from investing activities:	
Interest on investments	<u>7,665</u>
Net increase in cash and cash equivalents	61,488
Cash and cash equivalents, beginning of year	<u>164,544</u>
Cash and cash equivalents, end of year	<u><u>\$ 226,032</u></u>

(continued)

MACON COUNTY BOARD OF EDUCATIONStatement of Cash Flows
Proprietary Fund, Continued

For the Fiscal Year Ended June 30, 2008

	<u>School Food Service Fund</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (1,470,382)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	28,698
Donated commodities consumed	100,000
Indirect costs	205,015
Expenses paid by other funds	83,558
Change in assets and liabilities:	
Decrease in accounts receivable	1,158
Decrease in inventory	9,264
Increase in accounts payable	244
Increase in accrued vacation and salaries	9,544
Increase in unearned revenue	650
Total adjustments	<u>438,131</u>
Net cash used by operating activities	<u>\$ (1,032,251)</u>

Non-cash operating and non-capital financing activities:

The State Public School Fund paid salaries and benefits of \$83,558 to administrative personnel of the School Food Service Fund. The payments are reflected as transfers in and expenses.

The School Food Service Fund received donated commodities with a value of \$100,000 which is reflected as non-operating revenues.

Indirect costs of \$205,015 during 2008 were not paid. These unpaid costs are reflected as a non-operating revenue.

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

MACON COUNTY BOARD OF EDUCATIONStatement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2008

	<u>Private-Purpose Trust Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 118,649
<u>Net Assets</u>	
Assets held in trust for private purpose	\$ 118,649

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

MACON COUNTY BOARD OF EDUCATIONStatement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2008

	<u>Private-Purpose Trust Funds</u>
Additions:	
Contributions and other revenue	<u>\$ 4,360</u>
Deductions:	
Scholarships paid	<u>4,000</u>
Change in net assets	360
Total net assets--beginning	<u>118,289</u>
Total net assets--ending	<u><u>\$ 118,649</u></u>

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

MACON COUNTY BOARD OF EDUCATION, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

I. Summary of Significant Accounting Policies

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

A. **Reporting Entity** - The Macon 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 Macon 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, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Board reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund 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 Macon County appropriations and restricted sales tax moneys, as well as certain State assistance.

The Board reports the following major enterprise fund:

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

The Board reports the following fiduciary fund:

Private Purpose Trust Fund. The Private Purpose Trust Fund is used to account for scholarship money under the control of the Board for the benefit of students in the district.

C. **Measurement Focus and Basis of Accounting**

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

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

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. Amendments are required for any revisions that alter total expenditures of any fund and all amendments must be approved by the governing board. Amendments that alter the County appropriation or transfer monies to or from the Capital Projects Fund also require the approval of the Macon County Board of Commissioners. During the year, amendments totaling \$4,704,257 were necessary. The original budget ordinance of \$40,481,616 was amended to \$45,185,873. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. **Assets, Liabilities and Net Assets/Fund Balances**

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.

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

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

2. Cash and Cash Equivalents - For the statement of cash flows, the Board considers all cash and investments of the Proprietary Fund to be essentially demand deposits and they are considered cash and cash equivalents.
3. Inventories - The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.
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. The cost of certain items acquired before July 1, 1988, are recorded at estimated cost. The total of such estimates is not considered large enough that errors would be material when the capital assets are considered as a whole.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. 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. Also, the cost of maintenance and repairs, including but not limited to energy conservation projects, or remodeling or replacing building components that do not exceed 5.0% of the historical cost of the related building, as recorded in the inventory of capital assets or \$50,000, whichever is less, are not capitalized.

Macon County holds title to certain properties, which are reflected as capital assets in the financial statements of the Board. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs. Agreements between the County and the Board gives the schools full use of the facilities, full responsibility for maintenance of the facilities, and provide that the County will convey title of the property back to the Board, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Examples</u>	<u>Estimated Useful Life in Years</u>
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and tools	Shop and maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science and engineering	Lab equipment, scientific apparatus	10
Furniture and accessories	Classroom and office furniture	20
Business machines	Fax, duplicating and printing equipment	10
Copiers		5
Communications equip.	Mobile, portable radios, non-computerized	10
Computer hardware	PC's, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still and digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, string, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

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

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 with such leave being fully vested when earned. For the Board's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. For the governmental funds, compensated absences typically have been liquidated in the general fund and are accounted for on a FIFO basis, assuming that employees are taking leave time as it is earned.

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

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, reservations or restrictions of fund balance represent amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

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

The governmental fund types classify fund balances as follows:

UNRESERVED

Unreserved - portion of total fund balance available for appropriation that is uncommitted at year-end.

Designated for Live vocational project - portion of total fund balance expected to be used for the live vocational project.

Designated for VIP program - portion of total fund balance expected to be used to fund the after-school program.

Designated for Summer Edventure - portion of total fund balance expected to be used for the summer education program.

Designated for Subsequent Budget - portion of total fund balance available for appropriation that has been designated for the adopted 2008-2009 budget ordinance.

II. **Stewardship, Compliance, and Accountability**

Excess of Expenditures over Appropriations - In accordance with budgetary control procedures outlined in G.S. 115C-425 and G.S. 115C-441, expenditures may not legally exceed appropriations at the functional level for the General Fund, State Public School Special Revenue Fund, Federal Grants Special Revenue Fund, Capital Projects Fund, and Proprietary Fund. At June 30, 2008, buses and motor vehicles expenditures exceeded appropriations in the Capital Outlay Fund because the Board did not budget for the full value of the new bus installment financing agreement, which is a non-cash transaction.

The Board appropriated sufficient funds in the 2008 budget to cover all cash expenditures.

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, 2008, the carrying amount of the Board’s deposits with banks and savings and loans was \$452,869 and the State Treasurer of \$-0-. The balances with the financial institutions and the State Treasurer were \$1,127,403 and \$240,061, respectively. Of the balances, \$448,960 was covered by federal depository insurance, \$613,616 was covered by collateral held under the pooling method, \$64,827 was covered by collateral held under the dedicated method, and \$240,061 was held by the State Treasurer at June 30, 2008.

2. Investments - At June 30, 2008, the Board had \$498,303 invested with the North Carolina Capital Management Trust’s Cash Portfolio which carried a credit rating of AAAM by Standard and Poor’s. There was \$1,698,133 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 2.9 years at June 30, 2008. The Board has no policy for managing interest rate risk or credit risk.

3. Accounts Receivable - Receivables at the government-wide level at June 30, 2008, were as follows:

	Due from Other <u>Governments</u>	<u>Other</u>
Governmental activities	\$ <u>1,391,035</u>	\$ <u>1,010</u>
Business-type activities	\$ <u>-</u>	\$ <u>502</u>

Due from other governments consists of the following:

Governmental funds:		
State Public School Fund	\$ 1,134,881	Operating funds from DPI
Capital Outlay Fund	150,007	Macon County
Federal Grants Fund	<u>106,147</u>	Federal grant funds
Total capital funds from Macon County	\$ <u>1,391,035</u>	

4. Capital Assets - Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,310,306	\$ -	\$ -	\$ 2,310,306
Construction in process	-	<u>2,679,552</u>	-	<u>2,679,552</u>
Total capital assets not being depreciated	<u>2,310,306</u>	<u>2,679,552</u>	-	<u>4,989,858</u>
Capital assets being depreciated:				
Buildings	49,143,563	650,500	-	49,794,063
Equipment and furniture	1,022,684	284,182	-	1,306,866
Vehicles	<u>3,099,281</u>	<u>539,443</u>	-	<u>3,638,724</u>
Total capital assets being depreciated	<u>53,265,528</u>	<u>1,474,125</u>	-	<u>54,739,653</u>
Less accumulated depreciation for:				
Buildings	13,844,338	1,030,317	-	14,874,655
Equipment and furniture	460,277	99,940	-	560,217
Vehicles	<u>2,351,803</u>	<u>215,376</u>	-	<u>2,567,179</u>
Total accumulated depreciation	<u>16,656,418</u>	<u>1,345,633</u>	-	<u>18,002,051</u>
Total capital assets being depreciated, net	<u>36,609,110</u>			<u>36,737,602</u>
Governmental activity capital assets, net	<u>\$ 38,919,416</u>			<u>\$ 41,727,460</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and equipment	\$ 653,396	\$ 31,313	\$ -	\$ 684,709
Less accumulated depreciation for:				
Furniture and equipment	<u>374,160</u>	<u>28,698</u>	-	<u>402,858</u>
School Food Service capital assets, net	<u>\$ 279,236</u>			<u>\$ 281,851</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 1,130,257
Operational support	<u>215,376</u>
Total	<u>\$ 1,345,633</u>

5. Construction Commitments - Macon County has active construction projects as of June 30, 2008 for the benefit of Macon County Board of Education. At year-end, the County’s commitments with contractors for school construction are approximately as follows:

<u>Project</u>	<u>Remaining Commitment</u>
East Franklin Elementary	\$ <u>17,134,000</u>

The Board has active construction projects as of June 30, 2008 with commitments with contractors of approximately \$955,000.

B. Liabilities

1. Pension Plan Obligations

- a. Teachers’ and State Employees’ Retirement System

Plan Description. Macon 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 six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 3.05% of annual covered payroll. The contribution requirements of plan members and Macon 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, 2008, 2007, and 2006 were \$718,484, \$586,414, and \$484,289, respectively, equal to the required contributions for each year.

- b. **Other Post-employment Benefits** - The post-employment health-care benefits are provided through multiple-employer cost-sharing plans administered by the State. The Board makes monthly contributions to the State for these benefits. Health care benefits are provided to retirees (at no charge to the retirees) of the Teachers' and State Employees' Retirement System (System) who have at least five years of contributing membership in the System. These benefits are provided through the State's Comprehensive Major Medical Plan. Once retirees become eligible for Medicare coverage, they must elect to participate in Part A and Part B coverage to maintain the level of coverage provided prior to 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 State sets monthly contribution rates for post-employment health care benefits, death benefits, and disability benefits, which are the same for all boards of education across the State. For the fiscal year ended June 30, 2008, the Board made contributions to the State for post-employment health care benefits of \$1,126,017. These contributions represented 4.78% of covered payroll.

2. **Other Employment Benefits** - In addition to providing pension and post-employment healthcare benefits, 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), 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.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a multiple-employer State-administered cost-sharing plan, which also is funded on a one-year term cost basis. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-

term disability period or after salary continuation payments cease, whichever is later, for as long as a qualified employee is disabled.

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

3. Accounts Payable - Accounts payable as June 30, 2008, are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>
Governmental activities:		
General	\$ 27,030	\$ 120,345
Other governmental	<u>4,106</u>	<u>1,236,922</u>
Total governmental activities	<u>\$ 31,136</u>	<u>\$ 1,357,267</u>
Business-type activities:		
School Food Service	\$ <u>332</u>	\$ <u>-</u>

4. 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 maintains general liability and errors and omissions coverage of \$1 million per claim through a private insurance company. The private insurance policy has an annual aggregate limit for general liability of \$2,000,000, and \$1,400,000 for errors and omissions. The private insurance policy 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-insured 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 does not currently carry commercial flood insurance.

The Board’s employees that have access to \$100 or more at any given time of the Board’s funds are performance bonded through a commercial surety bond. The Director of Finance and the superintendent are individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

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. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

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.

5. Long-Term Obligations

(a) Capital Leases

As authorized in State law [G.S. 115C-528(a)], the Board entered into three lease agreements to lease telephone systems. One leasing arrangement was made for three years, and two were made for six years. Ownership is transferred to the Board at the conclusion of the leases. The lease agreements qualify as capital leases for accounting purposes; therefore, the obligations have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates vary from 5.45% to 12.5% on the capital leases.

The assets acquired through capital leases are recorded in the governmental activities as follows:

<u>Asset:</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	\$ <u>42,884</u>	\$ <u>11,493</u>	\$ <u>31,391</u>

The future minimum lease payments as of June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	Governmental <u>Activities</u>
2009	\$ 10,568
2010	10,169
2011	<u>3,901</u>
Total minimum lease payments	<u>24,638</u>
Less: amount representing interest	<u>2,315</u>
Present value of the minimum lease payments	\$ <u>22,323</u>

(b) Installment Purchases

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 and White's International Buses through a special third party financing arrangement by DiamlerChrysler Services at total payments less than the purchase price. In March 2006 and November 2007, the Board entered into installment purchase contracts to finance the purchase of school buses. The financing contract requires only principal payments of \$68,175 and \$153,084, respectively, due at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	Governmental <u>Activities</u>
2009	\$ <u>171,427</u>

Long-Term Debt Activity - The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment financing agreements	\$ 136,350	\$ 459,252	\$ 424,175	\$ 171,427	\$ 171,427
Capital leases	30,552	-	8,229	22,323	9,022
Compensated absences	<u>1,553,674</u>	<u>1,341,519</u>	<u>920,461</u>	<u>1,974,732</u>	-
Governmental activity long-term liabilities	<u>\$ 1,720,576</u>	<u>\$ 1,800,771</u>	<u>\$ 1,352,865</u>	<u>\$ 2,168,482</u>	<u>\$ 180,449</u>
Business-type activities:					
Compensated absences	<u>\$ 35,039</u>	<u>\$ 51,406</u>	<u>\$ 41,862</u>	<u>\$ 44,583</u>	-

Governmental fund compensated absences are typically liquidated by the general and other governmental funds.

C. **Interfund Balances and Activity**

Transfers to/from other funds - Transfers to/from other funds at June 30, 2008, consist of the following:

From the State Public School Fund to the School Food Service Fund for administrative costs	\$ <u>83,558</u>
From the Capital Outlay Fund to the School Food Service Fund for non-capital equipment	\$ <u>10,000</u>

IV. **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 SCHOOLS FUND

Individual Schools fund - This fund is used to account for revenues and expenditures of the activity funds of the individual schools.

MACON COUNTY BOARD OF EDUCATION

Balance Sheet
Individual Schools Combined

June 30, 2008

	<u>Elementary and Middle Schools</u>	<u>Senior High School</u>	<u>Combined Totals</u>
<u>Assets</u>			
Cash and investments	<u>\$ 234,018</u>	<u>\$ 267,752</u>	<u>\$ 501,770</u>
<u>Fund Balance</u>			
Fund balance	<u>\$ 234,018</u>	<u>\$ 267,752</u>	<u>\$ 501,770</u>

MACON COUNTY BOARD OF EDUCATIONSchedule of Revenues, Expenditures, and Changes in Fund Balance
Individual Schools Combined

For the Fiscal Year Ended June 30, 2008

	Elementary and Middle Schools	Senior High School	Combined Totals
Revenues:			
Contributions	\$ 575,957	\$ 169,379	\$ 745,336
Fundraising	12,130	106,455	118,585
Athletics	51,799	271,102	322,901
Clubs and organizations	57,845	166,753	224,598
Total revenues	<u>697,731</u>	<u>713,689</u>	<u>1,411,420</u>
Expenditures:			
Student services instructional programs:			
Fundraising costs	6,253	80,818	87,071
Athletics	58,205	288,076	346,281
Clubs and organizations	55,420	187,558	242,978
Other	576,750	148,913	725,663
Total expenditures	<u>696,628</u>	<u>705,365</u>	<u>1,401,993</u>
Net change in fund balance	1,103	8,324	9,427
Fund balance--beginning	<u>232,915</u>	<u>259,428</u>	<u>492,343</u>
Fund balance--ending	<u>\$ 234,018</u>	<u>\$ 267,752</u>	<u>\$ 501,770</u>

NON-MAJOR GOVERNMENTAL FUND

The Macon County Board of Education has one non-major governmental fund:

- Federal Grants Fund--This fund is used to account for the proceeds of federal grants that are legally restricted to expenditures for specific purposes.
-

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
US government:			
Education Technology Formula	\$ 11,115	\$ 8,632	\$ (2,483)
Improving Teacher Quality	253,538	231,434	(22,104)
Vocational Education--Program Improvement	66,257	64,185	(2,072)
Safe and Drug Free Schools and Community	25,127	13,538	(11,589)
IASA Title I, Grants to Local Educational Agencies	940,543	908,907	(31,636)
IASA Title I School Improvement	77,599	14,186	(63,413)
IASA Title II	7,977	7,403	(574)
IDEA Title VI-B Handicapped	1,049,397	879,882	(169,515)
IDEA Title VI-B Capacity Building Improvement	20,019	10,947	(9,072)
State Improvement	10,000	9,672	(328)
IDEA Preschool Handicapped	63,608	60,013	(3,595)
Language Acquisition	103,491	81,191	(22,300)
Abstinence Education	3,390	3,300	(90)
Total revenues	<u>2,632,061</u>	<u>2,293,290</u>	<u>(338,771)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	309,644	295,583	14,061
Special populations	989,809	927,921	61,888
Alternative programs	913,836	826,252	87,584
School-based support	99,351	75,388	23,963
Total	<u>2,312,640</u>	<u>2,125,144</u>	<u>187,496</u>
System-wide support services:			
Support and development	1,885	1,829	56
Special populations support and development	40,201	40,022	179
Alternative programs support and development	62,759	61,393	1,366
Financial and human resources	2,000	75	1,925
Policy, leadership and public relations	100	59	41
Total supporting services	<u>106,945</u>	<u>103,378</u>	<u>3,567</u>
Ancillary service	106	-	106
Non-programmed charges:	<u>212,370</u>	<u>64,768</u>	<u>147,602</u>
Total expenditures	<u>2,632,061</u>	<u>2,293,290</u>	<u>338,771</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance--beginning of year		<u>-</u>	
Fund balance--end of year		<u>\$ -</u>	

CAPITAL OUTLAY FUND

The Capital Outlay Fund accounts for resources used in the construction, acquisition, repair, and replacement of Macon County Board of Education's capital assets. Major revenue sources include Macon County and the State of North Carolina. The Capital Outlay fund is accounted for using the modified accrual basis of accounting.

MACON COUNTY BOARD OF EDUCATIONSchedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
Capital Outlay Fund

For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
State of North Carolina:			
Public School Building Capital Fund	\$ 335,000	\$ 335,000	\$ -
State appropriations--buses	424,175	424,175	-
Total State of North Carolina	<u>759,175</u>	<u>759,175</u>	<u>-</u>
Macon County:			
General County appropriation	700,000	700,000	-
East Franklin Elementary School Renovation	252,258	252,258	-
East Franklin Renovation QZAB	968,246	967,837	-
Franklin High School Concession Stand Project	111,667	111,667	-
New K-4 School	598,494	598,494	-
New 5-6 School	730,755	730,755	-
School Technology Fund	74,474	74,474	-
Total Macon County	<u>3,435,894</u>	<u>3,435,485</u>	<u>-</u>
Other	<u>895</u>	<u>22,589</u>	<u>21,694</u>
Total revenues	<u>4,195,964</u>	<u>4,217,249</u>	<u>21,694</u>
Expenditures:			
Real property and buildings:			
East Franklin Elementary School Renovation	1,214,184	1,214,184	-
Franklin High School Renovations	596,855	596,854	1
HVAC systems for East Franklin & Highlands Schools	139,463	51,369	88,094
Roofs for East Franklin & Highlands Schools	136,120	136,119	1
Architect fees for the new 5-6 school	730,755	730,755	-
Architect fees for the new K-4 school	598,494	598,494	-
Live vocational project	24,519	2,277	22,242
Total real property and buildings	<u>3,440,390</u>	<u>3,330,052</u>	<u>110,338</u>

(continued)

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Positive (Negative) Variance
Expenditures, Continued:			
Vocational education furniture and equipment	12,907	12,906	1
Phone system for Cartoogechaye Elementary School	37,862	37,861	1
Intercom systems for Franklin and Highlands Schools	125,330	123,719	1,611
Generators for Highlands and Nantahala Schools	14,511	14,490	21
Computer hardware and equipment	75,892	74,209	1,683
Non-capitalized furniture and equipment	224,876	217,309	7,567
Non-capitalized computer equipment	289,502	289,477	25
Total furniture and equipment	<u>780,880</u>	<u>769,971</u>	<u>10,909</u>
 Buses and motor vehicles	 <u>80,191</u>	 <u>539,443</u>	 <u>(459,252)</u>
 Debt service:			
Principal	432,404	432,404	-
Interest	2,468	2,468	-
Total expenditures	<u>4,736,333</u>	<u>5,074,338</u>	<u>(328,005)</u>
 Revenues under expenditures	 <u>(540,369)</u>	 <u>(857,089)</u>	 <u>349,699</u>
 Other financing sources (uses):			
Proceeds from the sale of capital assets	10,000	10,000	-
Installment purchase contract issued		459,252	(459,252)
Transfers to other funds	(10,000)	(10,000)	-
Appropriated fund balance	540,369	-	540,369
Total other financing sources (uses)	<u>540,369</u>	<u>459,252</u>	<u>81,117</u>
 Net change in fund balance	 <u>\$ -</u>	 <u>(397,837)</u>	 <u>\$ (397,837)</u>
 Fund balance--beginning		 <u>571,791</u>	
 Fund balance--ending		 <u>\$ 173,954</u>	

ENTERPRISE FUND

The Enterprise Fund is used to account for the operations of the School Food Service Program, which provides breakfast and lunch to the Schools' students. The primary revenue sources are meal charges, federal commodities, subsidies, and USDA reimbursements. The Enterprise Fund is accounted for using the full accrual basis of accounting.

MACON COUNTY BOARD OF EDUCATION

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

For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Operating revenues:			
Food sales	\$ 1,179,814	\$ 1,119,018	\$ (60,796)
Other	6,808	4,298	(2,510)
Total	<u>1,186,622</u>	<u>1,123,316</u>	<u>(63,306)</u>
Operating expenditures:			
Business support services:			
Food costs		971,984	
Salaries		1,013,655	
Other administrative costs		6,105	
Repairs and maintenance		10,537	
Supplies and equipment		21,776	
Capital Outlay		31,313	
Indirect Cost		205,015	
Total business support services	<u>2,481,829</u>	<u>2,260,385</u>	<u>221,444</u>
Other support services--benefits	<u>360,918</u>	<u>316,470</u>	<u>44,448</u>
Total operating expenditures	<u>2,842,747</u>	<u>2,576,855</u>	<u>265,892</u>
Operating loss	(1,656,125)	(1,453,539)	202,586
Non-operating revenues:			
Federal:			
Federal reimbursements	1,246,783	1,085,305	(161,478)
Federal commodities	132,362	100,000	(32,362)
State reimbursement	24,000	22,082	(1,918)
Interest on investments	7,122	7,665	543
Indirect costs not paid	160,000	205,015	45,015
Total non-operating revenues	<u>1,570,267</u>	<u>1,420,067</u>	<u>(150,200)</u>
Revenues under expenditures before other financing sources	(85,858)	(33,472)	52,386

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Revenues, Expenditures and Transfers--Budget and Actual (Non-GAAP)
Proprietary Fund, Continued

For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>(Negative) Variance</u>
Other financing sources:			
Transfers in	\$ 85,858	\$ 93,558	\$ 7,700
Excess of revenues and other sources over expenditures	<u>\$ -</u>	60,086	<u>\$ 60,086</u>
Reconciliation of modified accrual to full accrual basis:			
Excess of revenues and other sources over (under) expenditures		60,086	
Depreciation		(28,698)	
Capital outlay		31,313	
Decrease in inventory		(9,264)	
Increase in accrued vacation and salaries		(9,544)	
Increase in unearned revenue		<u>(650)</u>	
Change in net assets		<u>\$ 43,243</u>	

COMPLIANCE SECTION

MACON COUNTY BOARD OF EDUCATION

Schedule of Expenditures of Federal and State Awards

For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
<u>Office of Elementary and Secondary Education:</u>			
Passed through the N.C. Department of Public Instruction:			
Grants to Local Education-- Title I (Note C)			
Basic and Concentration	84.010	PRC 050	\$ 908,907
School Improvement	84.010	PRC 105	14,186
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	PRC 048	13,538
Teacher Quality Enhancement	84.367	PRC 103	231,434
Education Technology--Formula	84.318	PRC 107	8,632
English Language Acquisition Grants:			
Language Acquisition	84.365	PRC 104	24,454
Sign Language Acquisition	84.365	PRC 111	56,737
Federal, State and Local Partnership for Innovative Programs, Title VI	84.298	PRC 059	7,403
Passed through Jackson County Schools:			
Migrant Education	84.011	PRC 051	1,250
 <u>Office of Special Education and Rehabilitative Services:</u>			
Passed through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Individuals with Disabilities Education Act:			
Education of the Handicapped	84.027	PRC 060	879,882
Capacity Building and Improvement	84.027	PRC 044	10,947
State Improvement	84.027	PRC 082	9,672
Preschool Handicapped	84.173	PRC 049	60,013
Total Special Education Cluster			<u>960,514</u>
 <u>Office of Vocational and Adult Education:</u>			
Passed through the N.C. Department of Public Instruction:			
Carl D. Perkins Vocational Educational Act:			
Basic grants to States:			
Program Improvement	84.048	PRC 017	<u>64,185</u>
Total U.S. Department of Education			<u>2,291,240</u>

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Expenditures of Federal and State Awards

For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services: Passed through the N.C. Department of Public Instruction: Abstinence Education (Title V of Social Security Act)	93.235	PRC 057	\$ <u>3,300</u>
U.S. Department of Agriculture: Child Nutrition Cluster: Passed through the N.C. Department of Public Instruction: National School Lunch Program	10.555	N/A	794,783
National Breakfast Program	10.553	N/A	290,522
Passed through N.C. Department of Agriculture: Food Distribution Program (non-cash program) (Note B)	10.555	N/A	100,000
Passed through State Office of Budget and Management: Passed through Macon County: Schools and Roads--Grants to States	10.665	N/A	<u>97,401</u>
Total U. S. Department of Agriculture			<u>1,282,706</u>
Total federal awards			\$ <u>3,577,246</u>
State Grants:			
N.C. Department of Public Instruction: State Public School Fund	N/A	N/A	\$ 23,262,457
Textbooks	N/A	N/A	195,812
State Breakfast Program	N/A	N/A	22,082
Driver Training Program	N/A	PRC 012	120,183
School Technology Fund	N/A	PRC 015	115,844
Vocational Education--months of employment	N/A	PRC 013	1,233,725
Vocational Education--program support	N/A	PRC 014	97,692
State appropriations--buses	N/A	N/A	424,175
Public School Capital Fund	N/A	N/A	<u>335,000</u>
Total N.C. Department of Public Instruction			<u>25,806,970</u>

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Expenditures of Federal and State Awards

For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-Through Grantor's Number</u>	<u>Expenditures</u>
N.C. Department of Health and Human Services:			
Passed through Macon County:			
More at Four Pre-Kindergarten Program	N/A	PRC 413	\$ 123,245
Passed through Appalachian State University:			
Healthy Schools Grant	N/A	N/A	<u>4,493</u>
Total N.C. Department of Health and Human Services			<u>127,738</u>
 Total State awards	N/A	N/A	<u>\$ 25,934,708</u>

Notes to Schedule of Expenditures of Federal and State Awards

Note A--Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Macon 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.

Note B--Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and used.

Note C--School-Wide Program

The total amount expended from the Grants to Local Education--Basic and Concentration, Title I program was expended in a school-wide program.

See the accompanying Independent Auditors' Report.



**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 Macon County Board of Education
Franklin, 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 Macon County Board of Education, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements and have issued our report thereon dated November 19, 2008. 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

In planning and performing our audit, we considered the Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as Items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are not material weaknesses. We identified certain deficiencies in internal control that we consider to be control deficiencies and other operational matters that we reported to management and those charged with governance in a separate letter dated November 19, 2008.

Compliance and Other Matters

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

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

Board of Directors
Macon County Board of Education
Page Three

This report is intended for the information of members of the Board of Education, management, others within the organization, 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.

November 19, 2008

Dixon Hughes PLLC



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 Macon County Board of Education
Franklin, North Carolina

Compliance

We have audited the compliance of the Macon County Board of Education, North Carolina, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2008. The Macon County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Macon County Board of Education's management. Our responsibility is to express an opinion on the Macon 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 non-compliance 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 Macon 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 Macon County Board of Education's compliance with those requirements.

In our opinion, the Macon County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Board 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 our auditing procedures for the purpose of expressing our opinion on compliance and 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 control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We identified certain deficiencies in internal control that we consider to be control deficiencies and other operational matters that we reported to management and those charged with governance in a separate letter dated November 19, 2008.

Board of Directors
Macon County Board of Education
Page Three

This report is intended for the information of members of the Board of Education, management, others within the organization, 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.

November 19, 2008

Dixon Hughes PLLC

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

To the Macon County Board of Education
Franklin, North Carolina

Compliance

We have audited the compliance of the Macon County Board of Education, North Carolina, 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 its major State program for the year ended June 30, 2008. The Macon County Board of Education's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State programs is the responsibility of the Macon County Board of Education's management. Our responsibility is to express an opinion on the Macon 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 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 non-compliance 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 Macon 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 Macon County Board of Education's compliance with those requirements.

In our opinion, the Macon 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, 2008.

Internal Control Over Compliance

The management of the Board 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 the Board's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that non-compliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a State program will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We identified certain deficiencies in internal control that we consider to be control deficiencies and other operational matters that we reported to management and those charged with governance in a separate letter dated November 19, 2008.

Board of Directors
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November 19, 2008

Dixon Hughes PLLC

MACON COUNTY BOARD OF EDUCATION

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2008

Section I--Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

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

Non-compliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

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

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

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

_____ yes X no

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Findings and Questioned Costs, Continued

For the Fiscal Year Ended June 30, 2008

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Special Education Cluster:
84.027	Education of the Handicapped
84.027	Capacity Building and Improvement
84.027	State Improvement
84.173	Preschool Handicapped
84.010	Title I

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

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

State Awards

Internal control over major State programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? yes X no

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Findings and Questioned Costs, Continued

For the Fiscal Year Ended June 30, 2008

Identification of major State programs:

Program Name

State Public School Fund
Public School Building Capital Fund
State Appropriations--Buses

Section II--Financial Statement Findings

Finding 2008-1

Segregation of Duties

SIGNIFICANT DEFICIENCY

Criteria:	A fundamental concept in a good system of internal control is the segregation of duties. Segregation of duties provides checks and balances to reduce possibilities for misstatements resulting from errors in judgment, dishonesty, personal carelessness, distraction and fatigue.
Condition:	Bank reconciliations are not consistently being approved and payroll reports are not being reviewed by someone independent of the process. Also, duties related to the processing of accounts payable and payroll, recording transactions in the general ledger, and bank reconciliations for Child Nutrition are not properly segregated.
Effect:	Material misstatements caused by error or fraud can occur and not be detected and corrected in a timely manner.

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Findings and Questioned Costs, Continued

For the Fiscal Year Ended June 30, 2008

Cause: There are a limited number of personnel in the Finance Office. Also there is currently employee responsibility for processing accounts payable and payroll, performing bank reconciliations, and recording transactions in the general ledger for the Child Nutrition program.

Recommendation: We recommend that an approval process be implemented for the preparation of bank reconciliations and the Board consider implementing a review process for payroll. We recommend that someone not involved in the processing of payroll review the check registers before checks are cut. We recommend that the duties in the Child Nutrition program be segregated so that the same person processing accounts payable and payroll is not posting transactions to the general ledger and reconciling the bank accounts.

Finding 2008-2

Segregation of Duties

SIGNIFICANT DEFICIENCY

Criteria: A fundamental concept in a good system of internal control is the segregation of duties. Segregation of duties provides checks and balances to reduce possibilities for misstatements resulting from errors in judgment, dishonesty, personal carelessness, distraction and fatigue.

Condition: Individual school bookkeepers receive funds, make deposits, post transactions to the general ledger and reconcile the bank accounts.

Effect: Material misstatements caused by error or fraud can occur and not be detected and corrected in a timely manner.

(continued)

MACON COUNTY BOARD OF EDUCATION

Schedule of Findings and Questioned Costs, Continued

For the Fiscal Year Ended June 30, 2008

Cause: There are a limited number of personnel at each school that have access to the financial records.

Recommendation: We recommend the Board review its current procedures and make adjustments that are feasible.

Section III--Federal Award Findings and Questioned Costs

No findings noted.

Section IV--State Award Findings and Questioned Costs

No findings noted.

MACON COUNTY BOARD OF EDUCATION

Corrective Action Plan

For the Fiscal Year Ended June 30, 2008

Section II--Financial Statement Findings

Finding 2008-1

Segregation of Duties

Contact Person: Betty Waldroop, Finance Officer
828-524-3314

Corrective Action: Duties of current employees will be segregated as much as practical. As additional employees are hired, steps will be taken to structure their responsibilities to achieve greater segregation of duties.

Proposed Completion Date: The above plan will be implemented as soon as funds are available to do so.

Finding 2008-2

Segregation of Duties

Contact Person: Betty Waldroop, Finance Officer
828-524-3314

Corrective Action: Duties of school secretaries/bookkeepers will be segregated as much as possible. Internal audits will be performed on a random basis to look for possible errors and/or fraud. A recommendation will be made to hire an internal auditor to provide on-going audit services at the school level.

Proposed Completion Date: The above plan will be implemented as soon as funds are available to do so.

MACON COUNTY BOARD OF EDUCATION

Corrective Action Plan, Continued

For the Fiscal Year Ended June 30, 2008

Section III--Federal Award Findings and Questioned Costs

None reported.

Section IV--State Award Findings and Questioned Costs

None reported.

MACON COUNTY BOARD OF EDUCATION

Summary Schedule of Prior Year Audit Findings

June 30, 2008

Finding: 2007-1
Status: Cleared

Finding: 2007-2
Status: Similar comment made in the current year. See 2008-1