



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

JANET COWELL
TREASURER

T. VANCE HOLLOMAN
DEPUTY TREASURER

Memorandum #2014-21

TO: County and Local Education Agencies' Officials and Their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management

SUBJECT: Reporting of School Local Current Expense in the Annual Audit Report - Revised

DATE: September 17, 2014

The Fiscal Section of the State and Local Government Finance Division issues a memo to the Department of Public Instruction each year reporting the amount contributed by counties to boards of education (BOEs) as local current expense revenue, reconciling any discrepancies between what was reported by the counties and the BOEs in their respective audit reports. In taking a closer look at this issue for the last two years, we have determined that additional guidance is needed to improve uniformity in the reporting of these numbers. The data on this report is used by the Department of Public Instruction (DPI) to calculate various statutorily required benchmarks, such as low wealth calculations and the non-supplant requirements, used to determine various distributions to BOEs. It is important that these numbers are accurate and reported consistently across the state in the audit reports. The statutory guidance on this matter can currently be found in GS 115C-426. We have consulted with the UNC School of Government and Department of Public Instruction to provide the following guidance.

Budgeting

County governments have statutory authorization to provide schools funding for two purposes: operating and capital. **Funds for operating expenses can be budgeted in the county budget to the Local Current Expense Fund or Special Revenue Fund, such as Fund 8 in the DPI accounting system. Funds for capital expenses must be appropriated to the Capital Outlay Fund. It is very important that counties identify their appropriations by the correct funds in both their budgets and their accounting records.** Additionally, some counties provide school nurses and/or resources officers to the BOEs but pay these individuals as county employees rather than through the BOE payroll. **Counties** can budget and report as actual expenditures in their audit these non-cash expenditures under the education function; however they should not budget or report as actuals in their audit as "local current expense" line-item. The **Schools** should **not budget** the non-cash revenue in the local current expense fund at all but can record the non-cash revenue and expenditure in their audit report in the local current expense fund. This type of reporting should allow the County Contribution to the "Local Current Expense Fund" to equal the School recording of the County's contribution. It will also show any non-cash revenue and expenditures made by the County on behalf of the schools.

Example: The County budgets and sends the BOE \$2,000,000 in cash during the fiscal year. The County also budgets and spends \$100,000 on schools nurses which are county employees who provide services to the schools. (They provide this information (not cash) to the BOE)

Financial Statement Reporting

County General fund Reporting

School Local Current Expense Reporting

Local Current Expense	\$2,000,000	County Rev. Local Current Expense	\$2,000,000
School Nurses provided to BOE	\$100,000	School Nurse (non-cash) revenues provided by the County	\$100,000

Budget

County Budget – General Fund Appropriations

School Budget – Local Current Expense Fund Revenues

Education: Local Current Expense	\$2,000,000	County Contributions–Local Current Expense Fund	\$2,000,000
Education: Schools nurses	\$100,000		

Several counties receive revenues from the US Forest Service (commonly known as timber receipts) from timber sales of National Forests in their counties. Some counties include this under the local current expense budget line-item and other appropriate it separately. This is a revenue source to counties that is passed through to the schools and should be budgeted as revenue and as part of the local current expense appropriation in the counties’ budgets and reported as revenue in the local current expense fund in the audit report for the BOEs..

The BOE also must classify revenues received by the county in the same funds to which the county appropriated them. If the BOE wants to move monies from the fund the county appropriated to another fund, the BOE may request that the county amend their appropriation; however the county does not have to honor the BOE request. G.S. 115C-433(d) requires two tests to be met if the School wants to spend local current expense on capital outlay. The transfer of funds from the current budget (or any fund balance resulting from operating funds) must be to “meet emergencies unforeseen and unforeseeable at the time the budget resolution was adopted” and the county board of commissioners must grant permission. If the county agrees to amend the budget to accommodate the BOE request the county must pass a budget amendment authorizing the change.

Example:

Carolina County wants to appropriate \$3,000,000 for general local current expense, an additional \$50,000 for teacher supplements, funding for a college prep program of \$20,000, \$4,000 to supplement the after school program and also will provide school nursing services (through the County payroll) to the BOE. The cost of their services is estimated at \$12,000. The County also has received a local grant of \$17,000 that must be used for operating the high school drama program. Finally, the County wants to appropriate \$500,000 for capital maintenance for existing school buildings.

The County should budget the above items in their budget ordinance as follows:

Carolina County General Fund Appropriation:

Education:	
Local Current Expense	\$3,074,000
Carolina County Public Schools Capital Outlay fund	\$500,000
Fund 8 appropriation	\$17,000
School Nurses	\$12,000

Carolina County Public Schools (The Schools must adopt their budget with the same fund allocations):

Local Current Expense Fund	\$3,074,000
Capital Outlay Fund	\$500,000
Fund 8	\$17,000

When is it appropriate for a County to budget a Fund 8 appropriation?

G.S. 115C-426 specifies that “other funds may be used to account for reimbursements, including indirect costs, fees for actual costs, tuition, sales tax revenues distributed using the ad valorem method pursuant to G.S. 105-472(b)(2), sales tax refunds, gifts and grants restricted as to use, trust funds, federal appropriations made directly to local school administrative units, and funds received for prekindergarten programs. In addition, the appropriation or use of fund balance or interest income by a local school administrative unit shall not be construed as a local current expense appropriation included as a part of the local current expense fund.” This is the statutory authority to set up Fund 8. The North Carolina Court of Appeals issued an opinion on June 3, 2014 stating that a county and school board can only allocate the restricted funds that are listed in G.S. 115C-426 to Fund 8 or any other fund other than Fund 2 (the Local Current Expense Fund). All unrestricted funds and other restricted funds must be allocated to the local current expense fund or capital outlay fund.

Funding Local Current Expense

Counties can fund their local current expense fund appropriation with various revenues sources. In accordance with GS 159-426(e) there are two exceptions. Funds accruing by virtue of Article IX, Sec. 7 of the Constitution and supplemental taxes to the local current expense fund are sent to the BOE, but are not counted as part of the counties’ funding of local current expense. These two exceptions are not included as county appropriations but must be budgeted and accounted for by school units in the local current expense fund.

Examples of some of the sources used to fund Local Current Expense are ad valorem taxes, operating grants (non-capital), timber receipts and non-restricted portion of the sales tax.

Reporting

As was stated earlier, the amended budget ordinance of the county must include the school appropriation by fund. The BOE audit report will list as revenues the same amounts and funds as the county's ordinance as adopted including budget amendments. BOEs do not have the statutory authority to record these amounts or any portion of these amounts in different funds other than what was appropriated by the county. BOEs and county governments are expected to reconcile actual amounts reported in their audit reports with each other and resolve any discrepancies before the annual audits are prepared and issued. Non-cash expenditures made by the County on behalf of the schools will not be included in the local current expenditure number reported in the audit report but should be reported on a separate line item. This will allow for an efficient reconciliation between the two reports. We will be communicating to the auditors that this is a requirement for the 2014 audits.

The Fiscal Management Section of the State Treasurer's Department will be asking for changes to any county and or BOE report in which the school funding amounts do not agree. At our discretion we may choose to accept the report with the provision that the units agree to reconcile these amounts in the following year's report. In an effort to remind units of this new requirement the 2014 audit transmittal document will ask the auditor to affirm that this reconciliation has taken place when the audit is submitted for our review.

If you have any questions please contact Melinda Canady at 919-807-2384 or melinda.canady@nctreasurer.com.