

**NORTHAMPTON COUNTY  
BOARD OF EDUCATION  
Jackson, North Carolina**

*Financial Statements  
For the Fiscal Year Ended  
June 30, 2018*

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**INDEPENDENT AUDITORS' REPORT**

To the Northampton County Board of Education  
Jackson, North Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northampton County Board of Education, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northampton County Board of Education as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School, Federal Grants and Other Special Revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 5 to the financial statements, beginning balances were restated due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Our opinion is not modified with respect to these changes.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 and the Schedules of the Board's Proportionate Share of the Net Pension Liability, OPEB Liability and OPEB Asset and the Schedules of Board Contributions on pages 48 through 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northampton County Board of Education's basic financial statements. The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018 on our consideration of the Northampton County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northampton County Board of Education's internal control over financial reporting and compliance.

*Anderson Smith & Wike PLLC*

October 23, 2018  
Rockingham, North Carolina  
(910) 997-1418

## **NORTHAMPTON COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the Northampton 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, 2018. This information should be read in conjunction with the audited financial statements included in this report.

### ***Financial Highlights***

As discussed in Note 5 to the financial statements, the Board implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. As a result, net position as previously reported at June 30, 2017 for governmental and business-type activities decreased by \$28.1 million and \$822,000, respectively. For the fiscal year ended June 30, 2018, the Board's total government-wide net position (not including the decrease in net position due to the GASB 75 restatement) decreased by \$980,000. Governmental activities net position decreased by \$744,000 and business-type activities net position decreased by \$236,000.

- Total government-wide net investment in capital assets decreased by \$505,000, or 2.3%, from the prior year. Governmental activities net investment in capital assets decreased by \$492,000 and business-type activities investment in capital assets decreased by \$13,000.
- Total governmental activities restricted net position increased by \$90,000, over the prior year.
- The Board's total government-wide unrestricted net position at June 30, 2018 decreased by \$29.5 million from the prior year due largely to the \$28.9 million GASB 75 restatement.
- Financial reporting awards from the Association of School Business Officials International and the Government Finance Officers Association were received for the fiscal year ended June 30, 2017.

### ***Overview of the Financial Statements***

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

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Required supplemental section that presents budgetary statements for nonmajor governmental funds and budgetary statements for enterprise funds.*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *Government-wide Statements*. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net position and the statement of activities. The statement of net position includes all of the Board's assets, deferred outflows of resources, liabilities and deferred inflows of resources. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets, deferred outflows of resources, deferred inflows of resources and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The statement of activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary fund and fiduciary fund. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to

## **NORTHAMPTON COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

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spend in the next fiscal year. The proprietary and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

### **Government-wide Statements**

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

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

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

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

- *Governmental activities:* Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and State and federal aid finance most of these activities.
- *Business-type activities:* The Board charges fees to help it cover the costs of certain services it provides. School food service is included here.

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

### **Fund Financial Statements**

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

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

Northampton 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 – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements,

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Other Special Revenue Fund and the Federal Grants Fund. The governmental fund statements are shown as Exhibits 3, 4, 5 and 6 of this report.

*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 full accrual basis of accounting as the government-wide statements. The Northampton County Board of Education has one proprietary fund - an enterprise fund – the School Food Service Fund. The proprietary fund statements are shown as Exhibits 7, 8, and 9 of this report.

*Fiduciary funds:* The Board is the trustee, or fiduciary, for assets that belong to others, such as the Private Purpose Trust Fund. The Board is responsible for ensuring that the assets reported in this fund are used only for their intended purpose and by those to whom the assets belong. The Board excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations. The fiduciary fund statements are shown as Exhibits 10 and 11.

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

Net position is an indicator of the fiscal health of the Board. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$7.6 million at June 30, 2018 compared to assets and deferred outflows exceeding liabilities and deferred inflows by \$22.3 million as of June 30, 2017, a decrease of \$29.9 million. As previously discussed, this decrease is primarily due to the implementation of GASB 75 during the year which had the effect of reducing beginning of year net position by \$28.9 million. Following is a summary of the Statement of Net Position at June 30, 2018 and 2017:

**Table 1  
Condensed Statement of Net Position  
As of June 30, 2018 and 2017**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Current assets	\$ 4,635,171	\$ 4,020,936	\$ 481,800	\$ 607,978	\$ 5,116,971	\$ 4,628,914
Capital assets	22,275,838	22,595,946	35,338	48,719	22,311,176	22,644,665
Total assets	26,911,009	26,616,882	517,138	656,697	27,428,147	27,273,579
Deferred outflows of resources	4,162,970	4,770,426	133,917	139,860	4,296,887	4,910,286
Current liabilities	1,710,567	1,440,892	41,593	44,694	1,752,160	1,485,586
Long-term liabilities	28,449,830	7,534,056	926,036	248,505	29,375,866	7,782,561
Total liabilities	30,160,397	8,974,948	967,629	293,199	31,128,026	9,268,147
Deferred inflows of resources	7,933,106	566,000	255,196	16,594	8,188,302	582,594
Net investment in capital assets	21,917,539	22,409,165	35,338	48,719	21,952,877	22,457,884
Restricted net position	511,838	422,066	2,615	-	514,453	422,066
Unrestricted net position (deficit)	(29,448,901)	(984,871)	(609,723)	438,045	(30,058,624)	(546,826)
Total net position	\$ (7,019,524)	\$ 21,846,360	\$ (571,770)	\$ 486,764	\$ (7,591,294)	\$ 22,333,124

The net position of the Board's governmental activities decreased \$28.9 million during the year, from \$21.8 million at June 30, 2017 to \$(7.0) million at June 30, 2018, indicating a decline in the financial condition of the Board. The GASB 75 restatement accounted for the majority of this decrease, reducing beginning of year governmental activities net position by \$28.1 million. Restricted net position increased

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

by \$90,000 while unrestricted net position decreased \$28.5 million compared to the prior year, due primarily to implementation of GASB 75. Net investment in capital assets decreased \$492,000 due to an excess of depreciation expense over capital additions for the year. Deferred outflows and inflows of resources relate entirely to the pension and OPEB plans which the Board participates in. The Board is required to record its proportionate share of these items along with its proportionate share of the plan liabilities. See Note 3 of the financial statements for more details regarding these plans.

The net position of the Board's business-type activities decreased \$236,000 during the year. This decrease is the net loss generated by our school food service operations during the 2018 fiscal year. The following table shows the revenues and expenses for the Board for the current and prior fiscal years:

**Table 2  
Condensed Statement of Activities  
For the Fiscal Years Ended June 30, 2018 and 2017**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Revenues:						
Program revenues:						
Charges for services	\$ 275,613	\$ 259,275	\$ 85,388	\$ 147,842	\$ 361,001	\$ 407,117
Operating grants and contributions	17,125,411	17,343,000	1,286,784	1,402,492	18,412,195	18,745,492
Capital grants and contributions	168,003	123,698	-	-	168,003	123,698
General revenues:						
County appropriations	4,256,830	4,357,321	-	-	4,256,830	4,357,321
State appropriations	2,187,806	2,428,884	-	-	2,187,806	2,428,884
Other revenues	290,040	227,413	-	-	290,040	227,413
Total revenues	24,303,703	24,739,591	1,372,172	1,550,334	25,675,875	26,289,925
Expenses:						
Governmental activities:						
Instructional services	17,550,889	17,564,919	-	-	17,550,889	17,564,919
System-wide support services	6,750,134	6,947,245	-	-	6,750,134	6,947,245
Ancillary services	33,057	20,816	-	-	33,057	20,816
Payments to other governments	632,370	648,001	-	-	632,370	648,001
Unallocated depreciation	16,456	15,012	-	-	16,456	15,012
Business-type activities:						
School food service	-	-	1,673,001	1,789,384	1,673,001	1,789,384
Total expenses	24,982,906	25,195,993	1,673,001	1,789,384	26,655,907	26,985,377
Excess (deficiency) before transfers	(679,203)	(456,402)	(300,829)	(239,050)	(980,032)	(695,452)
Transfers in (out)	(64,653)	(49,369)	64,653	49,369	-	-
Increase (decrease) in net position	(743,856)	(505,771)	(236,176)	(189,681)	(980,032)	(695,452)
Beginning net position, as previously reported	21,846,360	22,352,131	486,764	676,445	22,333,124	23,028,576
Restatement	(28,122,028)	-	(822,358)	-	(28,944,386)	-
Beginning net position (deficit), restated	(6,275,668)	22,352,131	(335,594)	676,445	(6,611,262)	23,028,576
Ending net position (deficit)	\$ (7,019,524)	\$ 21,846,360	\$ (571,770)	\$ 486,764	\$ (7,591,294)	\$ 22,333,124

Total governmental activities generated revenues of \$24.3 million while expenses in this category totaled \$25.0 million for the year ended June 30, 2018, resulting in the aforementioned decrease in net position of \$744,000 (including transfers out to business-type activities of \$65,000). Comparatively, revenues

## **NORTHAMPTON COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

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were \$24.7 million, expenses totaled \$25.2 million and transfers out were \$49,000 for the year ended June 30, 2017, resulting in a decrease in net position of \$506,000. Overall, revenues and expenses were comparable when comparing the two years with no significant fluctuations.

The Board's primary sources of revenues were funding from the State of North Carolina, Northampton County, and the United States Government, which respectively comprised 67.5%, 17.4% and 11.0% of our total revenues. As would be expected, the major component of our expenses was instructional services which accounted for 70.3% of our total expenses during the most recent fiscal year. Of the remaining 29.7% of our total expenses, 27.0% was attributable to system-wide support services.

Our business-type activities generated revenues of \$1.4 million, while expenses totaled \$1.7 million for the year ended June 30, 2018. For the year, net position decreased by \$236,000 (including transfers in of \$65,000). Comparatively, revenues were \$1.6 million, expenses were \$1.8 million and transfers in were \$49,000 for the year ended June 30, 2017, resulting in a decrease in net position of \$190,000. In comparing the two years, salaries and benefits increased by \$72,000 due largely to the implementation of GASB 75 which resulted in a year-over-year increase of \$100,000 in retirement expense.

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

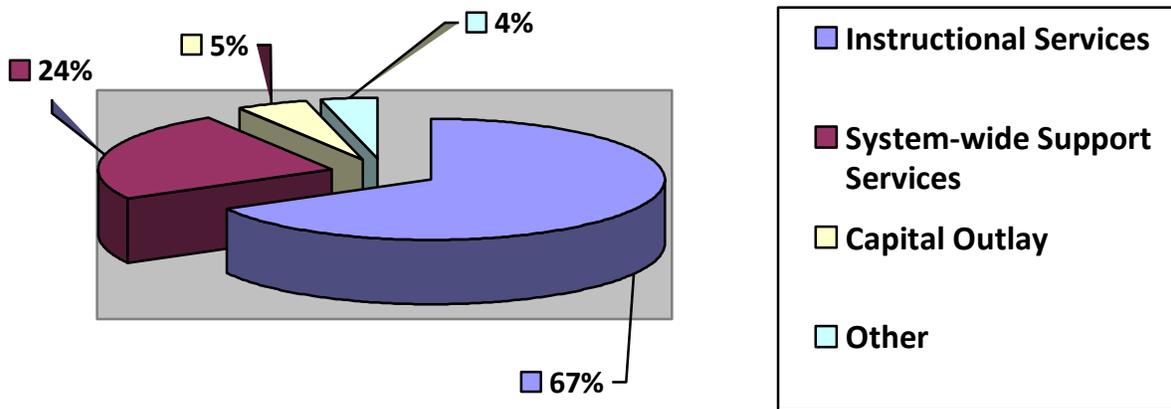
*Governmental Funds:* The focus of Northampton County Board of Education's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Board's financing requirements.

The Board's governmental funds reported a combined fund balance of \$3.8 million at June 30, 2018, an increase of \$356,000 over the \$3.4 million reported at June 30, 2017. The Board's General Fund reported an increase in fund balance for the year ended June 30, 2018 of \$74,000 (including the increase in reserve for inventories), compared to a decrease of \$104,000 in 2017. Decreased operational support costs accounted for the majority of the change when comparing the two years.

The State Public School Fund and Federal Grants Fund do not carry fund balance. All revenues in these funds are expended in the year received. Revenues (and expenditures) in the State Public School Fund decreased \$429,000 for the fiscal year ended June 30, 2018 while the Federal Grants Fund reported a decrease of \$274,000. Allocations to the district declined due primarily to a drop in the district's ADM.

The Capital Outlay Fund reported an increase in fund balance for the 2018 year of \$24,000 compared to a decrease of \$8,000 for the 2017 year. Ending fund balance at June 30, 2018 totaled \$365,000 in the Capital Outlay Fund.

### **Categorization of Expenditures for Governmental Funds**



Expenditures presented on modified accrual basis of accounting.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Proprietary Fund:* The Board's business-type fund, the School Food Service Fund, reported a decrease in net position of \$236,000 for the fiscal year ended June 30, 2018 compared to a decrease of \$190,000 for the same 2017 period. See the discussion above under "Financial Analysis of the Board as a Whole" for further details regarding the year-over-year change in operating results for the School Food Service Fund.

**General Fund Budgetary Highlights**

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and program allocations. Since several revenue sources are either unknown or uncertain at the beginning of the fiscal year when the original budget is adopted, budget revisions are often necessary throughout the year to recognize these adjustments. None of the budget adjustments made during the current year were significant in nature. The Board added \$74,000 to fund balance during year (including the increase in reserve for inventories) which was positive variance compared to the budgeted use of \$125,000 of fund balance. The timing of some revenues and expenditures is less predictable which leads to differences between the budgeted and actual amounts. Variances between actual expenditures and final budget amounts relate to conservative budgeting practices and cost containment strategies.

**Capital Assets**

Total primary government capital assets were \$22.3 million at June 30, 2018 compared to \$22.6 million at June 30, 2017, a decline of 1.5%. The decrease is primarily attributable to an excess of depreciation expense over capital additions for the year. The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2018 and 2017. More detailed information about the Board's capital assets is contained in Note 3 to the financial statements.

**Table 3  
Summary of Capital Assets  
As of June 30, 2018 and 2017**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Land	\$ 822,357	\$ 822,357	\$ -	\$ -	\$ 822,357	\$ 822,357
Buildings and improvements	20,257,671	20,783,613	-	-	20,257,671	20,783,613
Equipment and furniture	150,398	117,500	35,338	48,719	185,736	166,219
Vehicles	1,045,412	872,476	-	-	1,045,412	872,476
Total	<u>\$ 22,275,838</u>	<u>\$ 22,595,946</u>	<u>\$ 35,338</u>	<u>\$ 48,719</u>	<u>\$ 22,311,176</u>	<u>\$ 22,644,665</u>

**Debt Outstanding**

During the current year, the Board's long-term debt increased by \$172,000. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. More detailed information about the Board's outstanding debt is contained in Note 3 to the financial statements.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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***Economic Factors***

County funding is a major source of income for the Board; therefore the County's economic outlook directly affects the school district. The following factors have affected the economic outlook of Northampton County:

- The unemployment rate in Northampton County at June 30, 2018 was 5.5% compared to 5.8% at June 30, 2017. The County's unemployment rate continues to exceed the N.C. statewide and national unemployment rates which were both 4.2% at June 30, 2018.
- County commissioners and members of the Board of Education, along with concerned citizens of the county are working diligently to explore ways to increase economic development and improve the education, health and human service standards of the children and citizens in Northampton County.

***Requests for Information***

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

Cathy Gillus, Finance Officer  
Northampton County Board of Education  
701 N. Church Street  
Jackson, NC 27845

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,819,492	\$ 391,840	\$ 4,211,332
Due from other governments	714,246	58,320	772,566
Net OPEB asset	40,710	1,310	42,020
Inventories	60,723	30,330	91,053
Capital assets:			
Land	822,357	-	822,357
Other capital assets, net of depreciation	21,453,481	35,338	21,488,819
Total capital assets	22,275,838	35,338	22,311,176
Total assets	26,911,009	517,138	27,428,147
<b>Deferred Outflows of Resources</b>	4,162,970	133,917	4,296,887
<b>Liabilities</b>			
Accounts payable and accrued expenses	356,654	700	357,354
Accrued salaries and wages payable	412,575	-	412,575
Due to other governments	22,702	-	22,702
Unearned revenue	-	746	746
Long-term liabilities:			
Due within one year	918,636	40,147	958,783
Due in more than one year	28,449,830	926,036	29,375,866
Total liabilities	30,160,397	967,629	31,128,026
<b>Deferred Inflows of Resources</b>	7,933,106	255,196	8,188,302
<b>Net position</b>			
Net investment in capital assets	21,917,539	35,338	21,952,877
Restricted for:			
Stabilization by State statute	3,744	-	3,744
School capital outlay	365,279	-	365,279
Individual schools activities	61,535	-	61,535
DIPNC OPEB plan	81,280	2,615	83,895
Unrestricted (deficit)	(29,448,901)	(609,723)	(30,058,624)
Total net position (deficit)	\$ (7,019,524)	\$ (571,770)	\$ (7,591,294)

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



**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2018**

**Exhibit 3**

	Major Funds					Non-major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	
<b>Assets</b>							
Cash and cash equivalents	\$ 1,660,123	\$ 22,702	\$ -	\$ 2,029,922	\$ 45,210	\$ 61,535	\$ 3,819,492
Due from other governments	3,744	351,011	39,422	-	320,069	-	714,246
Inventories	60,723	-	-	-	-	-	60,723
Total assets	<u>\$ 1,724,590</u>	<u>\$ 373,713</u>	<u>\$ 39,422</u>	<u>\$ 2,029,922</u>	<u>\$ 365,279</u>	<u>\$ 61,535</u>	<u>\$ 4,594,461</u>
<b>Liabilities and Fund balances</b>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 356,654	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 356,654
Accrued salaries and wages payable	-	351,011	39,422	22,142	-	-	412,575
Due to other governments	-	22,702	-	-	-	-	22,702
Total liabilities	<u>356,654</u>	<u>373,713</u>	<u>39,422</u>	<u>22,142</u>	<u>-</u>	<u>-</u>	<u>791,931</u>
Fund balances:							
Nonspendable:							
Inventories	60,723	-	-	-	-	-	60,723
Restricted:							
Stabilization by State statute	3,744	-	-	-	-	-	3,744
School capital outlay	-	-	-	-	365,279	-	365,279
Individual schools	-	-	-	-	-	61,535	61,535
Assigned:							
Subsequent year's expenditures	153,671	-	-	-	-	-	153,671
Special revenues	-	-	-	2,007,780	-	-	2,007,780
Unassigned	1,149,798	-	-	-	-	-	1,149,798
Total fund balances	<u>1,367,936</u>	<u>-</u>	<u>-</u>	<u>2,007,780</u>	<u>365,279</u>	<u>61,535</u>	<u>3,802,530</u>
Total liabilities and fund balances	<u>\$ 1,724,590</u>	<u>\$ 373,713</u>	<u>\$ 39,422</u>	<u>\$ 2,029,922</u>	<u>\$ 365,279</u>	<u>\$ 61,535</u>	<u>\$ 4,594,461</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2018**

**Exhibit 3 (Continued)**

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

Total fund balances of governmental funds	\$ 3,802,530
Net OPEB asset	40,710
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,275,838
Deferred outflows of resources related to pensions	3,206,057
Deferred outflows of resources related to OPEB	956,913
Some liabilities, including those for compensated absences and installment purchases, are not due and payable in the current period and therefore are not reported in the funds.	(1,466,288)
Net pension liability	(6,033,649)
Net OPEB liability	(21,868,529)
Deferred inflows of resources related to pensions	(334,471)
Deferred inflows of resources related to OPEB	<u>(7,598,635)</u>
Net position (deficit) of governmental activities	<u>\$ (7,019,524)</u>

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit 4**

	Major Funds				Non-major Fund		Total Governmental Funds
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	
Revenues:							
State of North Carolina	\$ -	\$ 15,587,032	\$ -	\$ 594,441	\$ 310,003	\$ -	\$ 16,491,476
Northampton County:							
Local current expense	3,500,000	-	-	-	-	-	3,500,000
Other	-	-	-	-	756,830	-	756,830
U.S. Government	-	-	2,540,950	146,402	-	-	2,687,352
Other	76,260	-	-	632,001	31,054	274,542	1,013,857
Total revenues	<u>3,576,260</u>	<u>15,587,032</u>	<u>2,540,950</u>	<u>1,372,844</u>	<u>1,097,887</u>	<u>274,542</u>	<u>24,449,515</u>
Expenditures:							
Current:							
Instructional services:							
Regular instructional	312,332	7,593,234	340,497	79,321	-	-	8,325,384
Special populations	59,522	1,546,936	469,239	260,898	-	-	2,336,595
Alternative programs	69,827	418,814	1,356,514	451,351	-	-	2,296,506
School leadership	83,228	1,563,165	-	30,220	-	-	1,676,613
Co-curricular	168,482	11,793	-	-	-	284,657	464,932
School-based support	63,317	1,004,834	21,063	150,000	-	-	1,239,214
System-wide support services:							
Support and development	102,384	290,949	-	959	-	-	394,292
Special population support and development	20,922	143,878	24,777	-	-	-	189,577
Alternative programs and services							
support and development	3,341	-	73,462	87	-	-	76,890
Technology support	33,144	303,813	-	24,888	-	-	361,845
Operational support	1,366,217	1,871,828	111,218	78,045	-	-	3,427,308
Financial and human resource services	64,613	448,202	9,956	2,529	-	-	525,300
Accountability	9,593	-	-	-	-	-	9,593
Policy, leadership and public relations	533,046	332,338	-	-	-	-	865,384
Ancillary services	3,894	5,795	14,118	9,250	-	-	33,057
Non-programmed charges	615,027	-	120,106	17,343	-	-	752,476
Debt service:							
Principal retirement	-	-	-	-	168,003	-	168,003
Capital outlay	-	-	-	-	1,245,220	-	1,245,220
Total expenditures	<u>3,508,889</u>	<u>15,535,579</u>	<u>2,540,950</u>	<u>1,104,891</u>	<u>1,413,223</u>	<u>284,657</u>	<u>24,388,189</u>
Revenues over (under) expenditures	<u>67,371</u>	<u>51,453</u>	<u>-</u>	<u>267,953</u>	<u>(315,336)</u>	<u>(10,115)</u>	<u>61,326</u>
Other financing sources (uses):							
Transfers to other funds	-	(51,453)	-	-	-	-	(51,453)
Installment purchase obligations issued	-	-	-	-	339,521	-	339,521
Total other financing sources (uses)	<u>-</u>	<u>(51,453)</u>	<u>-</u>	<u>-</u>	<u>339,521</u>	<u>-</u>	<u>288,068</u>
Net change in fund balance	67,371	-	-	267,953	24,185	(10,115)	349,394
Fund balances:							
Beginning of year	1,293,886	-	-	1,739,827	341,094	71,650	3,446,457
Change in reserve for inventories	6,679	-	-	-	-	-	6,679
End of year	<u>\$ 1,367,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,007,780</u>	<u>\$ 365,279</u>	<u>\$ 61,535</u>	<u>\$ 3,802,530</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit 5**

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

Net changes in fund balances - total governmental funds	\$ 349,394
Change in fund balance due to change in reserve for inventory	6,679
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(290,858)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	1,257,549
Contributions to the OPEB plans in the current fiscal year are not included on the statement of activities	722,099
Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities.	(25,706)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(171,518)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Pension expense	(1,536,005)
Net OPEB expense	(1,069,610)
Loss on disposal of capital assets	(3,544)
Compensated absences	<u>17,664</u>
Total change in net position of governmental activities	<u>\$ (743,856)</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit 6**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Northampton County	3,500,000	3,500,000	3,500,000	-
U.S. Government	-	-	-	-
Other	<u>58,000</u>	<u>63,893</u>	<u>76,260</u>	<u>12,367</u>
Total revenues	<u>3,558,000</u>	<u>3,563,893</u>	<u>3,576,260</u>	<u>12,367</u>
Expenditures:				
Current:				
Instructional services	599,631	801,103	756,708	44,395
System-wide support services	2,304,611	2,268,896	2,133,260	135,636
Ancillary services	3,758	3,894	3,894	-
Non-programmed charges	<u>650,000</u>	<u>615,027</u>	<u>615,027</u>	<u>-</u>
Total expenditures	<u>3,558,000</u>	<u>3,688,920</u>	<u>3,508,889</u>	<u>180,031</u>
Revenues over (under) expenditures	-	(125,027)	67,371	192,398
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	<u>125,027</u>	-	<u>(125,027)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	67,371	<u>\$ 67,371</u>
Fund balances:				
Beginning of year			1,293,886	
Change in reserve for inventories			<u>6,679</u>	
End of year			<u>\$ 1,367,936</u>	

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION** **Exhibit 6 (continued)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended June 30, 2018**

	State Public School Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ 15,149,216	\$ 15,739,629	\$ 15,587,032	\$ (152,597)
Northampton County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>15,149,216</u>	<u>15,739,629</u>	<u>15,587,032</u>	<u>(152,597)</u>
Expenditures:				
Current:				
Instructional services	12,272,218	12,290,568	12,138,776	151,792
System-wide support services	2,826,247	3,391,813	3,391,008	805
Ancillary services	-	5,795	5,795	-
Non-programmed charges	-	-	-	-
Total expenditures	<u>15,098,465</u>	<u>15,688,176</u>	<u>15,535,579</u>	<u>152,597</u>
Revenues over (under) expenditures	50,751	51,453	51,453	-
Other financing uses:				
Transfers to other funds	(50,751)	(51,453)	(51,453)	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
Change in reserve for inventories			-	
End of year			<u>\$ -</u>	

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**

**Exhibit 6 (continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**

**BUDGET AND ACTUAL**

**GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS**

**For the Fiscal Year Ended June 30, 2018**

	Federal Grants Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Northampton County	-	-	-	-
U.S. Government	570,425	3,512,175	2,540,950	(971,225)
Other	-	-	-	-
Total revenues	<u>570,425</u>	<u>3,512,175</u>	<u>2,540,950</u>	<u>(971,225)</u>
Expenditures:				
Current:				
Instructional services	426,451	3,069,782	2,187,313	882,469
System-wide support services	114,287	219,316	219,413	(97)
Ancillary services	-	61,058	14,118	46,940
Non-programmed charges	29,687	162,019	120,106	41,913
Total expenditures	<u>570,425</u>	<u>3,512,175</u>	<u>2,540,950</u>	<u>971,225</u>
Revenues over (under) expenditures	-	-	-	-
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
Change in reserve for inventories			-	
End of year			<u>\$ -</u>	

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**

**Exhibit 6 (continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS  
For the Fiscal Year Ended June 30, 2018**

	Other Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ 621,897	\$ 583,289	\$ 594,441	\$ 11,152
Northampton County	-	-	-	-
U.S. Government	137,194	137,195	146,402	9,207
Other	-	110,199	632,001	521,802
Total revenues	<u>759,091</u>	<u>830,683</u>	<u>1,372,844</u>	<u>542,161</u>
Expenditures:				
Current:				
Instructional services	958,310	1,010,649	971,790	38,859
System-wide support services	78,657	176,147	106,508	69,639
Ancillary services	11,000	11,100	9,250	1,850
Non-programmed charges	-	39,427	17,343	22,084
Total expenditures	<u>1,047,967</u>	<u>1,237,323</u>	<u>1,104,891</u>	<u>132,432</u>
Revenues over (under) expenditures	(288,876)	(406,640)	267,953	674,593
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	<u>288,876</u>	<u>406,640</u>	-	<u>(406,640)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	267,953	<u>\$ 267,953</u>
Fund balances:				
Beginning of year			1,739,827	
Change in reserve for inventories			-	
End of year			<u>\$ 2,007,780</u>	

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND TYPE**  
**June 30, 2018**

**Exhibit 7**

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food</u>
	<u>Service</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 391,840
Due from other governments	58,320
Net OPEB asset	1,310
Inventories	<u>30,330</u>
Total current assets	<u>481,800</u>
Noncurrent assets:	
Capital assets:	
Furniture and office equipment, net	<u>35,338</u>
Total assets	<u>517,138</u>
<b>Deferred Outflows of Resources</b>	<u>133,917</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	700
Compensated absences	40,147
Unearned revenue	<u>746</u>
Total current liabilities	<u>41,593</u>
Noncurrent liabilities:	
Net pension liability	194,094
Net OPEB liability	703,479
Compensated absences	<u>28,463</u>
Total noncurrent liabilities	<u>926,036</u>
Total liabilities	<u>967,629</u>
<b>Deferred Inflows of Resources</b>	<u>255,196</u>
<b>Net position</b>	
Investment in capital assets	35,338
DIPNC OPEB plan	2,615
Unrestricted (deficit)	<u>(609,723)</u>
Total net position (deficit)	<u>\$ (571,770)</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND TYPE**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit 8**

	Enterprise Fund Major Fund School Food Service
Operating revenues:	
Food sales	\$ 85,388
Operating expenses:	
Food cost:	
Purchase of food	433,795
Donated commodities	104,755
Salaries and benefits	1,016,968
Materials and supplies	45,337
Repairs and maintenance	7,283
Depreciation	26,206
Non-capitalized equipment	6,104
Loss on disposal of capital assets	375
Contracted services	2,771
Other	29,407
Total operating expenses	<u>1,673,001</u>
Operating loss	<u>(1,587,613)</u>
Nonoperating revenues:	
Federal reimbursements	1,150,150
Federal commodities	104,755
State reimbursements	31,879
Total nonoperating revenues	<u>1,286,784</u>
Loss before transfers	(300,829)
Transfers from other funds	51,453
Capital contributions	<u>13,200</u>
Change in net position	<u>(236,176)</u>
Net position, beginning of year, as previously reported	486,764
Restatement	<u>(822,358)</u>
Net position (deficit), beginning of year, as restated	<u>(335,594)</u>
Net position (deficit), end of year	<u>\$ (571,770)</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit 9**

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>School Food</u> <u>Service</u>
Cash flows from operating activities:	
Cash received from customers	\$ 85,549
Cash paid for goods and services	(528,858)
Cash paid to employees for services	<u>(870,369)</u>
Net cash used by operating activities	<u>(1,313,678)</u>
Cash flows from noncapital financing activities:	
Federal and State reimbursements	<u>1,179,834</u>
Net decrease in cash and cash equivalents	(133,844)
Cash and cash equivalents, beginning of year	<u>525,684</u>
Cash and cash equivalents, end of year	<u>\$ 391,840</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ <u>(1,587,613)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	26,206
Loss on disposal of capital assets	375
Donated commodities	104,755
Salaries paid by special revenue fund	51,453
Changes in assets and liabilities:	
Increase in net OPEB asset	(67)
Increase in inventories	(4,161)
Increase in unearned revenue	161
Decrease in net pension liability	(13,713)
Decrease in net OPEB liability	(144,094)
Decrease in deferred outflows	29,915
Increase in deferred inflows	238,602
Decrease in compensated absences payable	<u>(15,497)</u>
Total adjustments	<u>273,935</u>
Net cash used by operating activities	<u>\$ (1,313,678)</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**For the Fiscal Year Ended June 30, 2018**

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**Exhibit 9 (continued)**

**NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:**

The School Food Service Fund received donated commodities with a value of \$104,755 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

The State Public School Fund paid salaries and benefits of \$51,453 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected as a transfer in and an operating expense on Exhibit 8.

School Food Service capital assets with a value of \$13,200 were purchased by the Federal Grants Fund during the year. The value of these assets is reflected as a capital contribution on Exhibit 8.

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
June 30, 2018**

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**Exhibit 10**

	<u>Private Purpose Trust Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>23,302</u>
<b>Liabilities</b>	<u>-</u>
<b>Net position</b>	
Assets held in trust for private purpose	\$ <u>23,302</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
For the Fiscal Year Ended June 30, 2018**

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**Exhibit 11**

	<u>Private Purpose Trust Fund</u>
Additions:	
Contributions and other revenue	\$ <u>153</u>
Deductions:	
Instructional costs	<u>1,190</u>
Change in net position	(1,037)
Beginning net position	<u>24,339</u>
Ending net position	<u>\$ 23,302</u>

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

The Northampton 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 Northampton County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity. The Board has no component units.

B. Basis of Presentation

*Government-wide Statements:* The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

*Fund Financial Statements:* The fund financial statements provide information about the Board's funds, including its fiduciary fund. 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 nonmajor funds. The fiduciary fund is presented separately. Interfund services provided and used are not eliminated in the process of consolidation.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. All expenses are considered to be operating expenses.

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 accounted for in another fund.

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

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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*Federal Grants Fund.* The Federal Grants Fund includes appropriations from the U.S. Government for the current operating expenditures of the public school system.

*Other Special Revenue Fund.* The Other Special Revenue Fund is used to account for revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax refunds, gifts and grants restricted as to use, federal and State grants restricted as to use, federal and State appropriations made directly to local school administrative units, funds received for prekindergarten programs and special programs.

*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 Northampton County appropriations, restricted sales tax moneys, proceeds of county debt issued for public school construction, lottery proceeds as well as certain State assistance.

The Board reports the following nonmajor governmental fund:

*Individual Schools Fund.* The Individual Schools Fund includes revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds held on the behalf of various clubs and organizations, receipts from athletic events, and proceeds from various fund raising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs.

The Board reports 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 County.

**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 is

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the private purpose trust fund and the individual schools special revenue fund, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose level for all annually budgeted funds. The Board has authorized the Superintendent to move moneys within a function without the approval of the governing board. The Superintendent may transfer amounts between purpose codes of the same fund with a semi-annual report to the Board required. Amendments are required for any transfers between funds, transfers from contingency appropriations or revisions that alter total expenditures of any fund. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity

1. Deposits and Investments

All deposits of the Board are made in board-designated official depositories and are secured as required by State law [G.S. 115C-444]. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Board also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

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

The Board's investments are reported at amortized cost or at fair value determined by either quoted market prices or a matrix pricing model. Bank deposits and the NCCMT are measured at amortized cost, which is the NCCMT's share price. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

2. Cash and Cash Equivalents

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

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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. The inventories of the Board’s General Fund consist of expendable materials and supplies which are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is classified as nonspendable. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

4. Capital Assets

Donated assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities, it is the policy of the Board to capitalize those assets costing more than \$5,000 with an estimated useful life of two or more years, while for capital assets utilized in business-type activities, it is the policy of the Board to capitalize those assets costing more than \$500 with an estimated useful life of two or more years. The cost of normal repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

	<u>Years</u>
Buildings and improvements	50
Equipment and furniture	5 - 10
Vehicles	10

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

5. Deferred outflows and inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has two items that meet this criterion – pension and other post-employment benefit-related deferrals. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has two items that meet this criterion – pension and other post-employment benefit-related deferrals.

6. 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.

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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7. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2018 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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.

8. Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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

*Restricted fund balance* – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute for amounts owed to the district at year end [G.S. 115C-425(a)]. The restriction will be released as of the beginning of the subsequent fiscal year following collection of the amounts owed to the district.

Restricted for school capital outlay - portion of fund balance that can only be used for school capital outlay. [G.S. 159-18 through 22]

Restricted for individual schools – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

*Assigned fund balance* – portion of fund balance that the Board of Education intends to use for specific purposes. The assignment of fund balance is governed by NC General Statutes. The Board of Education is authorized to approve appropriations of fund balance in accordance with restrictions established by NC General Statutes.

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted. The Board of Education approves the appropriation in accordance with State laws.

Special revenues – portion of fund balance that represents the residual amount of revenues from certain grants, reimbursements, indirect costs and other financial resources in excess of related expenditures that will be used for instructional services, system-wide support services, ancillary services or non-programmed charges, as determined by the Board of Education.

*Unassigned fund balance* – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. A negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will pay expenditures from restricted revenue sources first, followed by assigned fund balance and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

9. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$(10,822,054) consists of the following elements:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 51,579,046
Less accumulated depreciation	<u>(29,303,208)</u>
Net capital assets	22,275,838
Net OPEB asset	40,710
Deferred outflows of resources related to pensions	3,206,057
Deferred outflows of resources related to OPEB	956,913
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchases	(358,299)
Compensated absences	(1,107,989)
Net pension liability	(6,033,649)
Net OPEB liability	(21,868,529)
Deferred inflows of resources related to pensions	(334,471)
Deferred inflows of resources related to OPEB	<u>(7,598,635)</u>
Total adjustment	<u>\$ (10,822,054)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(1,093,250) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 611,470
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(902,328)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities - it affects only the government-wide statement of net position	(339,521)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net position on the government-wide statements	168,003
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	1,257,549
Contributions to the OPEB plans in the current fiscal year are not included on the Statement of Activities	722,099
Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities	(25,706)
Expenses reported in the Statement of Activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Pension expense	(1,536,005)
OPEB expense	(1,069,610)
Loss on disposal of asset	(3,544)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	17,664
Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	6,679
Total adjustment	<u>\$ (1,093,250)</u>

10. Defined Benefit Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC) and additions to/deductions from TSERS, RHBF, and DIPNC's fiduciary net position have been determined on the same basis as they are reported by TSERS, RHBF, and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Board's employer contributions are recognized when due and the Board has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and

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payable in accordance with the terms of TSERS, RHBF, and DIPNC. Investments are reported at fair value.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2018, the Board reported expenditures within the School Food Service and Federal Grants funds that violated State law [G.S. 115C-441] because they exceeded the amount appropriated in the budget ordinance. Expenditures for business support services in the School Food Service Fund exceeded the budget by \$143,770 and system-wide support services expenditures in the Federal Grants Fund exceeded the budget by \$97. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

**NOTE 3 - 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, 2018, the Board had deposits with banks and savings and loans with a carrying amount of \$3,639,532 and with the State Treasurer of \$22,702. The bank balances with the financial institutions and the State Treasurer were \$3,669,934 and \$383,878, respectively. Of these balances, \$315,224 was covered by federal depository insurance and \$3,738,588 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2018, the Board had \$572,400 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.5 years at June 30, 2018. The Board has no investment balances in the NCCMT as of June 30, 2018. The Board has no policy for managing interest rate risk or credit risk. All investments are measured using the market approach. The STIF is classified in Level 2 of the fair value hierarchy and valued using prices that are either directly or indirectly observable for an asset or liability.

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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3. Accounts Receivable

Receivables at the government-wide level at June 30, 2018 are as follows:

	Due from other governments
Governmental activities:	
General Fund	\$ 3,744
Other governmental activities	710,502
Total governmental activities	<u>\$ 714,246</u>
Business-type activities:	
School Food Service Fund	<u>\$ 58,320</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 3,744	Amounts due from County
Capital Outlay Fund	320,069	Amounts due from County
State Public School Fund	351,011	Operating funds from DPI
Federal Grants Fund	<u>39,422</u>	Federal grant funds
Total	<u>\$ 714,246</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 58,320</u>	Federal grant funds

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4. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	\$ 822,357	\$ -	\$ -	\$ 822,357
Capital assets being depreciated:				
Buildings and improvements	43,757,453	176,590	-	43,934,043
Equipment and furniture	971,792	49,354	-	1,021,146
Vehicles	5,703,897	385,526	287,923	5,801,500
Total capital assets being depreciated	<u>50,433,142</u>	<u>611,470</u>	<u>287,923</u>	<u>50,756,689</u>
Less accumulated depreciation for:				
Buildings and improvements	22,973,840	702,532	-	23,676,372
Equipment and furniture	827,834	16,456	-	844,290
Vehicles	4,857,879	183,340	258,673	4,782,546
Total accumulated depreciation	<u>28,659,553</u>	<u>902,328</u>	<u>258,673</u>	<u>29,303,208</u>
Total capital assets being depreciated, net	<u>21,773,589</u>			<u>21,453,481</u>
Governmental activity capital assets, net	<u>\$ 22,595,946</u>			<u>\$ 22,275,838</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment, furniture and vehicles	\$ 1,436,594	\$ 13,200	\$ 897	\$ 1,448,897
Less accumulated depreciation for:				
Equipment, furniture and vehicles	<u>1,387,875</u>	<u>26,206</u>	<u>522</u>	<u>1,413,559</u>
School Food Service capital assets, net	<u>\$ 48,719</u>			<u>\$ 35,338</u>

Depreciation was charged to governmental functions as follows:

Instructional services	\$ 702,532
System-wide support services	183,340
Unallocated depreciation	<u>16,456</u>
Total	<u>\$ 902,328</u>

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

*Plan Description.* The Board is a participating employer in the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS membership is comprised of employees of the

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
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State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2018, was 10.78% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$1,298,003 for the year ended June 30, 2018.

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

At June 30, 2018, the Board reported a liability of \$6,227,743 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31,

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2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. The Board's proportion at June 30, 2017 and 2016 was 0.0785% and 0.0794%, respectively.

For the year ended June 30, 2018, the Board recognized pension expense of \$1,593,636. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 135,006	\$ 203,742
Changes of assumptions	983,889	-
Net difference between projected and actual earnings on pension plan investments	842,825	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	49,468	141,488
Board contributions subsequent to the measurement date	<u>1,298,003</u>	<u>-</u>
Total	<u>\$ 3,309,191</u>	<u>\$ 345,230</u>

\$1,298,003 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 271,147
2020	1,156,576
2021	575,542
2022	<u>(337,307)</u>
Total	<u>\$ 1,665,958</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.1 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based

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on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

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	1% Decrease <u>(6.20%)</u>	Discount Rate <u>(7.20%)</u>	1% Increase <u>(8.20%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 12,819,273	\$ 6,227,743	\$ 704,881

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

b. Other Postemployment Benefits

1. Healthcare Benefits

*Plan description.* The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

*Benefits provided.* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options of the self-funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement

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service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's noncontributory premium.

Section 35.21 (c) and (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1 and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 6.05% of covered payroll which amounted to \$728,471.

At June 30, 2018, the Board reported a liability of \$22,572,008 for its proportionate share of the net RHBF OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2017 and 2016, the Board's proportion was 0.069% and 0.068%, respectively.

\$728,471 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (1,525,564)
2020	(1,525,564)
2021	(1,525,564)
2022	(1,525,564)
2023	<u>(1,523,466)</u>
Total	\$ <u>(7,625,722)</u>

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

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Inflation	2.75%
	3.50-8.10%, include 3.5% inflation and productivity factor
Salary increases	
Investment rate of return	7.20%, net of pension plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00-6.50%
Healthcare cost trend rate - prescription drug	5.00-7.25%
Healthcare cost trend rate - Medicare advantage	4.00-5.00%
Healthcare cost trend rate - administrative	3.00%

*Discount rate.* The discount rate used to measure the total OPEB liability for the RHBF was 3.58%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

*Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the Board's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.58 percent) or 1-percentage point higher (4.58 percent) than the current discount rate:

	1% decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	\$ 26,927,109	\$ 22,572,008	\$ 19,117,795

*Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the healthcare trend rates.* The following presents the Board's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.58 percent) or 1-percentage point higher (4.58 percent) than the current discount rate:

	Healthcare Trend Rates		
	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)	(Medical -5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00- 5.00%, Administrative - 3.00%)	1% increase (Medical -6.00- 7.50%, Pharmacy - 6.00- 8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)
Net OPEB liability	\$ 18,439,252	\$ 22,572,008	\$ 28,064,970

*OPEB plan fiduciary net position.* Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

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2. Disability Benefits

*Plan description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain Local Education Agencies, and ORP.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

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

*Contributions.* Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$16,857 for the year ended June 30, 2018.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

At June 30, 2018, the Board reported an asset of \$42,020 for its proportionate share of the net DIPNC OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB

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asset was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2017 and 2016, the Board's proportion was 0.069% and 0.070%, respectively.

\$16,857 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 7,573
2020	7,573
2021	7,571
2022	<u>2,301</u>
Total	<u>\$ 25,018</u>

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

Inflation	3.00%
Salary increases	3.5%-8.10%, include 3.5% inflation and productivity factor
Investment rate of return	3.75%, net of pension plan expense, including inflation

*Sensitivity of the Board's proportionate share of the net OPEB asset to changes in the discount rate.* The following presents the Board's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.75 percent) or 1-percentage point higher (4.75 percent) than the current discount rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB asset	\$ 35,723	\$ 42,020	\$ 48,331

*Common actuarial assumptions for both OPEB plans.* The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2016 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2017. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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

The actuarial assumptions were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and by adding expected

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inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
<b>Total</b>	<b>100%</b>	

Following is information related to OPEB expense, proportionate share, assets, liabilities, deferred outflows of resources and deferred inflows of resources reported by the Board as of and for the year ended June 30, 2018:

	RHBF	DIPNC	Total
OPEB expense	\$ 1,162,550	\$ 23,754	\$ 1,186,304
OPEB liability (asset)	22,572,008	(42,020)	22,529,988
Proportionate share of the net OPEB liability (asset)	0.0688%	0.0688%	
Deferred Outflows of Resources:			
Differences between expected and actual experience	-	11,521	11,521
Net difference between projected and actual earnings on plan investments	-	9,210	9,210
Changes in proportion and differences between Board contributions and proportionate share of contributions	217,350	4,287	221,637
Board contributions subsequent to the measurement date	728,471	16,857	745,328
Deferred Inflows of Resources:			
Differences between expected and actual experience	1,618,455	-	1,618,455
Changes of assumptions	6,216,228	-	6,216,228
Net difference between projected and actual earnings on plan investments	8,389	-	8,389

2. Accounts Payable

Accounts payable as of June 30, 2018 are as follows:

	Vendors and Other	Due to Other Governments	Salaries and Benefits	Total
Governmental activities:				
General Fund	\$ 356,654	\$ -	\$ -	\$ 356,654
Other governmental activities	-	22,702	412,575	435,277
<b>Total governmental activities</b>	<b>\$ 356,654</b>	<b>\$ 22,702</b>	<b>\$ 412,575</b>	<b>\$ 791,931</b>
Business-type activities:				
School Food Service Fund	\$ 700	\$ -	\$ -	\$ 700

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3. Unearned Revenues

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

Business-type activities:

Prepayments of meals (School Food Service Fund)	<u>\$ 746</u>
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4. Deferred Outflows and Inflows of Resources

The balances in deferred outflows and inflows of resources at year-end are composed of the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 146,527	\$ 1,822,197
Changes of assumptions	983,889	6,216,228
Net difference between projected and actual earnings on pension and OPEB plan investments	852,035	8,389
Changes in proportion and differences between Board contributions and proportionate share of contributions	271,105	141,488
Board contributions subsequent to the measurement date	<u>2,043,331</u>	<u>-</u>
Total	<u>\$ 4,296,887</u>	<u>\$ 8,188,302</u>

5. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1,000,000 each claim made / \$3,150,000 coverage period aggregate. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage. Statutory workers' compensation coverage is purchased through a private insurer for employees to the extent they are paid from Federal and local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board 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. The Fund insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on flood, earthquake, business interruption and extra expense. \$10 million per occurrence is provided on increased cost of construction.

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

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In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$5,000.

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

6. Long-Term Obligations

a. 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 Buses through special third party financing arrangements. During the current and two prior fiscal years, the Board entered into such contracts for the purchase of school buses. The financing contracts each require four equal principal-only payments with the first payment due within 10 days of receipt of the buses and the following 3 payments due on the next 3 immediately following November 15<sup>th</sup> dates. The future minimum payments of the installment purchase as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u> <u>Principal</u>
2019	\$ 168,005
2020	105,413
2021	<u>84,881</u>
Total principal obligation	<u>\$ 358,299</u>

b. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2018:

	<u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ 186,781	\$ 339,521	\$ 168,003	\$ 358,299	\$ 168,005
Net pension liability	7,088,035	-	1,054,386	6,033,649	-
Net OPEB liability	28,909,592	-	7,041,063	21,868,529	-
Compensated absences	1,125,653	744,934	762,598	1,107,989	750,631
Total	<u>\$ 37,310,061</u>	<u>\$ 1,084,455</u>	<u>\$ 9,026,050</u>	<u>\$ 29,368,466</u>	<u>\$ 918,636</u>
Business-type activities:					
Net pension liability	\$ 207,807	\$ -	\$ 13,713	\$ 194,094	\$ -
Net OPEB liability	847,573	-	144,094	703,479	-
Compensated absences	84,107	33,718	49,215	68,610	40,147
Total	<u>1,139,487</u>	<u>33,718</u>	<u>207,022</u>	<u>966,183</u>	<u>40,147</u>

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Compensated absences and the net pension and net OPEB liabilities related to governmental activities 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, 2018 consist of the following:

From the State Public School Fund to the School Food Service Fund for administrative costs	<u>\$ 51,453</u>
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D. Fund Balance

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

Total fund balance - General Fund	\$ 1,367,936
Less:	
Inventories	(60,723)
Stabilization by State statute	(3,744)
Appropriated Fund Balance in the 2018-2019 budget	<u>(153,671)</u>
Remaining fund balance	<u>\$ 1,149,798</u>

**NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

Federal and State Assisted Programs

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

**NOTE 5 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT**

The Board implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liability and Net OPEB asset and the effects on net position from contributions made by the Board during the measurement period (fiscal year end June 30, 2017). As a result, net position for the governmental and business-type activities decreased by \$28,122,028 and \$822,358, respectively.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM  
LAST FIVE FISCAL YEARS\***

	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.079%	0.079%	0.083%	0.088%	0.092%
Board's proportionate share of the net pension liability (asset)	\$ 6,227,743	\$ 7,295,842	\$ 3,070,507	\$ 1,029,151	\$ 5,561,053
Board's covered payroll	\$ 12,348,659	\$ 11,958,262	\$ 12,290,164	\$ 12,324,948	\$ 13,181,743
Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	50.43%	61.01%	24.98%	8.35%	42.19%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

48 \* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only five years of data presented.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF BOARD CONTRIBUTIONS  
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM  
LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,298,003	\$ 1,232,396	\$ 1,094,181	\$ 1,124,550	\$ 1,071,038
Contributions in relation to the contractually required contribution	<u>1,298,003</u>	<u>1,232,396</u>	<u>1,094,181</u>	<u>1,124,550</u>	<u>1,071,038</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 12,040,844	12,348,657	\$ 11,958,262	\$ 12,290,164	\$ 12,324,948
Contributions as a percentage of covered payroll	10.78%	9.98%	9.15%	9.15%	8.69%

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only five years of data presented.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
RETIREE HEALTH BENEFIT FUND  
LAST TWO FISCAL YEARS\***

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	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB liability (asset)	0.069%	0.068%
Board's proportionate share of the net OPEB liability (asset)	\$ 22,572,008	\$ 29,757,165
Board's covered payroll	\$ 12,348,659	\$ 11,958,262
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	182.79%	248.84%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

50 \* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Note: This is a ten year schedule. However, GASB 75 was not adopted until the fiscal year ended June 30, 2018. Therefore, there are only two years of data presented.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF BOARD CONTRIBUTIONS  
RETIREE HEALTH BENEFIT FUND  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 728,471	\$ 721,799	\$ 670,012	\$ 672,296	\$ 664,291
Contributions in relation to the contractually required contribution	<u>728,471</u>	<u>721,799</u>	<u>670,012</u>	<u>672,296</u>	<u>664,291</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 12,040,844	\$ 12,348,657	\$ 11,958,262	\$ 12,290,164	\$ 12,324,948
Contributions as a percentage of covered payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 700,384	\$ 675,683	\$ 702,239	\$ 693,385	\$ 703,562
Contributions in relation to the contractually required contribution	<u>700,384</u>	<u>675,683</u>	<u>702,239</u>	<u>693,385</u>	<u>703,562</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 13,214,792	\$ 13,513,660	\$ 14,331,408	\$ 15,408,556	\$ 17,160,049
Contributions as a percentage of covered payroll	5.30%	5.00%	4.90%	4.50%	4.10%

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB ASSET  
DISABILITY INCOME PLAN OF NORTH CAROLINA  
LAST TWO FISCAL YEARS\***

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	2018	2017
Board's proportion of the net OPEB asset	0.069%	0.070%
Board's proportionate share of the net OPEB asset	\$ 42,020	\$ 43,638
Board's covered payroll	\$ 12,348,659	\$ 11,958,262
Board's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.34%	0.36%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%	116.06%

5 \* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Note: This is a ten year schedule. However, GASB 75 was not adopted until the fiscal year ended June 30, 2018. Therefore, there are only two years of data presented.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF BOARD CONTRIBUTIONS  
DISABILITY INCOME PLAN OF NORTH CAROLINA  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 16,857	\$ 47,209	\$ 49,054	\$ 50,208	\$ 54,127
Contributions in relation to the contractually required contribution	<u>16,857</u>	<u>47,209</u>	<u>49,054</u>	<u>50,208</u>	<u>54,127</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 12,040,714	\$ 12,423,421	\$ 11,964,390	\$ 12,245,854	\$ 12,301,591
Contributions as a percentage of covered payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 58,145	\$ 70,271	\$ 74,523	\$ 80,124	\$ 89,232
Contributions in relation to the contractually required contribution	<u>58,145</u>	<u>70,271</u>	<u>74,523</u>	<u>80,124</u>	<u>89,232</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 13,214,792	\$ 13,513,660	\$ 14,331,408	\$ 15,408,556	\$ 17,160,049
Contributions as a percentage of covered payroll	0.44%	0.52%	0.52%	0.52%	0.52%

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Northampton County:			
County appropriation	\$ 3,500,000	\$ 3,500,000	\$ -
Other:			
Fines and forfeitures	58,000	58,779	779
Interest earned on investment	-	7,448	7,448
Miscellaneous	5,893	10,033	4,140
Total other	<u>63,893</u>	<u>76,260</u>	<u>12,367</u>
Total revenues	<u>3,563,893</u>	<u>3,576,260</u>	<u>12,367</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional		312,332	
Special populations		59,522	
Alternative programs		69,827	
School leadership		83,228	
Co-curricular		168,482	
School-based support		63,317	
Total instructional services	<u>801,103</u>	<u>756,708</u>	<u>44,395</u>
System-wide support services:			
Support and development		102,384	
Special population support and development		20,922	
Alternative programs and services support and development		3,341	
Technology support		33,144	
Operational support		1,366,217	
Financial and human resource services		64,613	
Accountability		9,593	
Policy, leadership and public relations		533,046	
Total system-wide support services	<u>2,268,896</u>	<u>2,133,260</u>	<u>135,636</u>

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL (Continued)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Expenditures: (Continued)			
Current:			
Ancillary services:			
Nutrition		3,894	
Total ancillary services	3,894	3,894	-
Non-programmed charges			
Payments to other governments	615,027	615,027	-
Total expenditures	3,688,920	3,508,889	180,031
Revenues over (under) expenditures	(125,027)	67,371	192,398
Fund balance appropriated	125,027	-	(125,027)
Net change in fund balance	\$ -	67,371	\$ 67,371
Fund balance:			
Beginning of year		1,293,886	
Change in reserve for inventories		6,679	
End of year		\$ 1,367,936	

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
INDIVIDUAL SCHOOLS FUND  
For the Fiscal Year Ended June 30, 2018**

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	<u>Revenues</u>	<u>Expenditures</u>	<u>Net change in fund balance</u>	<u>Fund balances June 30, 2017</u>	<u>Fund balances June 30, 2018</u>
Northampton County High	\$ 86,401	\$ 87,780	\$ (1,379)	\$ 21,435	\$ 20,056
Gaston Middle	14,165	15,228	(1,063)	3,751	2,688
Conway Middle	37,679	39,236	(1,557)	10,183	8,626
Central Elementary	29,237	34,063	(4,826)	16,358	11,532
Willis Hare Elementary	58,427	59,106	(679)	8,418	7,739
Gaston Elementary	34,753	35,217	(464)	8,621	8,157
NCHS Early College	<u>13,880</u>	<u>14,027</u>	<u>(147)</u>	<u>2,884</u>	<u>2,737</u>
Totals	<u>\$ 274,542</u>	<u>\$ 284,657</u>	<u>\$ (10,115)</u>	<u>\$ 71,650</u>	<u>\$ 61,535</u>

**NORTHAMPTON 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, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 168,003	\$ 168,003	\$ -
Public School Capital Fund - Lottery	<u>143,123</u>	<u>142,000</u>	<u>(1,123)</u>
Total State of North Carolina	<u>311,126</u>	<u>310,003</u>	<u>(1,123)</u>
Northampton County:			
County appropriations	<u>695,000</u>	<u>756,830</u>	<u>61,830</u>
Other:			
Proceeds from disposal of capital assets	-	25,706	25,706
Miscellaneous	<u>-</u>	<u>5,348</u>	<u>5,348</u>
Total other	<u>-</u>	<u>31,054</u>	<u>31,054</u>
Total revenues	<u>1,006,126</u>	<u>1,097,887</u>	<u>91,761</u>
Expenditures:			
Debt service:			
Principal retirement	<u>168,003</u>	<u>168,003</u>	<u>-</u>
Capital outlay:			
Real property and buildings	618,707	617,583	1,124
Furniture and equipment	240,018	240,018	-
Buses and motor vehicles	<u>387,619</u>	<u>387,619</u>	<u>-</u>
Total capital outlay	<u>1,246,344</u>	<u>1,245,220</u>	<u>1,124</u>
Total expenditures	<u>1,414,347</u>	<u>1,413,223</u>	<u>1,124</u>
Revenues under expenditures	(408,221)	(315,336)	92,885
Other financing sources:			
Installment purchase obligations issued	339,521	339,521	-
Fund balance appropriated	<u>68,700</u>	<u>-</u>	<u>(68,700)</u>
Net change in fund balance	<u>\$ -</u>	24,185	<u>\$ 24,185</u>
Fund balance:			
Beginning of year		<u>341,094</u>	
End of year		<u>\$ 365,279</u>	

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**SCHOOL FOOD SERVICE FUND**  
**For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 110,000	\$ 85,388	\$ (24,612)
Operating expenditures:			
Business support services:			
Purchase of food		437,956	
Donated commodities		104,755	
Salaries and benefits		921,822	
Materials and supplies		45,337	
Repairs and maintenance		7,283	
Non-capitalized equipment		6,104	
Contracted services		2,771	
Other		29,407	
Total operating expenditures	1,411,665	1,555,435	(143,770)
Operating loss	(1,301,665)	(1,470,047)	(168,382)
Nonoperating revenues:			
Federal reimbursements and grants	1,251,665	1,150,150	(101,515)
Federal commodities	-	104,755	104,755
State reimbursements	50,000	31,879	(18,121)
Total nonoperating revenues	1,301,665	1,286,784	(14,881)
Deficiency of revenues over expenditures before other financing sources	-	(183,263)	(183,263)
Other financing sources:			
Transfers from other funds	-	51,453	51,453
Net change in fund balance	\$ -	(131,810)	\$ (131,810)
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(26,206)	
Net OPEB asset		67	
Net pension liability		13,713	
Net OPEB liability		144,094	
Deferred outflows - pension		(29,915)	
Deferred inflows - pension		(238,602)	
Capital contributions		13,200	
Loss on disposal of capital assets		(375)	
Decrease in compensated absences payable		15,497	
Increase in inventories		4,161	
Change in net position (full accrual)		\$ (236,176)	



# ANDERSON SMITH & WIKE PLLC

*Certified Public Accountants*

## **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 Northampton County Board of Education  
Jackson, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northampton County Board of Education, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the Northampton County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 23, 2018.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 18-01 that we consider to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Northampton County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 18-01.

### ***Northampton County Board of Education's Response to Findings***

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*Anderson Smith & Wike PLLC*

*October 23, 2018  
Rockingham, North Carolina*



# ANDERSON SMITH & WIKE PLLC

*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

To the Northampton County Board of Education  
Jackson, North Carolina

### **Report on Compliance for Each Major Federal Program**

We have audited Northampton County Board of Education, North Carolina's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2018. The Northampton County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Northampton County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Northampton County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the Northampton County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### ***Report on Internal Control Over Compliance***

Management of the Northampton County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Northampton County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Northampton County Board of Education's internal control over compliance.

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

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

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

*Anderson Smith & Wike PLLC*

*October 23, 2018  
Rockingham, North Carolina*



# ANDERSON SMITH & WIKE PLLC

*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

Report On Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

To the Northampton County Board of Education  
Jackson, North Carolina

### ***Report on Compliance for Each Major State Program***

We have audited Northampton County Board of Education, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Board's major State programs for the year ended June 30, 2018. The Northampton County Board of Education's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Northampton County Board of Education's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Northampton County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major State Program***

In our opinion, the Northampton County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2018.

### ***Report on Internal Control Over Compliance***

Management of the Northampton County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Northampton County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance with the Uniform Guidance, 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 Northampton County Board of Education's internal control over compliance.

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

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

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

*Anderson Smith & Wike PLLC*

*October 23, 2018  
Rockingham, North Carolina*

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2018**

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**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued on whether the financial statements audited were prepared in accordance to GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *Yes*

Noncompliance material to financial statements noted? *No*

***Federal Awards***

Internal control over major federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None Identified for Reporting*

Type of auditors' report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? *No*

Identification of major federal programs:

<b>CFDA Numbers</b>	<b>Names of Federal Program or Cluster</b>
	Child Nutrition Cluster:
10.555	National School Lunch Program (Commodities)
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Seamless Summer Program

Dollar threshold used to distinguish between Type A and Type B Programs *\$ 750,000*

Auditee qualified as low-risk auditee? *Yes*

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2018**

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**Section I - Summary of Auditors' Results (Continued)**

**State Awards**

Internal control over major State programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None Identified for Reporting*

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

*Unmodified*

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

*No*

Identification of major State programs:

Program Name

State Public School Fund  
Vocational Education – State Months of Employment  
NC Pre-Kindergarten Program

**Section II - Financial Statement Findings**

**Finding 18-01**

**SIGNIFICANT DEFICIENCY**

Budget Violation

- Criteria: North Carolina General Statute 115C-441 states that all monies expended should be included in the budget resolution.
- Condition: Business support services and system-wide support services expenditures within the Board's School Food Service and Federal Grants funds exceeded appropriations by \$143,770 and \$97, respectively.
- Effect: The Board was in violation of State law.
- Cause: Budget amendments were not prepared when needed due to lack of timely recordkeeping and oversight of the budgetary process.
- Recommendation: We recommend that budget amendments be prepared as needed.

Views of responsible officials and planned corrective actions:

The Board of Education agrees with this finding and will ensure that adequate oversight exists over the budgetary process.

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2018**

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**Section III - Federal Award Findings and Questioned Costs**

None reported.

**Section IV - State Award Findings and Questioned Costs**

None reported.



**CORRECTIVE ACTION PLAN**  
**For the Fiscal Year Ended June 30, 2018**

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**Finding 18-01**

Name of Contact Person: Nicole Baker, Child Nutrition Director

Corrective Action Plan: Budgets will be reviewed on a monthly basis and any necessary budget amendments will be presented to the Board for approval in a timely manner.

Proposed Completion Date: Immediately

**NORTHAMPTON COUNTY BOARD OF EDUCATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Fiscal Year Ended June 30, 2018**

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There were no audit findings reported in the prior year.

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Fiscal Year Ended June 30, 2018**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b>Federal Grants:</b>			
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555	PRC 035	\$ 104,755
Cash Assistance:			
School Breakfast Program	10.553	PRC 035	319,222
National School Lunch Program	10.555	PRC 035	732,961
Seamless Summer Program	10.555	PRC 035	52,274
Cash Assistance Subtotal			<u>1,104,457</u>
Total Child Nutrition Cluster			<u>1,209,212</u>
Child Nutrition Discretionary Funds	10.579	PRC 053	13,200
Fresh Fruit and Vegetable Grant	10.582	PRC 035	45,693
Total School Nutrition Cluster (Note 3)			<u>1,268,105</u>
Total U.S. Department of Agriculture			<u>1,268,105</u>
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050, 105	1,553,689
Migrant Education (Title I of IASA)	84.011	PRC 051	36,465
Supporting Effective Instruction	84.367	PRC 103	130,655
Student Support and Academic Enrichment Program	84.424	PRC 108	22,987
Rural and Low Income Schools	84.358	PRC 109	37,140
Passed-through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Grants to States - IDEA, part B (611)	84.027	PRC 060	491,661
Coordinated Early Intervening Services	84.027	PRC 070	101,476
Special Needs Targeted Assistance	84.027	PRC 118	2,811
Special Education - Risk Pool	84.027	PRC 114	46,393
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	15,046
Preschool Targeted Assistance	84.173	PRC 119	1,027
Total Special Education Cluster			<u>658,414</u>
Career and Technical Education - Basic Grants to States Program Development	84.048	PRC 017	54,607
Total U.S. Department of Education			<u>2,493,957</u>

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Fiscal Year Ended June 30, 2018**

<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>U.S. Department of Health and Human Services</u>			
Health Resources and Services Administration			
Passed-through the N.C. Department of Public Instruction:			
Abstinence Education	93.235	PRC 101	33,793
Passed-through the N.C. Department of Health and Human Services			
School Nurse Funding Initiative	93.994	N/A	<u>85,710</u>
Total U.S. Department of Health and Human Services			<u>119,503</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	None	N/A	<u>60,692</u>
<b>Total Federal Assistance</b>			<b><u>\$ 3,942,257</u></b>
<b>State Grants:</b>			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund		Various	\$ 14,995,526
Vocational Education:			
State Months of Employment		PRC 013	434,047
Program Support Funds		PRC 014	83,730
School Technology Fund		PRC 015	22,460
State appropriations - buses (noncash)		PRC 120	168,003
Textbooks (noncash)		PRC 130	51,269
Passed-through Northampton County:			
Public School Capital Fund - Lottery			<u>142,000</u>
Total N.C. Department of Public Instruction			<u>15,897,035</u>
<u>N.C. Department of Health and Human Services</u>			
Division of Child Development:			
NC Pre-Kindergarten Program		N/A	530,151
Child and Adult Care Food Program		N/A	31,879
School Nurse Funding Initiative		N/A	<u>64,290</u>
Total N.C. Department of Health and Human Services			<u>626,320</u>
<b>Total State Assistance</b>			<b><u>16,523,355</u></b>
<b>Total Federal and State Assistance</b>			<b><u>\$ 20,465,612</u></b>

**NORTHAMPTON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Fiscal Year Ended June 30, 2018**

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Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Northampton County Board of Education under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Northampton County Board of Education, it is not intended to and does not present the financial position, changes in net assets or cash flows of Northampton County Board of Education.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Northampton County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Cluster of Programs

The School Nutrition Program is clustered by the N.C. Department of Public Instruction and is treated separately for state audit requirement purposes.