

**ROWAN-SALISBURY BOARD OF EDUCATION,  
NORTH CAROLINA**

Financial Statements and Supplementary Information

For the Year Ended June 30, 2017



**Rives & Associates, LLP**  
Certified Public Accountants and Consultants

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**Rives & Associates, LLP**  
Certified Public Accountants

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## **Independent Auditor's Report**

Rowan-Salisbury Board of Education, North Carolina  
Salisbury, 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 Rowan-Salisbury Board of Education, North Carolina, as of and for the year then ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Rowan-Salisbury Board of Education'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 statement that are free from material misstatement, whether due to fraud or error.

### **Auditor's 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, business-type activities, each major fund, and the aggregate remaining fund information of the Rowan-Salisbury Board of Education, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, State Public School Fund, and Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12 and the Schedule of the Board's Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 52 and 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 an opinion on the financial statements that collectively comprise the Rowan-Salisbury Board of Education's basic financial statements. The individual fund schedules, budget and actual, as well as 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules, budget and actual, and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules, budget and actual, 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 reports dated February 15, 2018 on our consideration of Rowan-Salisbury Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rowan-Salisbury Board of Education's internal control over financial reporting and compliance.

*Rives & Associates LLP*

Lexington, North Carolina  
February 15, 2018

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

This section of the Rowan-Salisbury 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, 2017. This information should be read in conjunction with the audited financial statements included in this report.

***Financial Highlights***

- Average Daily Membership for 2016-17 was 19,135. Compared to 2015-16 ADM of 19,525, this results in a decrease of 390.
- The Board anticipates a stable to slightly declining enrollment over the next several years due to an increase in the number of local charter schools and increased homeschool enrollment.
- The Board has a critical need to optimize the number of schools operated by Rowan Salisbury Schools, considering opportunities to consolidate, close, replace and/or upgrade schools. In addition, there is an on-going need for maintenance and repair of current facilities and equipment.
- State allotments provided 64% of operating revenues. The county appropriation and federal allotments provided 23% and 8%, respectively. The remaining 5% was contributed from other state, local and federal sources.
- State funding increased by \$1,297,913 or 1.2% in 2016-2017.
- Salaries and related benefits accounted for 77% of operating expenditures. RowanWORKS lists Rowan-Salisbury Schools as the largest employer in Rowan County. The Board experienced a 16.51% teacher turnover in its approximately 1,300 teaching positions.
- The Board received \$318,410 in local grant funding during 2016-2017.
- Student enrollment in the Free/Reduced Meal program equaled 62.7% qualifying the Board for federal E-rate funds. Additionally, 20 out of 20 elementary schools qualified for federal Title 1 funds as well as two middle schools and one high school.
- The Child Nutrition Program served 38.5% of the District's student breakfast, 67.4% of student lunches, and 4.1% of student afterschool snacks on a daily basis. Approximately 290 Child Nutrition employees served over 3.6 million meals/snacks to students.
- 183 buses transported 9,699 students 2,448,180 miles at an efficiency rating of 90.04% compared to the state average efficiency rating of 93.46%.
- The Board served and received state and/or federal funds for 2,260 Exceptional Children students and 1,437 English as Second Language students. Eight NC Pre-Kindergarten classes provided 130 pre-school student slots, three Title 1 classes enrolled 45 additional pre-kindergarten students, and the Board also supported three pre-kindergarten classrooms serving 30 Exceptional Children preschool students.
- The Board continued to repurpose existing funds to support its digital transformation including a 3-year \$11.1 million zero percent lease of 8,735 MacAir laptops and 9,240 iPads placing a digital learning device that could be taken home in each 3<sup>rd</sup> through 12<sup>th</sup> grade student's hands. Existing technology was redistributed in order to provide each Kindergarten through 2<sup>nd</sup> grade student with a device that could be used during the school day.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

- The Board continued with the Guaranteed Energy Performance contract with Energy Systems Group, LLC for the sum of \$3,682,274 with the final payment on the related lease due to Banc of America Public Capital Corp payable on January 13, 2031. Projected energy savings over 15 years is estimated at \$5,701,409 leaving a projected net savings of \$1,092,649 for the system after payments of principal and interest totaling \$4,608,760.

***Overview of the Financial Statements***

The audited financial statements of the Rowan-Salisbury Board of Education consist of four components. They are as follows:

- *Independent Auditor's Report*
- *Management's Discussion and Analysis*
- *Basic Financial Statements*
- *Required supplemental section that presents individual fund schedules on a budgetary basis for certain governmental funds and the enterprise fund.*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *Government-wide Financial Statements*. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net position and the statement of activities. The statement of net position includes all of the Board's assets and deferred outflows, 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 inflows and outflows 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 and proprietary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary fund is 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, a reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of the Board's major funds.

**Government-wide Financial Statements**

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

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

- 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, one should 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 Board'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 cover the costs of certain services it provides. School food service is included here.

The government-wide statements are 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. 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 and the Special Revenue Fund.

Rowan-Salisbury Board of Education has two types of funds:

*Governmental funds:* Most of the Board's basic services are included in the governmental funds, which generally focus on two things – how cash and other assets can readily be converted to cash flow in and out, and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements 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 Federal Grants Fund and the Special Revenue Fund.

The governmental fund statements are Exhibits 3, 4, and 5 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. Rowan-Salisbury Board of Education has one proprietary fund – an enterprise fund – the School Food Service Fund.

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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

Net position is an indicator of the fiscal health of the Board. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$89,414,592 as of June 30, 2017, an decrease of 8.35%, as compared to the net position at June 30, 2016 of \$97,564,771. The largest component of net position is net investment in capital assets of \$110,359,913 as of June 30, 2017 as compared to \$118,899,825 as of June 30, 2016.

Following is a summary of the statements of net position:

**Table 1**  
**Condensed Statement of Net Position**  
**As of June 30, 2017 and 2016**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Current assets	\$ 17,988,995	\$ 19,635,135	\$ 3,581,018	\$ 3,826,915	\$ 21,570,013	\$ 23,462,050
Capital assets	127,602,096	121,920,676	1,636,449	1,701,064	129,238,545	123,621,740
Total assets	<u>145,591,091</u>	<u>141,555,811</u>	<u>5,217,467</u>	<u>5,527,979</u>	<u>150,808,558</u>	<u>147,083,790</u>
Deferred inflows of resources	41,865,475	8,544,939	1,438,780	288,450	43,304,255	8,833,389
Current liabilities	5,775,042	5,458,002	156,608	141,859	5,931,650	5,599,861
Long-term liabilities	91,769,920	43,661,354	2,432,778	1,104,551	94,202,698	44,765,905
Total liabilities	<u>97,544,962</u>	<u>49,119,356</u>	<u>2,589,386</u>	<u>1,246,410</u>	<u>100,134,348</u>	<u>50,365,766</u>
Deferred inflows of resources	4,412,239	7,725,842	151,634	260,800	4,563,873	7,986,642
Investment in capital assets	108,723,464	117,198,761	1,636,449	1,701,064	110,359,913	118,899,825
Restricted net position	3,216,025	5,319,067	-	-	3,216,025	5,319,067
Unrestricted net position (deficit)	(26,440,124)	(29,262,276)	2,278,778	2,608,155	(24,161,346)	(26,654,121)
Total net position	<u>\$ 85,499,365</u>	<u>\$ 93,255,552</u>	<u>\$ 3,915,227</u>	<u>\$ 4,309,219</u>	<u>\$ 89,414,592</u>	<u>\$ 97,564,771</u>

The net position decreased during the year, indicating an decline in the financial condition of the Board. The decrease was largely due to increased long-term liabilities and changes in the pension related accounts; deferred outflows, inflows and net pension liability.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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

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

**Table 2**  
**Condensed Statement of Activities**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Revenues:						
<b>Program revenues:</b>						
Charges for services	\$ 1,457,199	\$ 533,170	\$ 2,225,722	\$ 2,315,004	\$ 3,682,921	\$ 2,848,174
Operating grants and contributions	128,361,229	132,337,714	10,254,273	10,154,795	138,615,502	142,492,509
Capital grants and contributions	81,000	1,437,253	-	-	81,000	1,437,253
<b>General revenues:</b>						
Other revenues	<u>45,388,554</u>	<u>36,032,380</u>	<u>149,628</u>	<u>121,431</u>	<u>45,538,182</u>	<u>36,153,811</u>
<b>Total revenues</b>	<u>175,287,982</u>	<u>170,340,517</u>	<u>12,629,623</u>	<u>12,591,230</u>	<u>187,917,605</u>	<u>189,931,747</u>
Expenses:						
<b>Governmental activities:</b>						
Instructional services	135,002,438	124,006,161	-	-	135,002,438	124,006,161
System-wide support services	32,354,689	32,442,104	-	-	32,354,689	32,442,104
Ancillary services	18,970	15,220	-	-	18,970	15,220
Non-programmed charges	1,270,707	682,062	-	-	1,270,707	682,062
Interest	97,004	25,059	-	-	97,004	25,059
Depreciation	6,385,418	5,554,844	-	-	6,385,418	5,554,844
<b>Business-type activities:</b>						
Food service	<u>-</u>	<u>-</u>	<u>13,023,615</u>	<u>12,277,962</u>	<u>13,023,615</u>	<u>12,277,962</u>
<b>Total expenses</b>	<u>175,129,226</u>	<u>162,725,450</u>	<u>13,023,615</u>	<u>12,277,962</u>	<u>188,152,841</u>	<u>175,003,412</u>
Change in net position	<u>158,756</u>	<u>7,615,067</u>	<u>(393,992)</u>	<u>313,268</u>	<u>(235,236)</u>	<u>7,928,335</u>
Net position, beginning, as previously reported	93,255,552	85,640,485	4,309,219	3,995,951	97,564,771	89,636,436
Restatement	<u>(7,914,943)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,914,943)</u>	<u>-</u>
Net position, beginning, as restated	<u>85,340,609</u>	<u>85,640,485</u>	<u>4,309,219</u>	<u>3,995,951</u>	<u>89,649,828</u>	<u>89,636,436</u>
Net position, ending	<u>\$ 85,499,365</u>	<u>\$ 93,255,552</u>	<u>\$ 3,915,227</u>	<u>\$ 4,309,219</u>	<u>\$ 89,414,592</u>	<u>\$ 97,564,771</u>

For the year ended June 30, 2017, total governmental activities generated revenues of \$175.3 million while expenses in this category totaled \$175.0 million. The decrease in net position stands at (\$7,756,187). Instructional expenses comprised 77.1% of total governmental-type expenses while support services made up 18.5% of those expenses. County funding comprised 23.0% of total governmental revenue. Much of the remaining total governmental revenue consisted of restricted State and federal money. Business-type activities generated revenue of \$12.6 million and had expenses of \$13.0 million. Net position decreased in the business-type activities by (\$393,992).

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

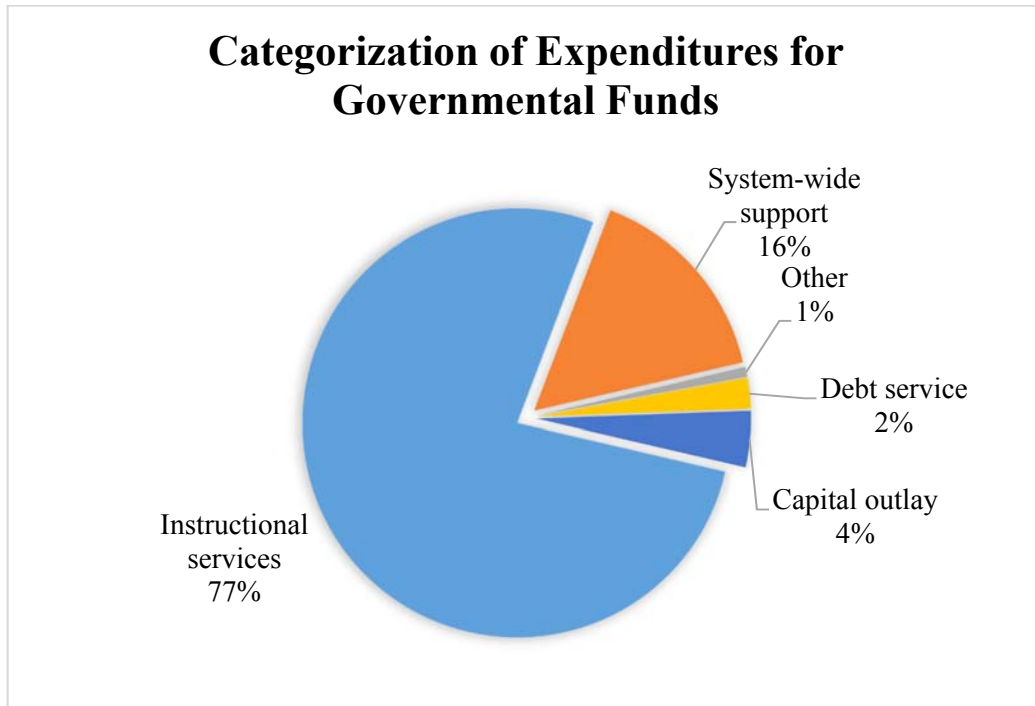
**Financial Analysis of the Board's Funds**

Governmental Funds: The focus of Rowan-Salisbury 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 \$12,213,953, a decrease of (\$1,963,180) from last year.

Proprietary Funds: The Board's business-type fund, the School Food Service Fund, reflected a decrease in net position over last year.

Revenues from food sales decreased by approximately (2.5%) or (\$57,970). Non-operating revenues increased by 0.5% with expenditures increasing by 6.1%. The result was a net loss of (\$472,217) as compared to a net income of \$258,390 the prior year.



Expenditures presented on modified accrual basis of accounting.

**General Fund Budgetary Highlights**

Actual General Fund revenues were \$171,314 under budget. Expenditures exceeded revenues by \$414,760 before other financing sources. Of the total \$1,213,000 difference in actual expenditures and budget amounts in the General Fund, \$315,271 was left unspent in the instructional services category and \$1,066,628 was left unspent in the system-wide support services category.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

**Capital Assets**

Capital assets decreased by \$13,531,747 (or 11.7%) from the previous year. The following is a summary of the capital assets, net of depreciation at year-end.

**Table 3**  
**Summary of Capital Assets**  
**as of June 30, 2017 and 2016**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Land	\$ 4,934,350	\$ 4,407,273	\$ -	\$ -	\$ 4,934,350	\$ 4,407,273
Construction	2,582,277	-	-	-	2,582,277	-
Buildings	89,636,876	96,628,125	-	-	89,636,876	96,628,125
Land improvements	901,381	-	-	-	901,381	-
Equipment and furniture	25,323,251	14,284,735	1,636,449	1,701,064	26,868,700	15,985,799
Vehicles	<u>4,223,961</u>	<u>6,600,543</u>	<u>-</u>	<u>-</u>	<u>4,223,961</u>	<u>6,600,543</u>
Total	<u>\$127,602,096</u>	<u>\$121,920,676</u>	<u>\$1,636,449</u>	<u>\$1,701,064</u>	<u>\$129,238,545</u>	<u>\$123,621,740</u>

**Debt Outstanding**

During the year the Board's outstanding debt increased by \$11,037,763 due mainly to the use of installment financing to pay for school buses and computer equipment for instructional purposes, netted with payments on bus contracts and a computer installment contract from previous years. The Board is limited by North Carolina Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds virtually all debt issued for school capital construction.

***Economic Factors***

County funding is a major source of income for the Board; therefore, the County's economic outlook directly affects that of the Board.

The population in the Rowan County has increased 1.03% from April 2010 to July 1, 2016 with estimated population at 139,933. Population is projected to increase to 141,719 by the year 2019. The County's population ranks twenty-first among the State's one hundred counties. A unique mix of urban and rural areas distinguishes Rowan from other counties in North Carolina.

Although economic recovery lags state and national levels, Rowan County's local economy continues to gain momentum. The labor market continues to show encouraging signs of recovery from the Great Recession. The County's unemployment rate for the year ended June 30, 2017 is 4.3 percent, which is slightly higher than the State rate of 4.2 percent, but lower than the national rate of 4.5 percent. This 4.3 percent rate is 18.9 percent less than it was at the end of the previous fiscal year. Retail sales also continued to grow. Sales tax collections increased by 5.5 percent during fiscal year 2017.

Rowan County will continue to pursue new business investments, while placing a renewed emphasis on growing its existing industries. The County will specifically focus on ensuring that adequate industrial building and land product is available to support additional growth with the expectation of continued positive economic trends in the near future.



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

The following significant projects were announced, under construction or completed during fiscal year 2017:

- Speculative Buildings - Construction is underway for the first of two Class-A industrial buildings in Granite Quarry. This modern, 150,000 square-foot facility should be completed in the spring of 2018. Work on a second, 100,000 square-foot building is scheduled to begin in the summer of 2018. Easter Creek Partners LLC, a Welcome, NC-based commercial and industrial development company, purchased land in the County's new Granite Industrial Park for the new buildings. These will be the first speculative buildings constructed in the County in several years and should allow more opportunities for business development, as well as provide millions of dollars in investment.
- R+L Carriers - The international trucking company announced plans to expand its terminal in China Grove and invest \$7.0 million in improvements to the facility. As part of the expansion, R+L Carriers will create 40 jobs over the next five years.
- FillTech - FillTech is a Rockwell-based company whose primary focus is turn-key, private label product development and manufacturing. The Company provides items such as high quality lip balms, sunscreens, hand sanitizers and other personal care products for leading retailers such as Food Lion, Walmart, Dollar Tree, CVS and Walgreens. FillTech is currently building a new 40,000 square-foot facility in Rockwell in order to consolidate operations and streamline its manufacturing process. The Company is investing \$4.0 million for the new facility and plans to create 23 new jobs by the end of 2019.
- Amrep, Inc. - Construction is currently underway in the County on a 40,000 square-foot facility for this Ontario, CA-based manufacturer of refuse equipment. Amrep is considered a premier refuse body company due to its introduction of numerous innovations to the waste-hauling industry. The Company plans to invest \$1.5 million for the new manufacturing facility and create 40 new jobs by the end of 2020.
- Royce Apparel - The Kannapolis-based producer of casual clothing and licensed collegiate sports apparel under the brand names of Pressbox, Buoy and Royce relocated its corporate headquarters to an existing Rowan County facility in July 2016. The Company also recently announced the launching of its first on-line store. Royce Apparel plans to employ 30 people at the newly renovated facility.
- Boral Composites - This independent subsidiary of Boral Brick manufactures building composites, comprised of recycled and rapidly-renewable materials, used for home exteriors. The Company has announced plans to expand its current operations in the County. Boral Composites will create 15 new jobs, distributed among its East Spencer and Salisbury facilities, as part of this expansion. The Company will also invest approximately \$5.0 million in equipment and improvements for these facilities.
- Makson Incorporated – Makson is a locally-based general contracting and development company that provides qualified project managers in the areas of commercial plumbing, HVAC, fire protection, and alarm and electrical design. The Company purchased land from the County to build a 20,000 square-foot warehouse and a 30,000 square-foot corporate headquarters. Makson plans to invest approximately \$1.5 million in the new facilities and add 12 to 15 new jobs each year for the next five years.

RowanWORKS was established by the County and municipalities to coordinate the recruitment of businesses and jobs to the County. A goal of the recruitment process is to maintain business diversification, whereby no single industry dominates the job market and materially affects the County's economic future with changing business cycles. To provide guidance for this effort, the County has adopted a Land Use Plan. With strategic transportation access, availability of infrastructure, a well-trained workforce, nationally recognized educational institutions and local financial incentives, Rowan County is actively engaged in attracting and assisting businesses seeking to relocate or expand within the County.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Management's Discussion and Analysis**  
**June 30, 2017**

**Requests for Information**

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

Carol M. Herndon, Chief Financial Officer  
Rowan-Salisbury Board of Education  
P. O. Box 2349  
Salisbury, NC 28145-2349

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**BASIC FINANCIAL STATEMENTS**  
**(Government-wide)**

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## Statement of Net Position

June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,068,765	\$ 2,902,279	\$ 16,971,044
Due from other governments	3,781,134	412,728	4,193,862
Accounts receivable	139,096	1,022	140,118
Inventories	-	264,989	264,989
	<u>17,988,995</u>	<u>3,581,018</u>	<u>21,570,013</u>
Capital assets:			
Land	4,934,350	-	4,934,350
Construction in progress	2,582,277	-	2,582,277
Other capital assets, net of depreciation	120,085,469	1,636,449	121,721,918
Total capital assets	<u>127,602,096</u>	<u>1,636,449</u>	<u>129,238,545</u>
Total assets	<u>145,591,091</u>	<u>5,217,467</u>	<u>150,808,558</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>41,865,475</u>	<u>1,438,780</u>	<u>43,304,255</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	680,708	36,232	716,940
Accrued salaries and benefits	3,678,025	47,277	3,725,302
Unearned revenue	1,416,309	73,099	1,489,408
Long-term liabilities:			
Net pension liability	63,812,380	2,193,023	66,005,403
Due within one year	13,228,206	239,755	13,467,961
Due in more than one year	14,729,334	-	14,729,334
Total liabilities	<u>97,544,962</u>	<u>2,589,386</u>	<u>100,134,348</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>4,412,239</u>	<u>151,634</u>	<u>4,563,873</u>
<b>NET POSITION</b>			
Net investment in capital assets	108,723,464	1,636,449	110,359,913
Restricted:			
Stabilization by State statute	413,430	-	413,430
School capital outlay	1,062,775	-	1,062,775
Individual schools	1,739,820	-	1,739,820
Unrestricted (deficit)	(26,440,124)	2,278,778	(24,161,346)
Total net position	<u>\$ 85,499,365</u>	<u>\$ 3,915,227</u>	<u>\$ 89,414,592</u>

The accompanying notes to the financial statements are an integral part of these statements

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**

**Statement of Activities**

**For the Year Ended June 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Instructional services:				
Regular instructional	\$ 79,464,256	\$ 157,914	\$ 68,482,522	\$ -
Special populations	17,540,155	-	15,884,656	-
Alternative programs	10,683,137	-	9,330,823	-
School leadership	10,048,279	-	6,894,297	-
Co-curricular	6,206,501	-	4,759,101	-
School-based support	11,060,110	-	8,084,841	-
System-wide support services:				
Support and development	1,094,894	-	622,854	-
Special population support and development	1,076,798	-	888,975	-
Alternative programs and services support and development	74,330	-	67,742	-
Technology support	1,752,895	-	495,832	-
Operational support	22,893,934	1,299,285	10,568,576	81,000
Financial and human resource	3,191,943	-	538,064	-
Accountability	246,440	-	129,052	-
System-wide pupil support	281,115	-	8,059	-
Policy, leadership and public relations	1,742,340	-	857,428	-
Ancillary services	18,970	-	78,752	-
Non-programmed charges	1,270,707	-	669,655	-
Interest	97,004	-	-	-
Unallocated depreciation expense	6,385,418	-	-	-
Total governmental activities	<u>175,129,226</u>	<u>1,457,199</u>	<u>128,361,229</u>	<u>81,000</u>
Business-type activities:				
School food service	13,023,615	2,225,722	10,254,273	-
Total business-type activities	<u>13,023,615</u>	<u>2,225,722</u>	<u>10,254,273</u>	<u>-</u>
Total primary government	<u>\$ 188,152,841</u>	<u>\$ 3,682,921</u>	<u>\$ 138,615,502</u>	<u>\$ 81,000</u>

General revenues:

  Unrestricted County appropriations - operating

  Unrestricted State appropriations - operating

  Investment earnings, unrestricted

  Miscellaneous, unrestricted

Transfers

  Total general revenues and transfers

  Change in net position

Beginning net position, as previously reported

Restatement

Beginning net position, as restated

Ending net position

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (10,823,820)	\$ -	\$ (10,823,820)
(1,655,499)	-	(1,655,499)
(1,352,314)	-	(1,352,314)
(3,153,982)	-	(3,153,982)
(1,447,400)	-	(1,447,400)
(2,975,269)	-	(2,975,269)
(472,040)	-	(472,040)
(187,823)	-	(187,823)
(6,588)	-	(6,588)
(1,257,063)	-	(1,257,063)
(10,945,073)	-	(10,945,073)
(2,653,879)	-	(2,653,879)
(117,388)	-	(117,388)
(273,056)	-	(273,056)
(884,912)	-	(884,912)
59,782	-	59,782
(601,052)	-	(601,052)
(97,004)	-	(97,004)
(6,385,418)	-	(6,385,418)
<u>(45,229,798)</u>	<u>-</u>	<u>(45,229,798)</u>
-	(543,620)	(543,620)
-	(543,620)	(543,620)
(45,229,798)	(543,620)	(45,773,418)
34,931,795	-	34,931,795
5,413,216	-	5,413,216
100,850	13,249	114,099
5,020,918	58,154	5,079,072
(78,225)	78,225	-
<u>45,388,554</u>	<u>149,628</u>	<u>45,538,182</u>
158,756	(393,992)	(235,236)
93,255,552	4,309,219	97,564,771
(7,914,943)	-	(7,914,943)
<u>85,340,609</u>	<u>4,309,219</u>	<u>89,649,828</u>
<u>\$ 85,499,365</u>	<u>\$ 3,915,227</u>	<u>\$ 89,414,592</u>

The accompanying notes to the financial statements are an integral part of these statements

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## **FUND FINANCIAL STATEMENTS**

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**Balance Sheet  
Governmental Funds  
June 30, 2017**

	Major Funds				Non-Major Fund		Total Governmental Funds
	General	State Public School	Special Revenue	Capital Outlay	Individual Schools	Federal Grants	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 8,421,273	\$ -	\$ 2,611,420	\$ 1,296,252	\$ 1,739,820	\$ -	\$ 14,068,765
Due from other governments	40,983	3,168,829	1,202	232,149	-	337,971	3,781,134
Accounts receivable	17,862	-	121,234	-	-	-	139,096
Total assets	\$ 8,480,118	\$ 3,168,829	\$ 2,733,856	\$ 1,528,401	\$ 1,739,820	\$ 337,971	\$ 17,988,995
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and accrued expenses	\$ 77,111	\$ -	\$ 370,120	\$ 233,477	\$ -	\$ -	\$ 680,708
Accrued salaries and benefits	134,958	3,168,829	36,267	-	-	337,971	3,678,025
Unearned revenue	-	-	1,416,309	-	-	-	1,416,309
Total liabilities	212,069	3,168,829	1,822,696	233,477	-	337,971	5,775,042
Fund balances:							
Restricted:							
Stabilization by State statute	58,845	-	122,436	232,149	-	-	413,430
School capital outlay	-	-	-	1,062,775	-	-	1,062,775
Individual schools	-	-	-	-	1,739,820	-	1,739,820
Assigned:							
Special revenue	-	-	788,724	-	-	-	788,724
Subsequent year's expenditures	3,204,559	-	-	-	-	-	3,204,559
Unassigned	5,004,645	-	-	-	-	-	5,004,645
Total fund balances	8,268,049	-	911,160	1,294,924	1,739,820	-	12,213,953
Total liabilities and fund balances	\$ 8,480,118	\$ 3,168,829	\$ 2,733,856	\$ 1,528,401	\$ 1,739,820	\$ 337,971	\$ 17,988,995

**Reconciliation of the balance sheet to the statement of net position:**

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	\$ 12,213,953
Total fund balance - governmental funds	12,213,953
Deferred outflows of resources related to pension:	41,865,475
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	127,602,096
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consisted of:	
Net pension liability	\$ (63,812,380)
Installment purchase obligations	(18,878,632)
Compensated absences	(9,078,908)
Deferred inflow of resources related to pension	(4,412,239)
Net position of governmental activities	\$ 85,499,365

The accompanying notes to the financial statements are an integral part of these statements

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

**Exhibit 4**

	Major Funds					Non-Major Fund	Total Governmental Funds
	General	State Public School	Special Revenue	Capital Outlay	Individual Schools	Federal Grants	
<b>REVENUES</b>							
State of North Carolina	\$ -	\$ 111,538,399	\$ 493,919	\$ 1,027,048	\$ -	\$ -	\$ 113,059,366
Rowan County	35,664,166	-	100,000	4,282,973	349,325	-	40,396,464
U.S. Government	382,876	-	-	-	-	12,819,587	13,202,463
Other	555,521	-	3,162,021	305,185	4,686,363	-	8,709,090
Total revenues	<u>36,602,563</u>	<u>111,538,399</u>	<u>3,755,940</u>	<u>5,615,206</u>	<u>5,035,688</u>	<u>12,819,587</u>	<u>175,367,383</u>
<b>EXPENDITURES</b>							
Current:							
Instructional services:							
Regular instructional	11,539,523	76,967,306	3,833,564	-	-	900,562	93,240,955
Special populations	1,377,032	10,838,789	327,444	-	-	4,944,468	17,487,733
Alternative programs	324,958	3,785,765	631,005	-	-	5,915,794	10,657,522
School leadership	1,654,706	8,360,881	252	-	-	-	10,015,839
Co-curricular	1,054,558	-	36,502	-	5,112,618	-	6,203,678
School-based support	1,440,639	9,171,501	103,300	-	-	312,660	11,028,100
System-wide support services:							
Support and development	433,826	646,227	11,859	-	-	-	1,091,912
Special population support and development	189,637	868,897	-	-	-	14,753	1,073,287
Alternative programs and services support and development	6,619	42,027	-	-	-	25,529	74,175
Technology support	2,268,296	437,375	-	-	-	-	2,705,671
Operational support	10,364,253	9,039,400	194,880	-	-	62,260	19,660,793
Financial and human resource	2,208,419	977,822	484	-	-	-	3,186,725
Accountability	73,486	172,954	-	-	-	-	246,440
System-wide pupil support	236,301	44,814	-	-	-	-	281,115
Policy, leadership and public relations	622,900	883,553	230,895	-	-	-	1,737,348
Ancillary services	18,785	-	-	-	-	-	18,785
Non-programmed charges	626,618	(22)	150,090	-	-	643,561	1,420,247
Debt service:							
Principal	2,479,763	687,600	149,540	1,027,048	-	-	4,343,951
Interest	97,004	-	-	-	-	-	97,004
Capital projects:							
Real property and buildings	-	-	33,246	5,542,031	-	-	5,575,277
Furniture and equipment	-	-	-	816,843	-	-	816,843
Buses and motor vehicles	-	-	-	1,670,652	-	-	1,670,652
Total expenditures	<u>37,017,323</u>	<u>122,924,889</u>	<u>5,703,061</u>	<u>9,056,574</u>	<u>5,112,618</u>	<u>12,819,587</u>	<u>192,634,052</u>

The accompanying notes to the financial statements are an integral part of these statements

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

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

	<u>Major Funds</u>					<u>Non-Major</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>State Public School</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Individual Schools</u>	<u>Federal Grants</u>	
Excess (deficiency) of revenues over expenditures	\$ (414,760)	\$ (11,386,490)	\$ (1,947,121)	\$ (3,441,368)	\$ (76,930)	\$ -	\$ (17,266,669)
<b>OTHER FINANCING SOURCES</b>							
Transfers to other funds	-	(78,225)	-	-	-	-	(78,225)
Installment purchase obligations issued	-	11,464,715	2,313,347	1,603,652	-	-	15,381,714
Total other financing sources	-	11,386,490	2,313,347	1,603,652	-	-	15,303,489
Net change in fund balance	(414,760)	-	366,226	(1,837,716)	(76,930)	-	(1,963,180)
<b>FUND BALANCE</b>							
Beginning of year	8,682,809	-	544,934	3,132,640	1,816,750	-	14,177,133
End of year	<u>\$ 8,268,049</u>	<u>\$ -</u>	<u>\$ 911,160</u>	<u>\$ 1,294,924</u>	<u>\$ 1,739,820</u>	<u>\$ -</u>	<u>\$ 12,213,953</u>

**Reconciliation of the statement of revenues, expenditures and changes in fund balances  
governmental funds to the statement of activities:**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$ (1,963,180)
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 expense exceeded capital outlays in the current period.	13,597,538
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.	
Repayment of debt	4,343,951
Issuance of debt	(15,381,714)
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	(1,804,998)
Loss on disposal of capital assets	(1,175)
Compensated absences	1,368,334
Total changes in net position of governmental activities	<u>\$ 158,756</u>

The accompanying notes to the financial statements are an integral part of these statements

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**General and Major Special Revenue Funds**  
**For the Year Ended June 30, 2017**

	General Fund			
	Budget		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
State of North Carolina	\$ 200,000	\$ -	\$ -	\$ -
Rowan County	34,566,372	35,652,418	35,664,166	11,748
U.S. Government	671,726	471,726	382,876	(88,850)
Other	2,768,046	649,733	555,521	(94,212)
Total revenues	<u>38,206,144</u>	<u>36,773,877</u>	<u>36,602,563</u>	<u>(171,314)</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services:				
Regular instructional			11,539,523	
Special populations			1,377,032	
Alternative programs			324,958	
School leadership			1,654,706	
Co-curricular			1,054,558	
School-based support			1,440,639	
Total instructional services	<u>19,453,904</u>	<u>17,706,687</u>	<u>17,391,416</u>	<u>315,271</u>
System-wide support services:				
Support and development			433,826	
Special population support and development			189,637	
Alternative programs and services support and development			6,619	
Technology support			2,268,296	
Operational support			10,364,253	
Financial and human resource			2,208,419	
Accountability			73,486	
System-wide pupil support			236,301	
Policy, leadership, and public relations			622,900	
Total system-wide support services	<u>18,310,182</u>	<u>17,470,365</u>	<u>16,403,737</u>	<u>1,066,628</u>
Ancillary services	<u>6,200</u>	<u>21,200</u>	<u>18,785</u>	<u>2,415</u>
Non-programmed charges	<u>435,858</u>	<u>626,618</u>	<u>626,618</u>	<u>-</u>
Debt service:				
Principal	-	2,479,763	2,479,763	-
Interest	-	97,004	97,004	-
	<u>-</u>	<u>2,576,767</u>	<u>2,576,767</u>	<u>-</u>
Total expenditures	<u>38,206,144</u>	<u>38,401,637</u>	<u>37,017,323</u>	<u>1,384,314</u>
Revenues over (under) expenditures	<u>-</u>	<u>(1,627,760)</u>	<u>(414,760)</u>	<u>1,213,000</u>
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Installment purchase obligations issued	-	-	-	-
Appropriated fund balance		1,627,760	-	(1,627,760)
Total other financing sources (uses)	<u>-</u>	<u>1,627,760</u>	<u>-</u>	<u>(1,627,760)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(414,760)</u>	<u>\$ (414,760)</u>
Fund balances, beginning			<u>8,682,809</u>	
Fund balances, ending			<u>\$ 8,268,049</u>	

**Exhibit 5**

<b>State Public School Fund</b>			
Budget		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Original	Final		
\$ 109,883,449	\$ 115,105,885	111,538,399	\$ (3,567,486)
-	-	-	-
-	-	-	-
-	-	-	-
<u>109,883,449</u>	<u>115,105,885</u>	<u>111,538,399</u>	<u>(3,567,486)</u>
		76,967,306	
		10,838,789	
		3,785,765	
		8,360,881	
		-	
		9,171,501	
<u>99,140,912</u>	<u>113,288,885</u>	<u>109,124,242</u>	<u>4,164,643</u>
		646,227	
		868,897	
		42,027	
		437,375	
		9,039,400	
		977,822	
		172,954	
		44,814	
		883,553	
<u>10,695,296</u>	<u>13,203,490</u>	<u>13,113,069</u>	<u>90,421</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>(22)</u>	<u>22</u>
<u>-</u>	<u>-</u>	<u>687,600</u>	<u>(687,600)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>687,600</u>	<u>(687,600)</u>
<u>109,836,208</u>	<u>126,492,375</u>	<u>122,924,889</u>	<u>3,567,486</u>
<u>47,241</u>	<u>(11,386,490)</u>	<u>(11,386,490)</u>	<u>-</u>
(47,241)	(78,225)	(78,225)	-
-	11,464,715	11,464,715	-
-	-	-	-
<u>(47,241)</u>	<u>11,386,490</u>	<u>11,386,490</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		<u>-</u>	
		<u>\$ -</u>	

The accompanying notes to the financial statements are an integral part of these statements

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**General and Major Special Revenue Funds**  
**For the Year Ended June 30, 2017**

**Exhibit 5**  
**(Continued)**

	Special Revenue Fund			Variance with Final Budget - Favorable (Unfavorable)
	Budget		Actual Amounts	
	Original	Final		
<b>REVENUES</b>				
State of North Carolina:				
N.C. Pre-Kindergarten Program	\$ 649,525	\$ 543,200	\$ 493,919	\$ (49,281)
Rowan County				
School nurse funding	100,000	100,000	100,000	-
Other:				
Tuition and fees	-	277,966	180,337	(97,629)
Indirect cost	-	500,000	1,091,384	591,384
Interest earned	-	-	644	644
Medicaid direct services reimbursement	531,838	1,159,126	772,952	(386,174)
Laptop/iPad 1:1 Initiative	-	1,344,293	278,768	(1,065,525)
Miscellaneous local operating revenues	2,394,087	1,349,178	837,936	(511,242)
Total other	2,925,925	4,630,563	3,162,021	(1,468,542)
Total revenues	3,675,450	5,273,763	3,755,940	(1,517,823)
<b>EXPENDITURES</b>				
Current:				
Instructional services:				
Regular instructional			3,833,564	
Special populations			327,444	
Alternative programs			631,005	
School leadership			252	
Co-curricular			36,502	
School-based support			103,300	
Total instructional services	3,156,049	6,883,716	4,932,067	1,951,649
System-wide support services:				
Support and development			11,859	
Operational support			194,880	
Financial and human resource			484	
Policy, leadership, and public relations			230,895	
Total system-wide support services	421,222	455,675	438,118	17,557
Ancillary services	24,204	24,204	-	24,204
Non-programmed charges	2,000	2,000	150,090	(148,090)
Capital outlay	71,975	71,975	33,246	38,729
Debt service:				
Principal	-	149,540	149,540	-
Total expenditures	3,675,450	7,587,110	5,703,061	1,884,049
Revenues over (under) expenditures	-	(2,313,347)	(1,947,121)	366,226
Other financing sources:				
Installment purchase obligations issued	-	2,313,347	2,313,347	-
Net change in fund balance	\$ -	\$ -	366,226	\$ 366,226
Fund balance, beginning			544,934	
Fund balance, ending			\$ 911,160	

The accompanying notes to the financial statements are an integral part of these statements



Statement of Net Position

Proprietary Fund

June 30, 2017

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food Service Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,902,279
Due from other governments	412,728
Accounts receivable	1,022
Inventories	264,989
Total current assets	<u>3,581,018</u>
Noncurrent assets:	
Capital assets:	
Capital assets, net of depreciation	1,636,449
Total assets	<u>5,217,467</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,438,780</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	36,232
Accrued salaries and benefits	47,277
Unearned revenue	73,099
Compensated absences	239,755
Total current liabilities	<u>396,363</u>
Noncurrent liabilities:	
Net pension liability	2,193,023
Total liabilities	<u>2,589,386</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>151,634</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,636,449
Unrestricted	<u>2,278,778</u>
Total net position	<u><u>\$ 3,915,227</u></u>

The accompanying notes to the financial statements are an integral part of these statements

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Fund

For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>School Food Service</u> <u>Fund</u>
<b>OPERATING REVENUES</b>	
Food sales	\$ 2,257,034
Miscellaneous local operating revenue	26,842
Total operating revenues	<u>2,283,876</u>
<b>OPERATING EXPENSES</b>	
Purchase of food	5,328,198
Salaries and benefits	6,121,274
Indirect costs	877,302
Utilities and telephone	17,341
Materials and supplies	233,544
Contracted services	73,439
Equipment and maintenance	91,790
Depreciation	221,210
Travel	35,650
Other	23,867
Total operating expenses	<u>13,023,615</u>
Operating loss	<u>(10,739,739)</u>
<b>NONOPERATING REVENUES</b>	
Federal reimbursements	8,976,733
Federal commodities	789,797
Indirect cost	472,953
State reimbursements	14,790
Interest earned on investments	13,249
Total nonoperating revenues	<u>10,267,522</u>
Loss before transfers	(472,217)
Transfers from other fund	<u>78,225</u>
Change in net position	(393,992)
<b>NET POSITION</b>	
Beginning of year	<u>4,309,219</u>
End of year	<u>\$ 3,915,227</u>

The accompanying notes to the financial statements are an integral part of these statements

**Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2017**

	<b>Enterprise Fund</b>
	<b>Major Fund</b>
	<b>School Food Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 2,233,239
Cash paid for goods and services	(5,455,926)
Cash paid to employees for services	(5,956,863)
Net cash used by operating activities	(9,179,550)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal reimbursements	8,976,733
State reimbursements	14,790
Net cash provided by noncapital financing activities	8,991,523
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisitions of capital assets	(156,595)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	13,249
Net decrease in cash	(331,373)
<b>CASH - BEGINNING OF YEAR</b>	3,233,652
<b>CASH - END OF YEAR</b>	\$ 2,902,279

The accompanying notes to the financial statements are an integral part of these statements

Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2017

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food Service Fund</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (10,739,739)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	221,210
Donated commodities	789,797
Salaries paid by special revenue fund	78,225
Indirect costs not paid	472,953
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Increase in due from other governments	(60,588)
Accounts receivable	4,182
Increase in deferred outflows	(1,150,330)
Increase in inventories	(29,070)
Increase in accounts payable	(8,475)
Decrease in accrued liabilities	17,455
Increase in net pension liability	1,336,501
Decrease in deferred inflows	(109,166)
Increase in compensated absences payable	(8,274)
Decrease in unearned revenue	5,769
Total adjustments	<u>1,560,189</u>
Net cash used by operating activities	<u>\$ (9,179,550)</u>

Noncash investing, capital, and financing activities:

The School Food Service Fund consumed donated commodities with a value of \$789,797 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 7.

The accompanying notes to the financial statements are an integral part of these statements

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## **NOTES TO THE FINANCIAL STATEMENTS**

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**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Rowan-Salisbury Board of Education, North Carolina 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 Rowan-Salisbury 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 Rowan County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

**B) Basis of Presentation**

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

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

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

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B) Basis of Presentation (Continued)**

The Board reports the following major governmental funds:

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

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

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

**Capital Outlay Fund:** The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds) and is reported as a capital projects fund. It is mandated by State law [G.S.115C-426]. Capital projects are funded by Rowan County appropriations, restricted sales tax monies, proceeds of Rowan County bonds issued for public school construction, lottery proceeds, as well as certain State assistance.

**Special Revenue Fund:** The Special Revenue Fund includes grants, reimbursements, and other special revenues that are not accounted for in the General Fund.

The Board reports the following non-major governmental fund:

**Federal Grants Fund:** The Federal Grants Fund includes appropriations from the federal government for the funding of specific federal programs.

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 and is reported as an enterprise fund.



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

***Government-wide and Proprietary Fund Financial Statements:*** The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, includes 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 to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

**D) Budgetary Data**

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the Individual Schools Fund, as required by the North Carolina General Statutes. Per State law no budget is required 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 Superintendent and Finance Officer are authorized to transfer appropriations within a purpose code within a fund with proper justification. Transfers between funds require governing board approval. Copies of the Budget Resolution shall be immediately furnished to the Superintendent and the Finance Officer for direction in carrying out their duties.

During the year, significant amendments to the budget were necessary and were appropriately approved by the Board.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 and loan 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.

**3) Inventories**

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**4) Capital Assets**

Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after July 1, 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, 1970 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

	<u>Years</u>
Buildings	50
Building improvements	20
Furniture and equipment	5-15
Vehicles	8

Depreciation for buildings and equipment 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 – a pension related deferral and contributions made to the pension plan in the current fiscal year. 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 an item that meets this criterion consisting of pension 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.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**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 Boards' liability for accumulated earned vacation and the salary-related payments as of June 30, 2017 is recorded in the government-wide and proprietary fund financial statements on the 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 are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints 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. The Board did not have any nonspendable fund balance at June 30, 2017.

**Restricted Fund Balance** - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 115C-425(a)].

Restricted for School Capital Outlay - portion of fund balance that can only be used for School Capital Outlay. [G.S. 159-18 through 22]

Restricted for Individual Schools - revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**8) Net Position/Fund Balances (Continued)**

Committed Fund Balance - portion of fund balance that can only be used for a specific purpose imposed by a majority vote by quorum of the Board of Education's governing body (highest level of decision-making authority) and in certain instances approval by the County's governing body is required. Any changes or removal of specific purpose requires majority action by the governing bodies that approved the original action. The Board did not have any committed fund balance at June 30, 2017.

Assigned Fund Balance - portion of fund balance that the Rowan-Salisbury Board of Education intends to use for specific purposes.

Special Revenue – portion of fund balance that will be used by special revenue fund activities, as determined by the governing body.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**9) Reconciliation of Government-wide and Fund Financial Statements**

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

The governmental funds balance sheet includes a reconciliation between total fund balance of the governmental funds and net position of the governmental activities as reported in the government-wide statement of net position. The net adjustment of \$73,285,412 consists of several elements as follows:

Description	
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)	\$ 239,200,253
Less: Accumulated depreciation	(111,598,157)
Net capital assets	127,602,096
Pension related deferred outflows of resources:	
Change in assumptions	9,410,775
Contributions made to the pension plan in current fiscal year	9,697,159
Difference between projected and actual earnings on plan investments	22,757,541
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 purchase	(18,878,632)
Compensated absences	(9,078,908)
Net pension liability	(63,812,380)
Deferred inflow of resources related to pensions:	
Differences between expected and actual experience	(3,015,862)
Differences between contributions and proportional share of contributions and changes in proportion	(1,396,377)
	\$ 73,285,412

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**9) Reconciliation of Government-wide and Fund Financial Statements (Continued)**

**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 \$2,121,936 as follows:

Description	
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 20,778,957
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	(7,181,419)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net position in the government-wide statements	4,343,951
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	(15,381,714)
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	(1,804,998)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	1,368,334
Loss on disposal of capital assets	(1,175)
	\$ 2,121,936

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E) Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity (Continued)**

**10) Defined Benefit Pension Plans**

For purposes of measuring the net pension asset, 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) and additions to/deductions from TSERS' fiduciary net position have been determined on the same basis as they are reported to TSERS. 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 payable in accordance with the terms of TSERS. Investments are reported at fair value.

**II) 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 Board'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, 2017, the Board had deposits with banks and savings and loans with a carrying amount of \$6,209,042. The bank balances with the financial institutions and the State Treasurer were \$6,055,270 and \$6,995,967, respectively. Of these balances, \$1,280,289 was covered by federal depository insurance and \$11,818,747 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. The Board also had a balance in petty cash of \$17,682.



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**2) Investments**

At June 30, 2017, the Board of Education had \$10,744,320 invested with the State Treasurer in the Short-Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.6 years at June 30, 2017.

*Interest Rate Risk.* The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The STIF is unrated and is authorized under North Carolina General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate treasuries and agencies, and money market instruments. The Board has no policy on credit risk.

*Concentration of Credit Risk.* The Board places no limit on the amount the Board may invest in any one issuer. More than five percent of the Board's investments are in the State Treasurer's Short Term Investment Fund. This investment is 100% of the Board's total investments.

**3) Accounts Receivable**

Receivables at the government-wide level at June 30, 2017, were as follows:

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ 40,983	\$ 17,862	\$ 58,845
Other governmental activities	3,740,151	121,234	3,861,385
Total	\$ 3,781,134	\$ 139,096	\$ 3,920,230
Business-type activities:			
School Food Service	\$ 412,728	\$ 1,022	\$ 413,750

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 40,983	Fines and forfeitures
State Public School Fund	3,168,829	Operating funds from the State
Special Revenue Fund	1,025	Other State funds
Special Revenue Fund	177	County sales tax revenue
Capital Outlay Fund	232,149	County sales tax revenue
Federal Grants Fund	337,971	Federal grant funds
Total	\$ 3,781,134	

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**3) Accounts Receivable (Continued)**

**Business-type activities:**

School Food Service Fund \$ 412,728 Federal reimbursements

**4) Capital Assets**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balances (Restated)	Adjustments	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	\$ 4,407,273	\$ -	\$ 539,456	\$ 12,379	\$ 4,934,350
Construction in progress	-	-	2,582,277	-	2,582,277
Total capital assets not being depreciated	<u>4,407,273</u>	<u>-</u>	<u>3,121,733</u>	<u>12,379</u>	<u>7,516,627</u>
Capital assets being depreciated:					
Buildings	173,705,793	(4,897,880)	395,453	8,346	169,195,020
Land improvements	-	4,897,880	51,874	-	4,949,754
Equipment and furniture	24,823,978	-	15,289,776	154,996	39,958,758
Vehicles	16,519,868	-	1,920,121	859,895	17,580,094
Total capital assets being depreciated	<u>215,049,639</u>	<u>-</u>	<u>17,657,224</u>	<u>1,023,237</u>	<u>231,683,626</u>
Less accumulated depreciation for:					
Buildings	80,135,420	(3,832,271)	3,275,720	20,725	79,558,144
Land improvements	-	3,832,271	216,102	-	4,048,373
Equipment and furniture	11,895,731	-	2,893,596	153,820	14,635,507
Vehicles	13,420,027	-	796,001	859,895	13,356,133
Total accumulated depreciation	<u>105,451,178</u>	<u>-</u>	<u>7,181,419</u>	<u>1,034,440</u>	<u>111,598,157</u>
Total capital assets being depreciated, net	<u>109,598,461</u>				<u>120,085,469</u>
Governmental activities capital assets, net	<u>\$ 114,005,734</u>				<u>\$ 127,602,096</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 6,385,418
Operational support services	796,001
	<u>\$ 7,181,419</u>

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**A) Assets (Continued)**

**4) Capital Assets (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>School Food Service Fund:</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 5,046,380	\$ 156,595	\$ -	\$ 5,202,975
Less accumulated depreciation for:				
Furniture and equipment	3,345,316	\$ 221,210	\$ -	3,566,526
Business-type activity capital assets, net	<u>\$ 1,701,064</u>			<u>\$ 1,636,449</u>

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	Total
Capital assets	\$ 239,200,253	\$ 5,202,975	\$ 244,403,228
Less:			
Accumulated depreciation	(111,598,157)	(3,566,526)	(115,164,683)
Installment purchase obligations	(18,878,632)	-	(18,878,632)
Total	<u>\$ 108,723,464</u>	<u>\$ 1,636,449</u>	<u>\$ 110,359,913</u>

**5) Construction Commitments**

The Board had several active construction projects at June 30, 2017. At year end, the commitments with contracts for school construction was as follows:

Project	Spent-to-date	Remaining Commitment
Phase 1 roof replacement	\$ 2,582,277	\$ 15,489

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**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 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.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**a) Teachers' and State Employees' Retirement System (Continued)**

The Board's contractually required contribution rate for the year ended June 30, 2017, was 9.98% 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 \$10,030,418, \$8,833,389, and \$8,686,209, for the years ended June 30, 2017, 2016 and 2015, respectively.

*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.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2017, the Board reported a liability of \$66,005,403 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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. At June 30, 2016 and at June 30, 2015, the Board's proportion was .718% and .712%, respectively.

For the year ended June 30, 2017, the Board recognized pension expense of \$11,912,423. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between Board contributions and proportionate share of contributions	\$ -	\$ 1,444,366
Changes of assumptions	9,734,193	-
Differences between expected and actual experience	-	3,119,507
Net difference between projected and actual earnings on pension plan investments	23,539,644	-
Pension contributions subsequent to the measurement date	10,030,418	-
Total	\$ 43,304,255	\$ 4,563,873

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**a) Teachers' and State Employees' Retirement System (Continued)**

\$10,030,418 was 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, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 4,286,561
2019	4,514,318
2020	12,714,748
2021	7,194,337
2022	-
Total	<u>\$ 28,709,964</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2015 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.25 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 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, 2015 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.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**a) Teachers' and State Employees' Retirement System (Continued)**

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, 2016 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 2016 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 7.25%. 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.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**a) Teachers' and State Employees' Retirement System (Continued)**

*Sensitivity of the Board'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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	\$ 124,143,409	\$ 66,005,403	\$ 17,119,310

*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 postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**b) Other Postemployment Benefits (Continued)**

**1) Healthcare Benefits (Continued)**

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

**Funding Policy:** The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have twenty or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with ten but less than twenty years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2017, 2016, and 2015, the Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$5,866,153, \$5,462,020, and \$5,301,573, respectively. These contributions represented 5.81%, 5.60%, and 5.49% of covered payroll, respectively.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**b) Other Postemployment Benefits (Continued)**

**2) Long-term Disability Benefits**

**Plan Description:** Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as another postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The Plan does not provide for automatic post-retirement benefit increases.

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

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**1) Pension Plan and Other Postemployment Obligations (Continued)**

**b) Other Postemployment Benefits (Continued)**

**2) Long-term Disability Benefits (Continued)**

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

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit. For the fiscal years ended June 30, 2017, 2016, and 2015, the Board paid all annual required contributions to the DIPNC for disability benefits of \$383,673, \$399,898, and \$431,980, respectively. These contributions represented 0.38%, 0.41%, and 0.41% of covered payroll, respectively.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**2) Accounts Payable**

Accounts payable as of June 30, 2017 are as follows:

	<u>Vendors</u>	<u>Accrued Salaries</u>	<u>Total</u>
<b>Governmental activities:</b>			
General	\$ 77,111	\$ 134,958	\$ 212,069
Other governmental	<u>603,597</u>	<u>3,543,067</u>	<u>4,146,664</u>
Total governmental activities	<u>\$ 680,708</u>	<u>\$ 3,678,025</u>	<u>\$4,358,733</u>
<b>Business-type activities:</b>			
School Food Service Fund	<u>\$ 36,232</u>	<u>\$ 47,277</u>	<u>\$ 83,509</u>

**3) Deferred Outflows/Inflows of Resources**

The balance in deferred outflows/inflows of resources at year-end is composed of the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>Governmental activities:</b>		
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 1,396,377
Change of assumptions	9,410,775	-
Difference between expected and actual experience	-	3,015,862
Net difference between projected and actual earnings on plan investments	22,757,541	-
Pension contributions subsequent to the measurement date	<u>9,697,159</u>	<u>-</u>
Total governmental activities	<u>\$ 41,865,475</u>	<u>\$ 4,412,239</u>

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**3) Deferred Outflows/Inflows of Resources (Continued)**

<b>Governmental activities:</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 47,989
Change of assumptions	323,418	-
Difference between expected and actual experience	-	103,645
Net difference between projected and actual earnings on plan investments	782,102	-
Pension contributions subsequent to the measurement date	<u>333,260</u>	<u>-</u>
Total governmental activities	<u>\$ 1,438,780</u>	<u>\$ 151,634</u>

**4) Risk Management**

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board purchases insurance coverage through Continental Western Insurance Company. The Board maintains general liability and errors and omissions coverage of \$1 million each occurrence limit. The Board purchases workers' compensation insurance through Republic Indemnity Insurance Company and the coverage provides the statutory limits for employees to the extent they are paid from federal and local funds. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. Continental Western Insurance Company has an annual aggregate limit for general liability of \$2,000,000 and \$2,000,000 for errors and omissions. The Board also purchases property insurance through the Firemen's Insurance Company of Washington, DC to insure the tangible property assets of the Board. The Board's property insurance policy provides a blanket insurance limit of approximately \$546,200,000 on the Building and Contents. There is no co-insurance and the property is insured on a replacement cost basis. The property deductible is \$5,000 per occurrence. The property policy provides a \$5,000,000 limit for Flood and Earthquake with a \$25,000 deductible. The Firemen's Insurance Company of Washington DC and Continental Western Insurance Company are rated A+ by AM Best and Republic Indemnity Company of America is rated A by AM Best.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

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 \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$215,000.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**4) Risk Management (Continued)**

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

**5) Contingent Liabilities**

At June 30, 2017, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Board's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Board's financial position.

**6) Long-Term Obligations**

**a) Installment Purchases**

Energy Conservation

The Board is authorized by State law [G.S.115C-47(28a)] to enter into installment purchase contracts to finance energy conservation measures that will reduce its operating costs. The Board entered into such a contract to reduce the energy costs associated with the administrative office and various schools. The financing contract requires principal payments for fifteen years beginning in the fiscal year 2016 with an interest rate 2.65 percent. The future minimum payments of the energy conservation installment purchase as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 91,673	\$ 206,595	\$ 298,268
2019	86,110	215,513	301,623
2020	80,308	224,712	305,020
2021	74,260	230,716	304,976
2022	68,189	229,749	297,938
2023-2027	243,054	1,296,040	1,539,094
2028-2031	60,593	1,132,763	1,193,355
	<u>\$ 704,187</u>	<u>\$ 3,536,088</u>	<u>\$ 4,240,275</u>

Computer Equipment

As authorized in State law [G.S. 115C-528(a)], the Board to enter into a \$13,778,062 installment purchase contract to finance the purchase of computer equipment for instructional purposes and classroom engagement. The lease agreement qualified as a capital lease for accounting purposes; therefore, the obligation has been recorded at the present value of the future minimum lease payments as of the date of its inception.

At June 30, 2017, assets recorded under the capital lease were as follows:

<u>Class of property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computers	\$ 13,778,062	\$ 229,634	\$ 13,548,428

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**6) Long-Term Obligations (Continued)**

**a) Installment Purchases (Continued)**

The future minimum payments of the computer equipment installment purchase as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 6,592,687
2019	3,592,687
2020	<u>3,592,688</u>
	<u>\$ 13,778,062</u>

School Buses

The Board is authorized to finance the purchase of school buses under G.S 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through a special third party financing agreement by Mercedes Benz Financial Services USA LLC at total payments less than the purchase price. In November 2016, the Board entered into installment purchase contract to finance the purchase of 17 buses. The financing contract requires only principal payments of \$400,903 due at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 400,903
2019	400,903
2020	<u>400,903</u>
	<u>\$ 1,202,709</u>

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**B) Liabilities (Continued)**

**6) Long-Term Obligations (Continued)**

**b) Long-Term Obligation Activity**

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2017:

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
Governmental activities:					
Compensated absences	\$ 10,447,242	\$ 7,770,801	\$ 9,139,135	\$ 9,078,908	\$ 5,786,696
Net pension liability	25,373,243	38,439,137	-	63,812,380	-
Installment purchase	7,840,869	15,381,714	4,343,951	18,878,632	7,441,510
Total	<u>\$ 43,661,354</u>	<u>\$ 61,591,652</u>	<u>\$ 13,483,086</u>	<u>\$ 91,769,920</u>	<u>\$ 13,228,206</u>
Business-type activities:					
Compensated absences	\$ 248,029	\$ 316,171	\$ 324,445	\$ 239,755	\$ 239,755
Net pension liability	856,522	1,336,501	-	2,193,023	-
Total	<u>\$ 1,104,551</u>	<u>\$ 1,652,672</u>	<u>\$ 324,445</u>	<u>\$ 2,432,778</u>	<u>\$ 239,755</u>

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

**C) Interfund Balances and Activity**

Transfers to/from other funds at June 30, 2017, consist of the following:

From the State Public School Fund to the School Food Services Fund for administrative costs	<u>\$ 78,225</u>
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**D) Fund Balance**

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



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**II) DETAIL NOTES ON ALL FUNDS (Continued)**

**D) Fund Balance (Continued)**

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

	General Fund
Total fund balance	\$ 8,268,049
Less:	
Stabilization by State statute	(58,845)
Appropriated fund balance in 2018 budget	<u>(3,204,559)</u>
Remaining unassigned fund balance	<u>\$ 5,004,645</u>

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. The Board has no encumbrances as of June 30, 2017.

**III) 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 monies 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 monies.

**IV) RESTATEMENT OF PRIOR YEAR NET POSITION**

For fiscal year 2017, the Board made a variety of prior period adjustments due to errors or omissions which require the restatement of the June 30, 2016 net position in Governmental Activities. The result is a decrease in Governmental Activities' net position at July 1, 2016 of \$7,914,943.

Governmental Activities:	
Net position, July 1, 2016 as previously reported	\$ 93,255,552
Adjust for prior year errors related to capital assets	<u>(7,914,943)</u>
Net position, July 1, 2016 as restated	<u>\$ 85,340,609</u>

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2017**

**V) SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 15, 2018, the date the financial statements were available to be issued, and no events have occurred that required recognition or disclosure for the year ended June 30, 2017.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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Schedule of the Board's Proportionate Share of the Net Pension Liability  
*Teachers' and State Employees' Retirement System*

Schedule of Board Contributions  
*Teachers' and State Employees' Retirement System*

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of the Board's Proportionate Share of the Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Four Fiscal Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset)	0.718%	0.712%	0.724%	0.766%
Board's proportionate share of the net pension liability (asset)	\$ 66,005,403	\$ 26,229,765	\$ 8,483,052	\$ 46,504,006
Board's covered-employee payroll	\$97,536,068	\$ 98,177,285	\$ 96,996,779	\$ 98,451,911
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	67.67%	26.72%	8.75%	47.24%
Plan fiduciary net position as a percentage of the total pension liability	87.32%	94.64%	98.24%	90.60%

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

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Board Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Four Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 10,076,456	\$ 8,833,389	\$ 8,890,540	\$ 8,299,058
Contributions in relation to the contractually required contribution	<u>10,076,456</u>	<u>8,833,389</u>	<u>8,890,540</u>	<u>8,299,058</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 101,665,624	\$ 97,536,068	\$ 98,177,285	\$ 96,996,779
Contributions as a percentage of covered-employee payroll	9.911%	9.057%	9.056%	8.556%

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## **INDIVIDUAL FUND SCHEDULES**

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Schedule of Revenues, Expenditures and Changes

in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Rowan County:			
County appropriation	\$ 34,566,372	\$ 34,566,372	\$ -
Fines and forfeitures	650,188	661,936	11,748
Charter school funding	435,858	435,858	-
Total Rowan County	<u>35,652,418</u>	<u>35,664,166</u>	<u>11,748</u>
U.S. Government	<u>471,726</u>	<u>382,876</u>	<u>(88,850)</u>
Other:			
Medicaid administration	200,000	-	(200,000)
Interest earned	40,000	74,779	34,779
Rental of school property	205,000	207,901	2,901
Local government sales tax refund	200,000	231,401	31,401
Other	4,733	41,440	36,707
Total other	<u>649,733</u>	<u>555,521</u>	<u>(94,212)</u>
Total revenues	<u>36,773,877</u>	<u>36,602,563</u>	<u>(171,314)</u>
<b>EXPENDITURES</b>			
Instructional services:			
Regular instructional		11,539,523	
Special populations		1,377,032	
Alternative programs		324,958	
School leadership		1,654,706	
Co-curricular		1,054,558	
School based support		1,440,639	
Total instructional services	<u>17,706,687</u>	<u>17,391,416</u>	<u>315,271</u>
System-wide support services:			
Support and development		433,826	
Special population support and development		189,637	
Alternative programs and services support and development		6,619	
Technology support		2,268,296	
Operational support		10,364,253	
Financial and human resource		2,208,419	
Accountability		73,486	
System-wide pupil support		236,301	
Policy, leadership, and public relations		622,900	
Total system-wide support services	<u>17,470,365</u>	<u>16,403,737</u>	<u>1,066,628</u>

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2017**

**Schedule 1**  
**(Continued)**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES (Continued)</b>			
Ancillary services	\$ 21,200	\$ 18,785	\$ 2,415
Non-programmed charges	626,618	626,618	-
Debt service:			
Principal	2,479,763	2,479,763	-
Interest	97,004	97,004	-
	2,576,767	2,576,767	-
Total expenditures	38,401,637	37,017,323	1,384,314
Revenues under expenditures	(1,627,760)	(414,760)	1,213,000
<b>OTHER FINANCING SOURCES</b>			
Installment purchase obligations issued	-	-	-
<b>APPROPRIATED FUND BALANCE</b>	1,627,760	-	(1,627,760)
Net change in fund balance	\$ -	(414,760)	\$ (414,760)
<b>FUND BALANCE</b>			
Beginning of year		8,682,809	
End of year		\$ 8,268,049	

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Federal Grants Fund  
For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
U.S. Government	<u>\$ 19,088,060</u>	<u>12,819,587</u>	<u>\$ (6,268,473)</u>
<b>EXPENDITURES</b>			
Instructional services:			
Regular instructional		900,562	
Special populations		4,944,468	
Alternative programs		5,915,794	
School based support		312,660	
Total instructional services	<u>15,961,040</u>	<u>12,073,484</u>	<u>3,887,556</u>
System-wide support services:			
Special population support and development		14,753	
Alternative programs and services support and development		25,529	
Operational support		62,260	
Total system-wide support services	<u>269,033</u>	<u>102,542</u>	<u>166,491</u>
Ancillary services	<u>14,080</u>	<u>-</u>	<u>14,080</u>
Non-programmed charges	<u>2,843,907</u>	<u>643,561</u>	<u>2,200,346</u>
Total expenditures	<u>19,088,060</u>	<u>12,819,587</u>	<u>6,254,393</u>
Net change in fund balance	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>\$ -</u></u>
<b>FUND BALANCE</b>			
Beginning of year		<u>-</u>	
End of year		<u><u>\$ -</u></u>	

**Schedule of Revenues, Expenditures and Changes**

**in Fund Balance - Budget and Actual**

**Capital Outlay Fund**

**For the Year Ended June 30, 2017**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
State of North Carolina	\$ 1,027,048	\$ 1,027,048	\$ -
Rowan County	29,686,898	4,282,973	(25,403,925)
Other	6,695,558	305,185	(6,390,373)
Total revenues	37,409,504	5,615,206	(31,794,298)
<b>EXPENDITURES</b>			
Debt service:			
Principal	1,027,048	1,027,048	-
Total debt service	1,027,048	1,027,048	-
Property:			
Real property and buildings		5,542,031	
Furniture and equipment		816,843	
Buses and motor vehicles		1,670,652	
Total property	39,238,577	8,029,526	31,209,051
Total expenditures	40,265,625	9,056,574	31,209,051
Revenues under expenditures	(2,856,121)	(3,441,368)	(585,247)
<b>OTHER FINANCING SOURCES:</b>			
Installment purchase obligations issued	1,603,652	1,603,652	-
<b>APPROPRIATED FUND BALANCE</b>			
	1,252,469	-	(1,252,469)
Net change in fund balance	\$ -	(1,837,716)	\$ (1,837,716)
<b>FUND BALANCE</b>			
Beginning of year		3,132,640	
End of year		\$ 1,294,924	

Schedule of Revenues and Expenditures  
 Budget and Actual (Non-GAAP)  
 School Food Service Fund  
 For the Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Food sales	\$ 2,367,000	\$ 2,257,034	\$ (109,966)
Miscellaneous revenues	15,000	26,842	11,842
Total operating revenues	<u>2,382,000</u>	<u>2,283,876</u>	<u>(98,124)</u>
<b>OPERATING EXPENDITURES</b>			
Business support services:			
Food costs		5,357,268	
Salaries and benefits		6,052,543	
Indirect costs		877,302	
Materials and supplies		233,544	
Equipment and maintenance		91,790	
Utilities and telephone		17,341	
Contracted services		73,439	
Travel		35,650	
Other		23,867	
Capital outlay		156,595	
Total operating expenditures	<u>12,635,000</u>	<u>12,919,339</u>	<u>(284,339)</u>
Operating loss	<u>(10,253,000)</u>	<u>(10,635,463)</u>	<u>(382,463)</u>
<b>NONOPERATING REVENUES</b>			
Federal reimbursements	8,840,000	8,976,733	136,733
Federal commodities	790,000	789,797	(203)
State reimbursements	16,000	14,790	(1,210)
Indirect costs not paid	600,000	472,953	(127,047)
Interest earned on investments	7,000	13,249	6,249
Total nonoperating revenues	<u>10,253,000</u>	<u>10,267,522</u>	<u>14,522</u>
Revenues under expenditures before other financing sources	<u>-</u>	<u>(367,941)</u>	<u>(367,941)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers from other funds	<u>-</u>	<u>78,225</u>	<u>78,225</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>(289,716)</u>	<u>\$ (289,716)</u>
Reconciliation of modified accrual to full accrual basis:			
Depreciation		(221,210)	
Capital acquisitions		156,595	
Increase in compensated absences payable		8,274	
Increase in inventories		29,070	
Net pension liability		(1,336,501)	
Deferred outflows of resources		1,150,330	
Deferred inflows of resources		109,166	
Change in net position (full accrual basis)		<u>\$ (393,992)</u>	

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## **COMPLIANCE SECTION**

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**Rives & Associates, LLP**  
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North Carolina Association of  
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**Independent Auditor's 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***

Rowan-Salisbury Board of Education, North Carolina  
Salisbury, North Carolina

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan-Salisbury Board of Education, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Rowan-Salisbury Board of Education, North Carolina's basic financial statements, and have issued our report thereon dated February 15, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rowan-Salisbury Board of Education, North Carolina'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 Rowan-Salisbury Board of Education, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of Rowan-Salisbury Board of Education, North Carolina's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2017-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

**Compliance and Other Matters**

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

**Board'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 Board'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, the communication is not suitable for any other purpose.

*Rives & Associates LLP*

Lexington, North Carolina  
February 15, 2018



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Member:  
North Carolina Association of  
Certified Public Accountants

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**Independent Auditor's Report on Compliance For Each Major Federal Program  
And on Internal Control Over Compliance Required by the  
Uniform Guidance and the State Single Audit Implementation Act**

Rowan-Salisbury Board of Education, North Carolina  
Salisbury, North Carolina

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

We have audited the Rowan-Salisbury Board of Education, North Carolina, 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 Rowan-Salisbury Board of Education, North Carolina's major federal programs for the year ended June 30, 2017. The Rowan-Salisbury Board of Education, North Carolina's major federal programs are identified in the summary of auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Rowan-Salisbury Board of Education, North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, OMB 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 Rowan-Salisbury Board of Education, North Carolina's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

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

In our opinion, the Rowan-Salisbury Board of Education, North Carolina complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

Management of the Rowan-Salisbury Board of Education, North Carolina is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to. In planning and performing our audit of compliance, we considered the Rowan-Salisbury Board of Education, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Rowan-Salisbury Board of Education, North Carolina's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material. 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.

*Rives & Associates LLP*

Lexington, North Carolina  
February 15, 2018



Member:  
American Institute of  
Certified Public Accountants

**Rives & Associates, LLP**  
Certified Public Accountants

Member:  
North Carolina Association of  
Certified Public Accountants

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**Independent Auditor's Report on Compliance For Each Major State Program  
And on Internal Control Over Compliance Required by the  
Uniform Guidance and the State Single Audit Implementation Act**

Rowan-Salisbury Board of Education, North Carolina  
Salisbury, North Carolina

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

We have audited the Rowan-Salisbury Board of Education, North Carolina, 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 Rowan-Salisbury Board of Education, North Carolina's major State programs for the year ended June 30, 2017. The Rowan-Salisbury Board of Education, North Carolina's major State programs are identified in the summary of auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Rowan-Salisbury Board of Education, North Carolina'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 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 State program occurred. An audit includes examining, on a test basis, evidence about the Rowan-Salisbury Board of Education, North Carolina'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 Rowan-Salisbury Board of Education, North Carolina's compliance.

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

In our opinion, the Rowan-Salisbury Board of Education, North Carolina complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on each of its major State programs for the year ended June 30, 2017.

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

Management of the Rowan-Salisbury Board of Education, North Carolina 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 Rowan-Salisbury Board of Education, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with 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 Rowan-Salisbury Board of Education, North Carolina's internal control over compliance.

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

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

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

*Rives & Associates LLP*

Lexington, North Carolina  
February 15, 2018

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

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**Financial Statements**

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified	<u>  X  </u>	Yes	<u>      </u>	No
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Significant deficiency(ies) identified that are not considered to be material weaknesses	<u>      </u>	Yes	<u>  X  </u>	No
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Noncompliance material to financial statements noted	<u>      </u>	Yes	<u>  X  </u>	No
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**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified	<u>      </u>	Yes	<u>  X  </u>	No
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Significant deficiency(ies) identified that are not considered to be material weakness(es)	<u>      </u>	Yes	<u>  X  </u>	None reported
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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 2CFR 200.516(a)?

<u>      </u>	Yes	<u>  X  </u>	No
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ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies Special Education Cluster
84.173	Preschool Handicapped
84.027	Education of the Handicapped
84.027	Risk Pool
84.027	Special Needs Targeted Assistance
84.173	Preschool Targeted Assistance

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

\$ 750,000

Auditee qualified as low-risk auditee

\_\_\_\_\_ Yes        X   No



**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Schedule 5**  
**(Continued)**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)**

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**State Awards**

Internal control over major State programs:

Material weaknesses identified \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified that are  
not considered to be material weakness(es) \_\_\_\_\_ Yes  X  None reported

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 \_\_\_\_\_ Yes  X  No

Identification of major State programs:

**State Program Name**

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State Public School Fund  
Vocational Education:  
State Months of Employment  
Program Support Funds

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SECTION II - FINANCIAL STATEMENT FINDINGS

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**Finding: 2017-001            Inadequate Internal Controls over Financial Reporting  
                                    Inadequate Segregation of Duties**

***Finding classification:***                    Material Weakness

***Criteria:***

The Board is required to maintain a system of controls over the accounting system to ensure the preparation of financial statements are in accordance with generally accepted accounting principles (GAAP). The Board's internal controls should include practices and procedures to ensure materially correct GAAP based financial statements. Included in the Board's internal controls should be adequately trained personnel and adequate segregation of duties.

***Condition:***

A review of the Board's internal controls disclosed a lack of segregation of duties over certain accounting processes. A lack of segregation occurs when there is an individual who has responsibility to perform multiple functions in four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data and custody of assets. As a result of the lack of segregation, monitoring, and oversight, several balances were identified by either management or as part of the audit process requiring adjustment.

***Effect:***

The lack of adequately trained individuals and inadequate segregation of accounting duties adversely affected the Board's ability to initiate, record, process and report financial statements consistent with the assertions of management. Various balances were not fully reconciled prior to the commencement of the audit procedures.

***Cause:***

Lack of adequate training and oversight in regards to job responsibilities, procedures, and processes to properly segregate duties within the year under review.

***Recommendation:***

The Board should continue to evaluate internal controls, including but not limited to, segregation of duties, within the parameters of what the Board considers to be cost beneficial and to review current procedures as staffing levels change. Implementation of additional preventive and detective controls will add an additional level of assurance of the accuracy and integrity of information. Additionally, it is recommended the Board establish written closing processes and provide training to employees that reinforces the internal control structure.

***Views of responsible officials and planned corrective actions:***

The Board agrees with this finding and will adhere to the corrective action plan on page 70 of this audit report.

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Schedule 5**  
**(Continued)**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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None reported.

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

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None reported.

Corrective Action Plan  
For the Year Ended June 30, 2017

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SECTION II - FINANCIAL STATEMENT FINDINGS

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**Finding: 2017-001**                      **Inadequate Internal Controls over Financial Reporting**  
**Inadequate Segregation of Duties**

*Finding classification:*              Material Weakness

**Name of contact person:**        Carol M. Herndon, Chief Financial Officer

**Corrective Action:**

Management is in the process of updating Finance Department practices and procedures, including identifying, documenting and implementing a strong internal control framework. The work will be completed no later than June 30, 2018.

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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None reported

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SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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None reported

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2017**

**Schedule 7**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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Finding Number	Description	Status
2016-001	Bank reconciliations were not prepared in a timely manner throughout the fiscal year ended June 30, 2016.	Resolved
2016-002	The Board reported expenditures within the Capital Outlay Fund that violated State law [G.S. 115C-441] because they exceeded amounts appropriated in the budget ordinance.	Resolved
2016-003	There was a lack of segregation of duties over certain processes which resulted in several balances requiring adjustments.	Unresolved - See Finding 2017-001

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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None reported.

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

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None reported.

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2017

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures
Federal Grants:			
<u>U.S. Department of Education</u>			
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction:			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	84.010	PRC 050	\$ 5,984,486
School Improvement (Title I, Part A of ESEA)	84.010	PRC 105	227,802
Special Education Cluster:			
Individuals with Disabilities Education Act (IDEA)			
- Preschool Handicapped	84.173	PRC 049	123,326
- Education of the Handicapped	84.027	PRC 060	5,049,588
- Risk Pool	84.027	PRC 114	27,943
- Special Needs Targeted Assistance	84.027	PRC 118	6,557
- Preschool Targeted Assistance	84.173	PRC 119	2,195
Total Special Education Cluster			5,209,609
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	PRC 026	23,023
State Personnel Development	84.323	PRC 082	7,472
Improving Teacher Quality State Grants	84.367	PRC 103	655,075
Language Acquisition Significant Inc. Grant	84.365	PRC 104, 111	165,685
Twenty-First Century Community Learning Centers	84.287	PRC 110	264,858
Career and Technical Education - Basic Grants to States	84.048	PRC 017	281,577
Total U.S. Department of Education			12,819,587

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2017**

**Schedule 8**  
**(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures
Federal Grants (Continued):			
<u>U. S. Department of Agriculture</u>			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
Passed-through the N.C. Department of Agriculture:			
National School Lunch Program	10.555		\$ 789,797
Non-Cash Assistance Subtotal			789,797
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction:			
School Breakfast Program	10.553		2,344,117
National School Lunch Program	10.555		5,958,970
Summer Food Service Program for Children	10.559		434,183
Total Cash Assistance			8,737,270
Total Child Nutrition Cluster			9,527,067
Passed-through the N.C. Department of Agriculture:			
Cash Assistance:			
Fresh Fruit and Vegetable Program	10.582		239,463
Total U.S. Department of Agriculture			9,766,530
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	-		382,876
Total federal assistance			22,968,993

**ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2017**

**Schedule 8**  
**(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures
State Grants:			
Cash Assistance:			
<u>N.C. Department of Agriculture</u>			
State Kindergarten Breakfast Program			\$ 14,790
 <u>N.C. Department of Public Instruction</u>			
State Public School Fund			105,419,291
Driver Training - SPSF		PRC 012	337,188
Vocational Education			
- State Months of Employment		PRC 013	5,229,608
- Program Support Funds		PRC 014	552,312
 <u>N.C. Department of Health and Human Services</u>			
NC Pre-Kindergarten Program		PRC 413	493,919
 Non-Cash Assistance:			
<u>N.C. Department of Public Instruction</u>			
School Buses Appropriation		PRC 120	1,027,048
Total State assistance			113,074,156
Total federal and State assistance			\$ 136,043,149



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

For the Year Ended June 30, 2017

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Rowan-Salisbury Board of Education, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Note 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Board 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 following are clustered by the NC Department of Public Instruction and are treated separately for State audit requirement purposes: School Nutrition Program