

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

Financial Statements and Supplementary Information

For the Year Ended June 30, 2018



Rives & Associates, LLP
Certified Public Accountants and Consultants

ROWAN-SALIBURY BOARD OF EDUCATION, NORTH CAROLINA
Table of Contents
June 30, 2018

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1
	Management's Discussion and Analysis	4
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
1	Statement of Net Position	12
2	Statement of Activities	13
	Fund Financial Statements:	
3	Balance Sheet - Governmental Funds	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
5	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Major Special Revenue Funds	17
6	Statement of Net Position - Proprietary Fund	19
7	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	20
8	Statement of Cash Flows - Proprietary Fund	22
	Notes to the Financial Statements	23
	Required Supplementary Information:	
	Schedule of the Board's Proportionate Share of the Net Pension Liability - Teachers' and State Employees' Retirement System	59
	Schedule of Board Contributions - Teachers' and State Employees' Retirement System	60
	Schedule of the Board's Proportionate Share of the Net OPEB Liability - Retiree Health Benefit Fund	61
	Schedule of Board Contributions - Retiree Health Benefit Fund	62
	Schedule of the Board's Proportionate Share of the Net OPEB Asset - Disability Income Plan of North Carolina	63
	Schedule of Board Contributions - Disability Income Plan of North Carolina	64
	Schedule	
	Individual Fund Schedules:	
1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	65
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Federal Grants Fund	67
3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Capital Outlay Fund	68
4	Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) - School Food Service Fund	69

ROWAN-SALIBURY BOARD OF EDUCATION, NORTH CAROLINA
Table of Contents (Continued)
June 30, 2018

<u>Schedule</u>		<u>Page</u>
	Compliance Section:	
	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 <i>Government Auditing Standards</i>	70
	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	72
	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	74
5	Schedule of Findings and Questioned Costs	76
6	Corrective Action Plan	82
7	Summary Schedule of Prior Year Audit Findings	83
8	Schedule of Expenditures of Federal and State Awards	84
9	Notes to the Schedule of Expenditures of Federal and State Awards	87

This page intentionally left blank.



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

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, 2018, 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, 2018, 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.

Emphasis of Matter

Adoption of New Accounting Standards

As discussed in Note VI to the financial statements, for the year ended June 30, 2018 the Board adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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 11 and the Schedule of the Board's Proportionate Share of the Net Pension Liability and OPEB Liabilities (Assets) and the Schedules of Board Contributions on pages 59 through 64, 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 November 21, 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
November 21, 2018

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

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

Financial Highlights

- Average Daily Membership for 2017-18 was 18,924. Compared to 2016-17 ADM of 19,135, this represents a decrease of 211.
- The potential for declining enrollment over the next several years remains due to an increase in the number of local charter schools, increased homeschool enrollment and students moving out of the District.
- 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 ongoing need for maintenance and repair of current facilities and equipment.
- State allotments provided 57% of operating revenues. The county appropriation and federal allotments provided 29% and 6%, respectively. The remaining 8% was funded by other state, local and federal sources.
- State funding increased by \$2,746,552 or 2.4% in 2017-2018.
- Salaries and related benefits accounted for 83.5% of operating expenditures. Rowan-Salisbury Schools is the second largest employer in Rowan County. The Board experienced a 14.83% teacher turnover of its approximately 1,300 teaching positions.
- The Board received \$1,832,188 in local grant funding and donations during 2017-2018.
- Student enrollment in the Free/Reduced Meal program equaled 65.2% 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 37.1% of student's breakfast, 64.8% lunch, and 4.0% an afterschool snack/supper on a daily basis. Approximately 275 School Nutrition employees served over 3.5 million meals/snacks to students.
- More than 180 buses transported 9,757 students 13,263 miles each day during the school year.
- The Board served and received state and/or federal funds for 2,258 Exceptional Children students and 1,268 English as Second Language students. Eight NC Pre-Kindergarten classes provided 122 pre-school student slots, four Title 1 classes enrolled 70 additional pre-kindergarten students, and the Board also supported four pre-kindergarten classrooms serving 37 Exceptional Children preschool students.
- The Board continued to repurpose existing funds to support its digital transformation including funding a second 3-year, \$13.8 million zero percent lease to support the District's 1:1 device initiative. The lease supports 8,340 MacAir laptops and 15,050 iPads placing a digital learning device that can be taken home in each 3rd through 12th grade student's hands and provide each Kindergarten through 2nd grade student with a device that could be used during the school day.
- 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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

a projected net savings of \$1,092,649 for the system after payments of principal and interest totaling \$4,608,760.

- On August 2, 2018 the North Carolina State Board of Education approved Rowan-Salisbury Schools as the first and only Renewal School District in the state. As a Renewal School District Rowan-Salisbury Schools has charter-like flexibilities around curriculum, finance, personnel and school calendar. While the District must continue to comply with all federal guidelines and restrictions, much of the historical state control shifts locally to the Board, allowing innovative learning aligned with individual interests and needs of students. In addition, Renewal District status allows Rowan-Salisbury Schools to be more responsive to community values and expectations.

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.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

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.

- 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.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

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.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$(165,199,985) as of June 30, 2018, a decrease of 284.76%, as compared to the net position at June 30, 2017 of \$89,414,592. The largest component of net position is net investment in capital assets of \$126,746,860 as of June 30, 2018 as compared to \$110,359,913 as of June 30, 2017.

Following is a summary of the statements of net position:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Current assets	\$ 24,723,247	\$ 17,988,995	\$ 3,135,621	\$ 3,581,018	\$ 27,858,868	\$ 21,570,013
Capital assets	138,132,932	127,602,096	1,594,568	1,636,449	139,727,500	129,238,545
Total assets	162,856,179	145,591,091	4,730,189	5,217,467	167,586,368	150,808,558
Deferred outflows of resources	44,501,378	41,865,475	1,487,339	1,438,780	45,988,717	43,304,255
Current liabilities	6,333,431	5,775,042	192,993	156,608	6,526,424	5,931,650
Long-term liabilities	286,086,286	91,769,920	9,042,226	2,432,778	295,128,512	94,202,698
Total liabilities	292,419,717	97,544,962	9,235,219	2,589,386	301,654,936	100,134,348
Deferred inflows of resources	74,625,962	4,412,239	2,494,172	151,634	77,120,134	4,563,873
Investment in capital assets	125,152,292	108,723,464	1,594,568	1,636,449	126,746,860	110,359,913
Restricted net position	8,693,245	3,216,025	-	-	8,693,245	3,216,025
Unrestricted net position (deficit)	(293,533,659)	(26,440,124)	(7,106,431)	2,278,778	(300,640,090)	(24,161,346)
Total net position	\$ (159,688,122)	\$ 85,499,365	\$ (5,511,863)	\$ 3,915,227	\$ (165,199,985)	\$ 89,414,592

Note that net position decreased during the year. The 284.76% decrease in net position was largely due to the large increase in the long-term liabilities in the governmental and business-type activities. This large increase was due mainly to the net OPEB liabilities being recorded for the first time due to the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This calculation increased liabilities by \$214,289,224 in fiscal year ending June 30, 2018.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

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
As of June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,170,507	\$ 1,457,199	\$ 2,248,478	\$ 2,225,722	\$ 3,418,985	\$ 3,682,921
Operating grants and contributions	142,412,527	128,361,229	9,935,740	10,254,273	152,348,267	138,615,502
Capital grants and contributions	184,831	81,000	-	-	184,831	81,000
General revenues:						
Other revenues	<u>59,429,806</u>	<u>45,388,554</u>	<u>36,051</u>	<u>149,628</u>	<u>59,465,857</u>	<u>45,538,182</u>
Total revenues	<u>203,197,671</u>	<u>175,287,982</u>	<u>12,220,269</u>	<u>12,629,623</u>	<u>215,417,940</u>	<u>187,917,605</u>
Expenses:						
Governmental activities:						
Instructional services	147,568,411	135,002,438	-	-	147,568,411	135,002,438
System-wide support services	34,193,788	32,354,689	-	-	34,193,788	32,354,689
Ancillary services	110,562	18,970	-	-	110,562	18,970
Non-programmed charges	1,252,890	1,270,707	-	-	1,252,890	1,270,707
Interest	91,673	97,004	-	-	91,673	97,004
Depreciation	10,012,509	6,385,418	-	-	10,012,509	6,385,418
Business-type activities:						
Food service	-	-	<u>13,072,138</u>	<u>13,023,615</u>	<u>13,072,138</u>	<u>13,023,615</u>
Total expenses	<u>193,229,833</u>	<u>175,129,226</u>	<u>13,023,615</u>	<u>13,023,615</u>	<u>206,301,971</u>	<u>188,152,841</u>
Change in net position	<u>9,967,838</u>	<u>158,756</u>	<u>(851,869)</u>	<u>(393,992)</u>	<u>9,115,969</u>	<u>(235,236)</u>
Net position, beginning, as previously reported	85,499,365	93,255,552	3,915,227	4,309,219	89,414,592	97,564,771
Restatement	<u>(255,155,325)</u>	<u>(7,914,943)</u>	<u>(8,575,221)</u>	-	<u>(263,730,546)</u>	<u>(7,914,943)</u>
Net position, beginning, as restated	<u>(169,655,960)</u>	<u>85,340,609</u>	<u>(4,659,994)</u>	<u>4,309,219</u>	<u>(174,315,954)</u>	<u>89,649,828</u>
Net position, ending	<u>\$(159,688,122)</u>	<u>\$ 85,499,365</u>	<u>\$(5,511,863)</u>	<u>\$ 3,915,227</u>	<u>\$(165,199,985)</u>	<u>\$ 89,414,592</u>

For the year ended June 30, 2018, total governmental activities generated revenues of \$203.2 million while expenses in this category totaled \$193.2 million. The increase in net position stands at \$9,967,838. Instructional expenses comprised 76.4% of total governmental-type expenses while support services made up 17.7% of those expenses. County funding comprised 28.6% of total governmental revenue. Much of the remaining total governmental revenue consisted of restricted State and federal money. Business-type activities generated revenue of \$12.2 million and had expenses of \$13.1 million. Net position decreased in the business-type activities by (\$851,869).

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

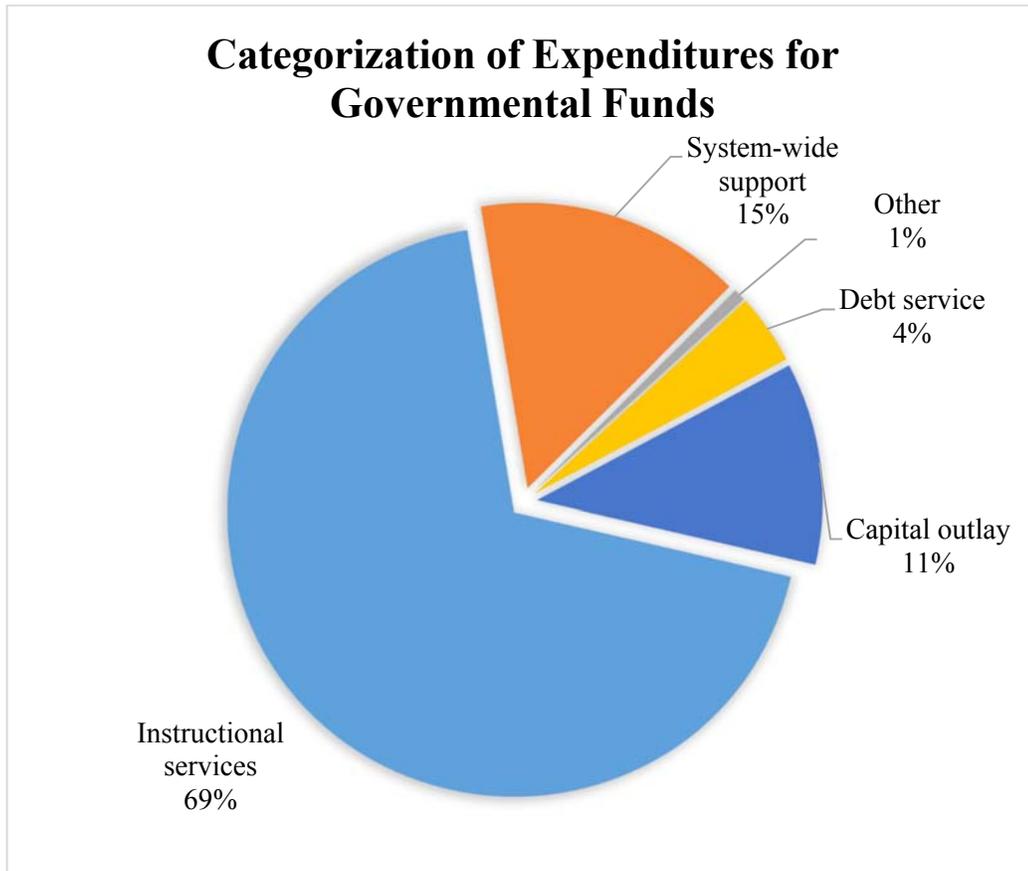
Financial Analysis of the Board's Funds

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 \$18,011,465, an increase of \$5,797,512 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 (0.8%) or (\$18,257). Non-operating revenues decreased by (3.1%) with expenditures increasing by 0.4%. The result was a net loss of (\$873,405) as compared to a net loss of (\$472,217) in the prior year.



Expenditures presented on modified accrual basis of accounting.

General Fund Budgetary Highlights

Actual General Fund revenues were \$699,628 under budget. Expenditures exceeded revenues by \$1,279,886 before other financing sources. Of the total \$3,571,218 difference in actual expenditures and budget amounts in the General Fund, \$2,275,226 was left unspent in the instructional services category and \$1,286,752 was left unspent in the system-wide support services category.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management’s Discussion and Analysis
June 30, 2018

Capital Assets

Capital assets increased by \$10,488,955 or 8.1% 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, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Land	\$ 4,934,350	\$ 4,934,350	\$ -	\$ -	\$ 4,934,350	\$ 4,934,350
Construction	20,870,027	2,582,277	-	-	20,870,027	2,582,277
Buildings	86,191,243	89,636,876	-	-	86,191,243	89,636,876
Land improvements	632,783	901,381	-	-	632,783	901,381
Equipment and furniture	19,882,492	25,323,251	1,594,568	1,636,449	21,477,060	26,959,700
Vehicles	<u>5,622,037</u>	<u>4,223,961</u>	<u>-</u>	<u>-</u>	<u>5,622,037</u>	<u>4,223,961</u>
Total	<u>\$138,132,932</u>	<u>\$127,602,096</u>	<u>\$1,594,568</u>	<u>\$1,636,449</u>	<u>\$139,727,500</u>	<u>\$129,238,545</u>

Debt Outstanding

During the year the Board’s outstanding debt decreased by \$5,897,992 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 County’s population of 141,917 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.

As has occurred nationally, the economy in Rowan County continued to stabilize and grow in fiscal year 2018 as demonstrated in the labor market. The County’s average unemployment rate for the fiscal year ended June 30, 2018 is 4.2 percent, which is identical to the overall State rate and only slightly higher than the national average of 4.0 percent. The County’s unemployment rate is 9% less than it was at the end of the previous fiscal year. Retail sales also continued to grow.

County leaders continue the trend of economic growth and vitality in the community through the development of land and buildings, maintenance of a strong business environment, and emphasis on employee recruitment. The County’s focus on business attraction and support will promote the community, bringing in more jobs and investment. The following significant projects were announced, under construction or completed during fiscal year 2018:

- Speculative Buildings – Easter Creek Partners LLC, a Welcome, NC based commercial and industrial development company, recently completed construction on a 150,000 square foot speculative building. This Class-A industrial facility is located in the County’s new Granite Industrial Park. The company plans to begin construction on a second, 100,000 square foot building in the park in 2019. These new buildings

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2018

should allow more opportunities for business development, as well as provide millions of dollars in investment in the County.

- Daimler Trucks North America (DTNA) – The German-based manufacturer of Freightliner trucks announced plans to begin construction on a new logistics center at its facility in Cleveland. DTNA plans to invest \$27.1 million dollars into the facility. The company also stated that it would rehire 50 previously laid-off workers. Due to increased demand for its trucks, DTNA has announced plans to hire 700 individuals to staff a second production shift.
- New York Air Brake – The Company, headquartered in Watertown, New York, offers freight & locomotive air brake control systems. New York Air Brake's Premtec division in Rowan County manufactures hose products along with freight car component production. The company will soon move into a new 100,000 square foot facility in Summit Corporate Center in order to consolidate operations and streamline its manufacturing process. New York Air Brake is investing over \$9 million dollars into this new facility and plans to create over 100 jobs over the next three years.
- Amrep – This Ontario, CA-based manufacturer of refuse equipment recently completed construction on a 40,000 square foot manufacturing facility in Summit Corporate Center. Amrep invested approximately \$5 million dollars into this new facility and plans to create 40 jobs by the end of 2020.
- Water Line Extensions – Rowan County recently installed public water lines in the Dukeville area. These water lines were funded by Duke Energy and the County hopes that this new infrastructure can be built upon and utilized to attract industrial development along the Long Ferry Road corridor.

The Rowan EDC was established by the County and municipalities to coordinate the recruitment of businesses and jobs to the County. To provide guidance for this effort, the County has adopted a Land Use Plan as well as incentive policies. 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.

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

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS
(Government-wide)

This page intentionally left blank.

Statement of Net Position

June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 19,679,972	\$ 2,394,004	\$ 22,073,976
Due from other governments	4,590,352	363,167	4,953,519
Internal balances	(88,710)	88,710	-
Accounts receivable	163,282	1,738	165,020
Net OPEB asset	378,351	12,645	390,996
Inventories	-	275,357	275,357
	<u>24,723,247</u>	<u>3,135,621</u>	<u>27,858,868</u>
Capital assets:			
Land	4,934,350	-	4,934,350
Construction in progress	20,870,027	-	20,870,027
Other capital assets, net of depreciation	112,328,555	1,594,568	113,923,123
Total capital assets	<u>138,132,932</u>	<u>1,594,568</u>	<u>139,727,500</u>
Total assets	<u>162,856,179</u>	<u>4,730,189</u>	<u>167,586,368</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>44,501,378</u>	<u>1,487,339</u>	<u>45,988,717</u>
LIABILITIES			
Accounts payable and accrued expenses	1,095,536	65,763	1,161,299
Accrued salaries and benefits	5,210,224	46,448	5,256,672
Unearned revenue	27,671	80,782	108,453
Long-term liabilities:			
Due within one year	12,282,345	160,458	12,442,803
Due in more than one year	273,803,941	8,881,768	282,685,709
Total liabilities	<u>292,419,717</u>	<u>9,235,219</u>	<u>301,654,936</u>
DEFERRED INFLOWS OF RESOURCES	<u>74,625,962</u>	<u>2,494,172</u>	<u>77,120,134</u>
NET POSITION			
Net investment in capital assets	125,152,292	1,594,568	126,746,860
Restricted:			
Stabilization by State statute	3,851,309	-	3,851,309
School capital outlay	3,010,918	-	3,010,918
Individual schools	1,831,018	-	1,831,018
Unrestricted deficit	(293,533,659)	(7,106,431)	(300,640,090)
Total net position	<u>\$ (159,688,122)</u>	<u>\$ (5,511,863)</u>	<u>\$ (165,199,985)</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, 2018

<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	\$ 86,929,546	\$ 83,581	\$ 72,058,748	\$ -
Special populations	19,432,296	-	16,786,915	-
Alternative programs	11,257,228	-	10,220,485	-
School leadership	11,623,461	-	9,000,153	-
Co-curricular	5,981,630	-	4,699,401	-
School-based support	12,344,250	-	9,667,737	-
System-wide support services:				
Support and development	1,367,647	-	713,938	-
Special population support and development	1,317,494	-	950,778	-
Alternative programs and services support and development	65,694	-	11,925	-
Technology support	1,648,791	-	244,642	-
Operational support	24,236,842	1,086,926	11,338,238	176,949
Financial and human resource	3,329,294	-	978,528	-
Accountability	267,286	-	159,682	-
System-wide pupil support	309,313	-	51,250	-
Policy, leadership, and public relations	1,651,427	-	1,009,188	-
Ancillary services	110,562	-	74,344	-
Non-programmed charges	1,252,890	-	4,446,575	7,882
Interest	91,673	-	-	-
Unallocated depreciation expense	10,012,509	-	-	-
Total governmental activities	<u>193,229,833</u>	<u>1,170,507</u>	<u>142,412,527</u>	<u>184,831</u>
Business-type activities:				
School food service	13,072,138	2,248,478	9,935,740	-
Total business-type activities	<u>13,072,138</u>	<u>2,248,478</u>	<u>9,935,740</u>	<u>-</u>
Total primary government	<u>\$ 206,301,971</u>	<u>\$ 3,418,985</u>	<u>\$ 152,348,267</u>	<u>\$ 184,831</u>

General revenues:

 Unrestricted County appropriations - operating

 Unrestricted miscellaneous - operating

 Investment earnings, 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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (14,787,217)	\$ -	\$ (14,787,217)
(2,645,381)	-	(2,645,381)
(1,036,743)	-	(1,036,743)
(2,623,308)	-	(2,623,308)
(1,282,229)	-	(1,282,229)
(2,676,513)	-	(2,676,513)
(653,709)	-	(653,709)
(366,716)	-	(366,716)
(53,769)	-	(53,769)
(1,404,149)	-	(1,404,149)
(11,634,729)	-	(11,634,729)
(2,350,766)	-	(2,350,766)
(107,604)	-	(107,604)
(258,063)	-	(258,063)
(642,239)	-	(642,239)
(36,218)	-	(36,218)
3,201,567	-	3,201,567
(91,673)	-	(91,673)
<u>(10,012,509)</u>	<u>-</u>	<u>(10,012,509)</u>
<u>(49,461,968)</u>	<u>-</u>	<u>(49,461,968)</u>
-	(887,920)	(887,920)
-	(887,920)	(887,920)
(49,461,968)	(887,920)	(50,349,888)
35,491,960	-	35,491,960
23,858,419	-	23,858,419
100,963	14,515	115,478
<u>(21,536)</u>	<u>21,536</u>	<u>-</u>
<u>59,429,806</u>	<u>36,051</u>	<u>59,465,857</u>
9,967,838	(851,869)	9,115,969
85,499,365	3,915,227	89,414,592
<u>(255,155,325)</u>	<u>(8,575,221)</u>	<u>(263,730,546)</u>
<u>(169,655,960)</u>	<u>(4,659,994)</u>	<u>(174,315,954)</u>
<u>\$ (159,688,122)</u>	<u>\$ (5,511,863)</u>	<u>\$ (165,199,985)</u>

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

FUND FINANCIAL STATEMENTS

**Balance Sheet
Governmental Funds
June 30, 2018**

	Major Funds				Non-Major Fund		Total Governmental Funds
	General	State Public School	Special Revenue	Capital Outlay	Individual Schools	Federal Grants	
ASSETS							
Cash and cash equivalents	\$ 6,464,193	\$ -	\$ 8,237,209	\$ 3,147,552	\$ 1,831,018	\$ -	\$ 19,679,972
Due from other funds	2,758,300	-	-	-	-	-	2,758,300
Due from other governments	-	3,375,029	-	929,727	-	285,596	4,590,352
Accounts receivable	88,246	-	75,036	-	-	-	163,282
Total assets	<u>\$ 9,310,739</u>	<u>\$ 3,375,029</u>	<u>\$ 8,312,245</u>	<u>\$ 4,077,279</u>	<u>\$ 1,831,018</u>	<u>\$ 285,596</u>	<u>\$ 27,191,906</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued expenses	\$ 775,047	\$ -	\$ 183,855	\$ 136,634	\$ -	\$ -	\$ 1,095,536
Accrued salaries and benefits	1,505,824	3,375,029	43,775	-	-	285,596	5,210,224
Due to other funds	41,705	-	2,805,305	-	-	-	2,847,010
Unearned revenue	-	-	27,671	-	-	-	27,671
Total liabilities	<u>2,322,576</u>	<u>3,375,029</u>	<u>3,060,606</u>	<u>136,634</u>	<u>-</u>	<u>285,596</u>	<u>9,180,441</u>
Fund balances:							
Restricted:							
Stabilization by State statute	2,846,546	-	75,036	929,727	-	-	3,851,309
School capital outlay	-	-	-	3,010,918	-	-	3,010,918
Individual schools	-	-	-	-	1,831,018	-	1,831,018
Assigned:							
Special revenue	-	-	5,176,603	-	-	-	5,176,603
Subsequent year's expenditures	2,661,298	-	-	-	-	-	2,661,298
Unassigned	1,480,319	-	-	-	-	-	1,480,319
Total fund balances	<u>6,988,163</u>	<u>-</u>	<u>5,251,639</u>	<u>3,940,645</u>	<u>1,831,018</u>	<u>-</u>	<u>18,011,465</u>
Total liabilities and fund balances	<u>\$ 9,310,739</u>	<u>\$ 3,375,029</u>	<u>\$ 8,312,245</u>	<u>\$ 4,077,279</u>	<u>\$ 1,831,018</u>	<u>\$ 285,596</u>	<u>\$ 27,191,906</u>

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:

Total fund balance - governmental funds	\$ 18,011,465
Net OPEB asset	378,351
Deferred outflows of resources related to pension	28,291,504
Deferred outflows of resources related to OPEB	16,209,874
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	138,132,932
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	\$ (55,612,059)
Net OPEB liability	(207,358,811)
Compensated absences	(10,134,776)
Installment purchase obligations	<u>(12,980,640)</u>
Deferred inflow of resources related to pension	(2,565,692)
Deferred inflow of resources related to OPEB	<u>(72,060,270)</u>
Net position of governmental activities	<u>\$ (159,688,122)</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, 2018

Exhibit 4

	Major Funds					Non-Major Fund	Total Governmental Funds
	General	State Public School	Special Revenue	Capital Outlay	Individual Schools	Federal Grants	
REVENUES							
State of North Carolina	\$ -	\$ 113,972,973	\$ 676,211	\$ 1,156,734	\$ -	\$ -	\$ 115,805,918
Rowan County	36,327,222	-	100,000	21,439,455	359,279	-	58,225,956
U.S. Government	425,948	-	-	-	-	12,270,044	12,695,992
Other	288,157	-	9,640,527	2,056,955	4,505,704	-	16,491,343
Total revenues	<u>37,041,327</u>	<u>113,972,973</u>	<u>10,416,738</u>	<u>24,653,144</u>	<u>4,864,983</u>	<u>12,270,044</u>	<u>203,219,209</u>
EXPENDITURES							
Current:							
Instructional services:							
Regular instructional	10,220,028	65,933,893	3,882,748	-	-	1,062,041	81,098,710
Special populations	1,486,333	11,225,541	444,849	-	-	4,973,991	18,130,714
Alternative programs	577,914	3,906,076	706,858	-	-	5,422,540	10,613,388
School leadership	1,819,412	8,952,812	4,056	-	-	-	10,776,280
Co-curricular	1,085,730	-	135,551	-	4,773,785	-	5,995,066
School-based support	1,958,137	9,146,357	107,989	-	-	341,654	11,554,137
System-wide support services:							
Support and development	632,595	468,476	171,346	-	-	17,818	1,290,235
Special population support and development	280,141	895,615	-	-	-	48,650	1,224,406
Alternative programs and services support and development	51,041	-	-	-	-	10,739	61,780
Technology support	1,360,605	207,466	-	-	-	5,543	1,573,614
Operational support	11,376,638	9,207,550	303,020	-	-	20,531	20,907,739
Financial and human resource	2,270,515	925,670	56	-	-	-	3,196,241
Accountability	91,876	157,546	-	-	-	-	249,422
System-wide pupil support	242,466	45,613	-	-	-	-	288,079
Policy, leadership, and public relations	601,296	834,086	129,652	-	-	-	1,565,034
Ancillary services	59,309	-	40,000	-	-	23,256	122,565
Non-programmed charges	908,909	-	700	-	-	343,281	1,252,890
Debt service:							
Principal	3,206,595	2,044,736	1,547,951	1,156,734	-	-	7,956,016
Interest	91,673	-	-	-	-	-	91,673
Capital projects:							
Real property and buildings	-	-	17,792	19,927,366	-	-	19,945,158
Furniture and equipment	-	-	-	624,794	-	-	624,794
Buses and motor vehicles	-	-	-	2,356,553	-	-	2,356,553
Total expenditures	<u>38,321,213</u>	<u>113,951,437</u>	<u>7,492,568</u>	<u>24,065,447</u>	<u>4,773,785</u>	<u>12,270,044</u>	<u>200,874,494</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, 2018

Exhibit 4
(Continued)

	Major Funds					Non-Major	Total Governmental Funds
	General	State Public School	Special Revenue	Capital Outlay	Individual Schools	Federal Grants	
Excess (deficiency) of revenues over expenditures	(1,279,886)	21,536	2,924,170	587,697	91,198	-	2,344,715
OTHER FINANCING SOURCES							
Transfers to other funds	-	(21,536)	-	-	-	-	(21,536)
Installment purchase obligations issued	-	-	-	2,058,024	-	-	2,058,024
Total other financing sources	-	(21,536)	-	2,058,024	-	-	2,036,488
Net change in fund balance	(1,279,886)	-	2,924,170	2,645,721	91,198	-	4,381,203
FUND BALANCE							
Beginning of year	8,268,049	-	911,160	1,294,924	1,739,820	-	12,213,953
Restatement of beginning fund balance	-	-	1,416,309	-	-	-	1,416,309
End of year	<u>\$ 6,988,163</u>	<u>\$ -</u>	<u>\$ 5,251,639</u>	<u>\$ 3,940,645</u>	<u>\$ 1,831,018</u>	<u>\$ -</u>	<u>\$ 18,011,465</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	\$ 4,381,203
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.	10,530,836
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	7,956,016
Issuance of debt	(2,058,024)
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	(3,527,102)
OPEB expense	(6,259,223)
Compensated absences	(1,055,868)
Total changes in net position of governmental activities	<u>\$ 9,967,838</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, 2018

	General Fund			
	Budget		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
State of North Carolina	\$ 230,000	\$ -	\$ -	\$ -
Rowan County	35,491,372	36,556,381	36,327,222	(229,159)
U.S. Government	760,118	560,118	425,948	(134,170)
Other	4,544,568	624,456	288,157	(336,299)
Total revenues	<u>41,026,058</u>	<u>37,740,955</u>	<u>37,041,327</u>	<u>(699,628)</u>
EXPENDITURES				
Current:				
Instructional services:				
Regular instructional			10,220,028	
Special populations			1,486,333	
Alternative programs			577,914	
School leadership			1,819,412	
Co-curricular			1,085,730	
School-based support			1,958,137	
Total instructional services	<u>22,990,321</u>	<u>19,422,780</u>	<u>17,147,554</u>	<u>2,275,226</u>
System-wide support services:				
Support and development			632,595	
Special population support and development			280,141	
Alternative programs and services support and development			51,041	
Technology support			1,360,605	
Operational support			11,376,638	
Financial and human resource			2,270,515	
Accountability			91,876	
System-wide pupil support			242,466	
Policy, leadership, and public relations			601,296	
Total system-wide support services	<u>17,504,931</u>	<u>18,193,925</u>	<u>16,907,173</u>	<u>1,286,752</u>
Ancillary services	<u>65,797</u>	<u>68,549</u>	<u>59,309</u>	<u>9,240</u>
Non-programmed charges	<u>465,009</u>	<u>908,909</u>	<u>908,909</u>	<u>-</u>
Debt service:				
Principal	-	3,206,595	3,206,595	-
Interest	-	91,673	91,673	-
	<u>-</u>	<u>3,298,268</u>	<u>3,298,268</u>	<u>-</u>
Total expenditures	<u>41,026,058</u>	<u>41,892,431</u>	<u>38,321,213</u>	<u>3,571,218</u>
Revenues over (under) expenditures	<u>-</u>	<u>(4,151,476)</u>	<u>(1,279,886)</u>	<u>2,871,590</u>
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Installment purchase obligations issued	-	-	-	-
Appropriated fund balance		4,151,476	-	(4,151,476)
Total other financing sources (uses)	<u>-</u>	<u>4,151,476</u>	<u>-</u>	<u>(4,151,476)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,279,886)</u>	<u>\$ (1,279,886)</u>
Fund balances, beginning			<u>8,268,049</u>	
Fund balances, ending			<u>\$ 6,988,163</u>	

State Public School Fund				
Budget		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	
Original	Final			
\$ 114,127,517	\$ 117,899,756	\$ 113,972,973	\$ (3,926,783)	
-	-	-	-	
-	-	-	-	
<u>114,127,517</u>	<u>117,899,756</u>	<u>113,972,973</u>	<u>(3,926,783)</u>	
		65,933,893		
		11,225,541		
		3,906,076		
		8,952,812		
		-		
		<u>9,146,357</u>		
<u>102,735,562</u>	<u>105,091,459</u>	<u>99,164,679</u>	<u>5,926,780</u>	
		468,476		
		895,615		
		-		
		207,466		
		9,207,550		
		925,670		
		157,546		
		45,613		
		<u>834,086</u>		
<u>11,391,955</u>	<u>12,786,761</u>	<u>12,742,022</u>	<u>44,739</u>	
-	-	-	-	
-	-	-	-	
-	-	2,044,736	(2,044,736)	
-	-	-	-	
-	-	<u>2,044,736</u>	<u>(2,044,736)</u>	
<u>114,127,517</u>	<u>117,878,220</u>	<u>113,951,437</u>	<u>3,926,783</u>	
-	21,536	21,536	-	
-	(21,536)	(21,536)	-	
-	-	-	-	
-	-	-	-	
-	<u>(21,536)</u>	<u>(21,536)</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, 2018

Exhibit 5
(Continued)

	Special Revenue Fund			
	Budget		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
State of North Carolina:				
N.C. Pre-Kindergarten Program	\$ 651,069	\$ 661,981	\$ 676,211	\$ 14,230
Rowan County				
School nurse funding	100,000	100,000	100,000	-
Other:				
Tuition and fees	17,311	91,012	99,890	8,878
Indirect cost	-	-	827,786	827,786
Interest earned	-	-	447	447
Disposition of fixed asset	-	-	8,128	8,128
Local government sales tax refund	-	-	289,766	289,766
Medicaid direct services reimbursement	-	292,358	714,623	422,265
Laptop/iPad 1:1 Initiative	-	-	1,005,233	1,005,233
Miscellaneous local operating revenues	8,207,056	9,558,717	6,694,654	(2,864,063)
Total other	8,224,367	9,942,087	9,640,527	(301,560)
Total revenues	8,975,436	10,704,068	10,416,738	(287,330)
EXPENDITURES				
Current:				
Instructional services:				
Regular instructional			3,882,748	
Special populations			444,849	
Alternative programs			706,858	
School leadership			4,056	
Co-curricular			135,551	
School-based support			107,989	
Total instructional services	7,740,040	6,489,095	5,282,051	1,207,044
System-wide support services:				
Support and development			171,346	
Operational support			303,020	
Financial and human resource			56	
Policy, leadership, and public relations			129,652	
Total system-wide support services	858,692	2,272,384	604,074	1,668,310
Ancillary services	42,975	62,975	40,000	22,975
Non-programmed charges	1,450	2,835	700	2,135
Debt service:				
Principal	-	1,547,951	1,547,951	-
Capital outlay	332,279	328,828	17,792	311,036
Total expenditures	8,975,436	10,704,068	7,492,568	3,211,500
Revenues over (under) expenditures	-	-	2,924,170	2,924,170
Net change in fund balance	\$ -	\$ -	2,924,170	\$ 2,924,170
Fund balance, beginning			911,160	
Restatement of beginning fund balance			1,416,309	
Fund balance, ending			\$ 5,251,639	

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

Statement of Net Position

Proprietary Fund

June 30, 2018

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,394,004
Due from other governments	363,167
Due from other funds	88,710
Accounts receivable	1,738
OPEB asset	12,645
Inventories	275,357
Total current assets	<u>3,135,621</u>
Noncurrent assets:	
Capital assets:	
Capital assets, net of depreciation	1,594,568
Total assets	<u>4,730,189</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,487,339</u>
LIABILITIES	
Current liabilities:	
Accounts payable	65,763
Accrued salaries and benefits	46,448
Unearned revenue	80,782
Compensated absences payable	160,458
Total current liabilities	<u>353,451</u>
Noncurrent liabilities:	
Compensated absences	92,671
Net pension liability	1,858,684
Net OPEB liability	6,930,413
Total liabilities	<u>9,235,219</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,494,172</u>
NET POSITION	
Net investment in capital assets	1,594,568
Unrestricted	<u>(7,106,431)</u>
Total net position	<u>\$ (5,511,863)</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, 2018

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>School Food Service</u> <u>Fund</u>
OPERATING REVENUES	
Food sales	\$ 2,238,777
Miscellaneous local operating revenue	9,701
Total operating revenues	<u>2,248,478</u>
OPERATING EXPENSES	
Purchase of food	5,440,441
Salaries and benefits	6,316,732
Indirect costs	567,538
Utilities and telephone	9,984
Materials and supplies	308,464
Contracted services	86,506
Equipment and maintenance	43,069
Depreciation	243,248
Travel	32,362
Other	23,794
Total operating expenses	<u>13,072,138</u>
Operating loss	<u>(10,823,660)</u>
NONOPERATING REVENUES	
Federal reimbursements	8,992,989
Federal commodities	826,674
Indirect cost	101,388
State reimbursements	14,689
Interest earned on investments	14,515
Total nonoperating revenues	<u>9,950,255</u>
Loss before transfers	(873,405)
Transfers from other fund	<u>21,536</u>
Change in net position	(851,869)
NET POSITION	
Beginning of year	3,915,227
Restatement	(8,575,221)
Beginning of year, as restated	<u>(4,659,994)</u>
End of year	<u>\$ (5,511,863)</u>

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

This page intentionally left blank.

**Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018**

	Enterprise Fund
	Major Fund
	School Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,216,296
Cash paid for goods and services	(5,564,933)
Cash paid to employees for services	(5,980,464)
Net cash used by operating activities	(9,329,101)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	8,992,989
State reimbursements	14,689
Net cash provided by noncapital financing activities	9,007,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions of capital assets	(201,367)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	14,515
Net decrease in cash	(508,275)
CASH - BEGINNING OF YEAR	2,902,279
CASH - END OF YEAR	\$ 2,394,004

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, 2018

	Enterprise Fund
	<u>Major Fund</u>
	<u>School Food Service Fund</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (10,823,660)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	243,248
Donated commodities	826,674
Salaries paid by special revenue fund	21,536
Indirect costs not paid	101,388
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Decrease in due from other governments	49,561
Increase in due from other funds	(88,710)
Increase in accounts receivable	(716)
Increase in net OPEB asset	(12,645)
Increase in deferred outflows	(48,559)
Increase in inventories	(10,368)
Increase in accounts payable	29,531
Decrease in accrued liabilities	(829)
Decrease in net pension liability	(334,339)
Decrease in net OPEB liability	(1,644,808)
Increase in deferred inflows	2,342,538
Increase in compensated absences liability	13,374
Increase in unearned revenue	7,683
Total adjustments	<u>1,494,559</u>
Net cash used by operating activities	<u>\$ (9,329,101)</u>

Noncash investing, capital, and financing activities:

The School Food Service Fund consumed donated commodities with a value of \$826,674 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

NOTES TO THE FINANCIAL STATEMENTS

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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, 2018

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, 2018

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, 2018

D) 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.

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

Capital assets 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 several items that meet this criterion – pension and OPEB related deferrals and contributions made to the plans subsequent to the measurement date. 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 several items that meets this criterion – pension and OPEB related deferrals.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

D) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2018 is recorded in the government-wide and proprietary fund financial statements on 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, 2018.

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, 2018

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, 2018.

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, 2018

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 \$(177,699,587) 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)	\$ 260,285,080
Less: Accumulated depreciation	(122,152,148)
Net capital assets	<u>138,132,932</u>
Net OPEB asset	378,351
Pension related deferred outflows of resources	28,291,504
OPEB related deferred outflows of resources	16,209,874
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:	
Net pension liability	(55,612,059)
Net OPEB liability	(207,358,811)
Compensated absences	(10,134,776)
Installment purchase obligations	(12,980,640)
Deferred inflow of resources related to pension	(2,565,692)
Deferred inflow of resources related to OPEB	(72,060,270)
Total adjustments	<u><u>\$ (177,699,587)</u></u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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 \$5,586,635 as follows:

Description	
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 21,736,285
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	(11,205,449)
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	7,956,016
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	(2,058,024)
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	(3,527,102)
OPEB expense	(6,259,223)
Compensated absences	(1,055,868)
	\$ 5,586,635

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC) and additions to/deductions from TSERS, RHBF, and DIPNC's fiduciary net position have been determined on the same basis as they are reported to TSERS, RHBF, and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Board's employer contributions are recognized when due and the Board has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS, RHBF, and DIPNC. Investments are reported at fair value.

II) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Non-Compliance with North Carolina General Statute

To meet the matching requirement, the State Public School Fund is required to transfer a minimum of \$45,000 to the School Food Services Fund. This requirement was not met for the year ended June 30, 2018. The State Public School Fund transferred \$21,536 to the School Food Service Fund.

B) Excess of Expenditures over Appropriations

None

C) Deficits in Fund Balance or Net Position of Individual Funds

None

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS

A) Assets

1) Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the 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, 2018, the Board had deposits with banks and savings and loans with a carrying amount of \$11,208,606. The bank balances with the financial institutions and the State Treasurer were \$13,027,405 and \$6,061,948, respectively. Of these balances, \$1,311,186 was covered by federal depository insurance and \$17,821,800 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 \$17,718.

2) Investments

At June 30, 2018, the Board of Education had \$10,847,652 invested with the State Treasurer in the Short-Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.4 years at June 30, 2018.

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.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS

A) Assets (Continued)

3) Accounts Receivable

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

	Due from (to) other Funds (internal balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	\$ 2,716,595	\$ -	\$ 88,246	\$ 2,804,841
Other governmental activities	(2,805,305)	4,590,352	75,036	1,860,083
Total	<u>(88,710)</u>	<u>\$ 4,590,352</u>	<u>\$ 163,282</u>	<u>\$ 4,664,924</u>
Business-type activities:				
School Food Service	<u>\$ 88,710</u>	<u>\$ 363,167</u>	<u>\$ 1,738</u>	<u>\$ 453,615</u>

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	\$ 3,375,029	Operating funds from the State
Capital Outlay Fund	929,727	County sales tax revenue
Federal Grants Fund	<u>285,596</u>	Federal grant funds
Total	<u>\$ 4,590,352</u>	

Business-type activities:

School Food Service Fund	<u>\$ 363,167</u>	Federal reimbursements
--------------------------	-------------------	------------------------

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS

A) Assets (Continued)

4) Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,934,350	\$ -	\$ -	\$ 4,934,350
Construction in progress	2,582,277	18,287,750	-	20,870,027
Total capital assets not being depreciated	<u>7,516,627</u>	<u>18,287,750</u>	<u>-</u>	<u>25,804,377</u>
Capital assets being depreciated:				
Buildings	169,195,020	468,467	38,621	169,624,866
Land improvements	4,949,754	-	12,904	4,936,850
Equipment and furniture	39,958,758	389,052	294,058	40,053,752
Vehicles	17,580,094	2,591,016	305,875	19,865,235
Total capital assets being depreciated	<u>231,683,626</u>	<u>3,448,535</u>	<u>651,458</u>	<u>234,480,703</u>
Less accumulated depreciation for:				
Buildings	79,558,144	3,914,100	38,621	83,433,623
Land improvements	4,048,373	268,598	12,904	4,304,067
Equipment and furniture	14,635,507	5,829,811	294,058	20,171,260
Vehicles	13,356,133	1,192,940	305,875	14,243,198
Total accumulated depreciation	<u>111,598,157</u>	<u>11,205,449</u>	<u>651,458</u>	<u>122,152,148</u>
Total capital assets being depreciated, net	<u>120,085,469</u>			<u>112,328,555</u>
Governmental activities capital assets, net	<u>\$ 127,602,096</u>			<u>\$ 138,132,932</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 10,012,509
Operational support services	1,192,940
	<u>\$ 11,205,449</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

A) Assets (Continued)

4) Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and equipment	\$ 5,202,975	\$ 201,367	\$ -	\$5,404,342
Less accumulated depreciation for:				
Furniture and equipment	3,566,526	\$ 243,248	\$ -	3,809,774
Business-type activity capital assets, net	<u>\$ 1,636,449</u>			<u>\$ 1,594,568</u>

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	Total
Capital assets	\$ 260,285,080	\$ 5,404,342	\$ 265,689,422
Less:			
Accumulated depreciation	(122,152,148)	(3,809,774)	(125,961,922)
Installment purchase obligations	(12,980,640)	-	(12,980,640)
Total	<u>\$ 125,152,292</u>	<u>\$ 1,594,568</u>	<u>\$ 126,746,860</u>

5) Construction Commitments

The Board had several active construction projects at June 30, 2018. At year-end, the commitments with contracts for school construction was as follows:

	Spent-to-date	Remaining Commitment
Project		
Phase 1 roof replacement	\$ 5,240,300	\$ 8,508
West Elementary School	15,220,347	9,651,191
Security projects	260,145	-
Vestibule projects	149,235	-
Total	<u>\$ 20,870,027</u>	<u>\$ 9,659,699</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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.

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 (10 years for members joining on or after August 1, 2011). 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 10 years of creditable service for members joining TSERS on or after August 1, 2011), 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.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2018, was 10.65% 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 \$11,133,961, \$10,076,456, and \$8,833,389, for the years ended June 30, 2018, 2017 and 2016, 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, 2018, the Board reported a liability of \$57,470,743 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2018 and at June 30, 2017, the Board's proportion was .724% and .718%, respectively.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

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

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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

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

Future ad hoc COLA (Cost of Living Allowance) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis.

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

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

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

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 118,298,579	\$ 57,470,743	\$ 6,504,770

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

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

b) Other Postemployment Benefits

1) Healthcare Benefits

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

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

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

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's noncontributory premium.

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1) Pension Plan and Other Postemployment Obligations (Continued)

b) Other Postemployment Benefits (Continued)

2) Healthcare Benefits (Continued)

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

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state—supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 5.98% of covered payroll which amounted to \$6,248,652.

At June 30, 2018, the Board reported a liability of \$214,289,224 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At December 31, 2018, the Board's proportion was 0.654%. For the year ended June 30, 2018, the Board recognized RHBP expense of \$12,657,212. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to RHBP 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	\$ 10,165,490	\$ -
Changes of assumptions	-	59,014,274
Differences between expected and actual experience	-	15,364,932
Net difference between projected and actual earnings on pension plan investments	-	79,639
Board contributions subsequent to the measurement date	6,248,652	-
Total	<u>\$ 16,414,142</u>	<u>\$ 74,458,845</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

\$6,248,652 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (12,862,653)
2020	(12,862,653)
2021	(12,862,653)
2022	(12,862,653)
2023	(12,842,743)
Thereafter	-
Total	<u>\$ (64,293,355)</u>

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

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

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

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

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	\$ 255,634,737	\$ 214,289,224	\$ 181,496,366

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

	1% Decrease (Medical - 4.00- 5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00- 4.00%, Adminstrative -2.00%)	Healthcare Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00- 7.25%, Medicare Advantage - 4.00- 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00- 7.50%, Pharmacy - 6.00-8.25%, Medicare Advantage - 5.00- 6.00%, Adminstrative -4.00%)
Net OPEB liability	\$ 175,054,561	\$ 214,289,224	\$ 266,437,108

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain Local Education Agencies, and ORP.

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

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

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

Contributions. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$144,597 for the year ended June 30, 2018.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources of Related to OPEB

At June 30, 2018, Board reported an asset of \$390,996 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At December 31, 2016, the Board's proportion was 0.64%.

For the year ended June 30, 2018, the Board recognized DIPNC expense of \$204,454. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to RHBP 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	\$ -	\$ 9,846
Changes of assumptions	-	-
Differences between expected and actual experience	107,204	-
Net difference between projected and actual earnings on pension plan investments	85,703	-
Board contributions subsequent to the measurement date	144,597	-
Total	<u>\$ 337,504</u>	<u>\$ 9,846</u>

\$144,597 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

Year ended June 30:	
2019	\$ 53,890
2020	53,890
2021	53,871
2022	21,410
2023	-
Thereafter	-
Total	<u>\$ 183,061</u>

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

Inflation	3.00 percent
Salary increases	3.50 to 8.10 percent, including 3.50 percent inflation and productivity factor
Investment rate of return	3.75 percent, net of OPEB expense, including inflation

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

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB liability	\$ 332,405	\$ 390,997	\$ 449,723

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class 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>100.0%</u>	

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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)

Total OPEB Expense, OPEB Liabilities, and Deferred Outflows and Inflows of Resources of Related to OPEB

Following is information related to the proportionate share and pension expense:

	RHBF	DIPNC	Total
OPEB expense	\$ 12,657,212	\$ 204,454	\$ 12,861,666
OPEB liability (asset)	214,289,224	(390,996)	213,898,228
Proportionate share of the net OPEB liability (asset)	0.65359%	0.63972%	
Deferred Outflows of Resources			
Difference between expected and actual experience	-	107,204	107,204
Change in assumptions	-	-	
Net difference between projected and actual earnings on plan investments	-	85,703	85,703
Changes in proportion and differences between Board contributions and proportionate share of contributions	10,165,490	-	10,165,490
Board contributions subsequent to the measurement date	6,248,652	144,597	6,393,249
Deferred Inflows of Resources			
Difference between expected and actual experience	15,364,932	-	15,364,932
Change in assumptions	59,014,274	-	59,014,274
Net difference between projected and actual earnings on plan investments	79,639	-	79,639
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	9,846	9,846

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

2) Accounts Payable

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

	<u>Vendors</u>	<u>Accrued Salaries</u>	<u>Total</u>
Governmental activities:			
General	\$ 775,046	\$ 1,505,824	\$ 2,280,870
Other governmental	<u>320,489</u>	<u>3,704,400</u>	<u>4,024,889</u>
Total governmental activities	<u>\$ 1,095,535</u>	<u>\$ 5,210,224</u>	<u>\$ 6,305,759</u>
Business-type activities:			
School Food Service Fund	<u>\$ 65,763</u>	<u>\$ 46,448</u>	<u>\$ 112,211</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>
Differences between expected and actual experience	\$ 1,353,062	\$ 17,245,100
Changes of assumptions	9,079,511	59,014,274
Net difference between projected and actual earnings on pension plan investments	7,863,444	79,639
Changes in proportions and differences between Board contributions and proportionate share of contributions	10,165,490	781,121
Board contributions subsequent to the measurement date	17,527,210	-
Grants not yet earned (School Food Service Fund)		
Total governmental activities	<u>\$ 45,988,717</u>	<u>\$ 77,120,134</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

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.

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, 2018, 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.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

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, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
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	62,008	239,173	301,181
2024-2028	208,199	1,347,683	1,555,882
2029-2031	33,440	841,946	875,386
	<u>\$ 612,514</u>	<u>\$ 3,329,492</u>	<u>\$ 3,942,006</u>

Computer Equipment

As authorized in State law [G.S. 115C-528(a)], the Board entered 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, 2018, 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	\$ 2,985,247	\$ 10,792,815

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 3,592,687
2020	<u>3,592,688</u>
	<u>\$ 7,185,375</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 February 2018, the Board entered into installment purchase contract to finance the purchase of 22 buses. The financing contract requires only principal payments of \$514,506 due at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 514,506
2020	514,506
2021	<u>514,506</u>
	<u>\$ 1,543,518</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) 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, 2018:

	Beginning balance, restated	Increase	Decrease	Ending balance	Current portion
Governmental activities:					
Compensated absences	\$ 9,078,908	\$ 10,278,793	\$ 9,222,925	\$ 10,134,776	\$ 7,438,298
Net pension liability	63,812,380	-	8,200,321	55,612,059	-
Net OPEB liability	262,980,836	-	55,622,025	207,358,811	-
Installment purchase	18,878,632	2,058,024	7,956,016	12,980,640	4,844,047
Total	<u>\$354,750,756</u>	<u>\$ 12,336,817</u>	<u>\$ 81,001,287</u>	<u>\$286,086,286</u>	<u>\$ 12,282,345</u>
Business-type activities:					
Compensated absences	\$ 239,755	\$ 212,047	\$ 198,673	\$ 253,129	\$ 160,458
Net pension liability	2,134,707	-	276,023	1,858,684	-
Net OPEB liability	8,789,431	-	1,859,018	6,930,413	-
Total	<u>\$ 11,163,893</u>	<u>\$ 212,047</u>	<u>\$ 2,333,714</u>	<u>\$ 9,042,226</u>	<u>\$ 160,458</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, 2018, consist of the following:

From the State Public School Fund to the School Food Services Fund for administrative costs	<u>\$ 21,536</u>
--	------------------

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

III) DETAIL NOTES ON ALL FUNDS (Continued)

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.

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	\$ 6,988,163
Less:	
Stabilization by State statute	2,846,546
Appropriated fund balance in 2019 budget	<u>2,661,298</u>
Remaining unassigned fund balance	<u>\$ 1,480,319</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, 2018.

IV) SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Board has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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.

V) RESTATEMENT OF PRIOR YEAR NET POSITION

For fiscal year 2018, the Board made a variety of prior period adjustments due to errors or omissions that require the restatement of the June 30, 2017 net position in Governmental Activities. The result is an increase in Governmental Activities' net position at July 1, 2017 of \$1,416,309.

Governmental Activities:	
Net position, July 1, 2017 as previously reported	\$ 911,160
Adjust for prior year revenue that was deferred	<u>1,416,309</u>
Net position, July 1, 2017 as restated	<u>\$ 2,327,469</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2018

VI) CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Board implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liability and net OPEB asset and the effects on net position from contributions made by the Board during the measurement period (fiscal year end June 30, 2017). As a result, net position for the governmental and business-type activities decreased by \$256,571,634 and \$8,575,221, respectively.

VII) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 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, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of the Board's Proportionate Share of the Net OPEB Liability
Retiree Health Benefit Fund

Schedule of Board Contributions
Retiree Health Benefit Fund

Schedule of the Board's Proportionate Share of the Net OPEB Asset
Disability Income Plan of North Carolina

Schedule of Board Contributions
Disability Income Plan of North Carolina

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 Five Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability	0.724%	0.718%	0.712%	0.724%	0.766%
Board's proportionate share of the net pension liability	\$ 57,470,743	\$ 66,005,403	\$ 26,229,765	\$ 8,483,052	\$ 46,504,006
Board's covered-employee payroll	\$ 101,665,624	\$ 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	56.53%	67.67%	26.72%	8.75%	47.24%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	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 Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 11,133,961	\$ 10,076,456	\$ 8,833,389	\$ 8,890,540	\$ 8,299,058
Contributions in relation to the contractually required contribution	<u>11,133,961</u>	<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>	<u>\$ -</u>
Board's covered-employee payroll	\$ 104,518,265	\$ 101,665,624	\$ 97,536,068	\$ 98,177,285	\$ 96,996,779
Contributions as a percentage of covered-employee payroll	10.653%	9.911%	9.057%	9.056%	8.556%

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of the Board's Proportionate Share of the Net OPEB Liability
Retiree Health Benefit Plan
Last Two Fiscal Years*

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB liability	0.654%	0.625%
Board's proportionate share of the net OPEB liability	\$ 214,289,224	\$ 271,770,267
Board's covered-employee payroll	\$ 101,665,624	\$ 97,536,068
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	267.32%	278.64%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Board Contributions
Retiree Health Benefit Fund
Last Two Fiscal Years*

	2018	2017
Contractually required contribution	\$ 6,248,652	\$ 6,248,652
Contributions in relation to the contractually required contribution	6,248,652	5,839,352
Contribution deficiency (excess)	\$ -	\$ -
Board's covered-employee payroll	\$ 104,518,265	\$ 101,665,624
Contributions as a percentage of covered-employee payroll	5.98%	5.74%

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of the Board's Proportionate Share of the Net OPEB Asset
Disability Income Plan of North Carolina
Last Two Fiscal Years*

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB asset	0.640%	0.639%
Board's proportionate share of the net OPEB asset	\$ 390,997	\$ 396,807
Board's covered-employee payroll	\$ 101,665,624	\$ 97,536,068
Board's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	0.38%	0.41%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%	116.06%

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Board Contributions
Disability Income Plan of North Carolina
Last Two Fiscal Years*

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 144,597	\$ 381,920
Contributions in relation to the contractually required contribution	<u>144,597</u>	<u>381,920</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 104,518,265	\$ 101,665,624
Contributions as a percentage of covered-employee payroll	0.138%	0.376%

This page intentionally left blank.

INDIVIDUAL FUND SCHEDULES

Schedule of Revenues, Expenditures, and Changes

in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Rowan County:			
County appropriation	\$ 35,491,372	\$ 35,116,372	\$ (375,000)
Fines and forfeitures	600,000	745,841	145,841
Charter school funding	465,009	465,009	-
Total Rowan County	<u>36,556,381</u>	<u>36,327,222</u>	<u>(229,159)</u>
U.S. Government	<u>560,118</u>	<u>425,948</u>	<u>(134,170)</u>
Other:			
Interest earned	70,000	72,606	2,606
Rental of school property	320,896	214,898	(105,998)
Local government sales tax refund	230,000	-	(230,000)
Other	3,560	653	(2,907)
Total other	<u>624,456</u>	<u>288,157</u>	<u>(336,299)</u>
Total revenues	<u>37,740,955</u>	<u>37,041,327</u>	<u>(699,628)</u>
EXPENDITURES			
Instructional services:			
Regular instructional		10,220,028	
Special populations		1,486,333	
Alternative programs		577,914	
School leadership		1,819,412	
Co-curricular		1,085,730	
School based support		1,958,137	
Total instructional services	<u>19,422,780</u>	<u>17,147,554</u>	<u>2,275,226</u>
System-wide support services:			
Support and development		632,595	
Special population support and development		280,141	
Alternative programs and services support and development		51,041	
Technology support		1,360,605	
Operational support		11,376,638	
Financial and human resource		2,270,515	
Accountability		91,876	
System-wide pupil support		242,466	
Policy, leadership, and public relations		601,296	
Total system-wide support services	<u>18,193,925</u>	<u>16,907,173</u>	<u>1,286,752</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, 2018

Schedule 1
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)			
Ancillary services	68,549	59,309	9,240
Non-programmed charges	908,909	908,909	-
Debt service:			
Principal	3,206,595	3,206,595	-
Interest	91,673	91,673	-
	3,298,268	3,298,268	-
Total expenditures	41,892,431	38,321,213	3,571,218
Revenues under expenditures	(4,151,476)	(1,279,886)	2,871,590
OTHER FINANCING SOURCES			
Installment purchase obligations issued			-
APPROPRIATED FUND BALANCE	4,151,476	-	(4,151,476)
Net change in fund balance	\$ -	(1,279,886)	\$ (1,279,886)
FUND BALANCE			
Beginning of year		8,268,049	
End of year		\$ 6,988,163	

Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
Federal Grants Fund
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
U.S. Government	\$ 18,137,667	\$ 12,270,044	\$ (5,867,623)
EXPENDITURES			
Instructional services:			
Regular instructional		1,062,041	
Special populations		4,973,991	
Alternative programs		5,422,540	
School based support		341,654	
Total instructional services	<u>15,847,479</u>	<u>11,800,226</u>	<u>4,047,253</u>
System-wide support services:			
Support and development		17,818	
Special population support and development		48,650	
Alternative programs and services support and development		10,739	
Technology support		5,543	
Operational support		20,531	
Total system-wide support services	<u>380,895</u>	<u>103,281</u>	<u>277,614</u>
Ancillary services	<u>22,203</u>	<u>23,256</u>	<u>(1,053)</u>
Non-programmed charges	<u>1,887,090</u>	<u>343,281</u>	<u>1,543,809</u>
Total expenditures	<u>18,137,667</u>	<u>12,270,044</u>	<u>5,868,676</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCE			
Beginning of year		<u>-</u>	
End of year		<u>\$ -</u>	

Schedule of Revenues, Expenditures, and Changes

in Fund Balance - Budget and Actual

Capital Outlay Fund

For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
State of North Carolina	\$ 1,156,734	\$ 1,156,734	\$ -
Rowan County	2,440,090	21,439,455	18,999,365
Other	468,870	2,056,955	1,588,085
Total revenues	<u>4,065,694</u>	<u>24,653,144</u>	<u>20,587,450</u>
EXPENDITURES			
Debt service:			
Principal	<u>1,156,734</u>	<u>1,156,734</u>	-
Total debt service	<u>1,156,734</u>	<u>1,156,734</u>	-
Property:			
Real property and buildings		19,927,366	
Furniture and equipment		624,794	
Buses and motor vehicles		<u>2,356,553</u>	
Total property	<u>4,856,104</u>	<u>22,908,713</u>	<u>(18,052,609)</u>
Total expenditures	<u>6,012,838</u>	<u>24,065,447</u>	<u>(18,052,609)</u>
Revenues under expenditures	(1,947,144)	587,697	2,534,841
OTHER FINANCING SOURCES			
Installment purchase obligations issued	-	2,058,024	2,058,024
APPROPRIATED FUND BALANCE			
	<u>1,947,144</u>	<u>-</u>	<u>(1,947,144)</u>
Net change in fund balance	<u>\$ -</u>	<u>2,645,721</u>	<u>\$ 2,645,721</u>
FUND BALANCE			
Beginning of year		<u>1,294,924</u>	
End of year		<u>\$ 3,940,645</u>	

Schedule of Revenues and Expenditures
 Budget and Actual (Non-GAAP)
 School Food Service Fund
 For the Year Ended June 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Food sales	\$ 2,386,500	\$ 2,238,777	\$ (147,723)
Miscellaneous revenues	20,000	9,701	(10,299)
Total operating revenues	<u>2,406,500</u>	<u>2,248,478</u>	<u>(158,022)</u>
OPERATING EXPENDITURES			
Business support services:			
Food costs		5,450,809	
Salaries and benefits		4,436,389	
Indirect costs		567,538	
Materials and supplies		308,464	
Equipment and maintenance		43,069	
Utilities and telephone		9,984	
Contracted services		86,506	
Travel		32,362	
Other		23,794	
Capital outlay		201,367	
Total operating expenditures	<u>12,959,500</u>	<u>11,160,282</u>	<u>1,799,218</u>
Operating loss	<u>(10,553,000)</u>	<u>(8,911,804)</u>	<u>1,641,196</u>
NONOPERATING REVENUES			
Federal reimbursements	9,140,000	8,992,989	(147,011)
Federal commodities	790,000	826,674	36,674
State reimbursements	16,000	14,689	(1,311)
Indirect costs not paid	600,000	101,388	(498,612)
Interest earned on investments	7,000	14,515	7,515
Total nonoperating revenues	<u>10,553,000</u>	<u>9,950,255</u>	<u>(602,745)</u>
Revenues over expenditures before other financing sources	<u>-</u>	<u>1,038,451</u>	<u>1,038,451</u>
OTHER FINANCING SOURCES			
Transfers from other funds	<u>-</u>	<u>21,536</u>	<u>21,536</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>1,059,987</u>	<u>\$ 1,059,987</u>
Reconciliation of modified accrual to full accrual basis:			
Depreciation		(243,248)	
Capital acquisitions		201,367	
Increase in compensated absences payable		79,297	
Increase in inventories		10,368	
Net pension liability		334,339	
Deferred outflows of resources		48,559	
Deferred inflows of resources		<u>(2,342,538)</u>	
Change in net position (full accrual basis)		<u>\$ (851,869)</u>	

COMPLIANCE SECTION



Rives & Associates, LLP
Certified Public Accountants

Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

**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, 2018, 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 November 21, 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 deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 in the accompanying schedule of findings and questioned costs to be a material weakness: 2018-001.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 2018-002.

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*.

Rowan-Salisbury Board of Education's Response to Findings

The Board's response to the findings identified in our audit are 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
November 21, 2018



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

**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, 2018. 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, 2018.

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
November 21, 2018



Member:
American Institute of
Certified Public Accountants

Rives & Associates, LLP
Certified Public Accountants

Member:
North Carolina Association of
Certified Public Accountants

www.rivescpa.com

**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, 2018. 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, 2018.

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
November 21, 2018

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

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 X Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses X Yes No

Noncompliance material to financial statements noted Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) 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 federal programs: Unmodified

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

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Schedule 5
(Continued)

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 Child Nutrition Cluster
10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.559	Summer Food Service Program For Children (SFSPC)

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

\$ 750,000

Auditee qualified as low-risk auditee

_____ Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2018-001 Inadequate Internal Controls over Financial Reporting

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 principals (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. This is a repeat finding from year ended June 30, 2017.

Condition:

During the audit, it was noticed that there was a lack of monitoring and oversight over the general ledger. In addition, it was noted that personnel in key accounting functions lacked adequate training.

Effect:

The lack of adequately trained individuals adversely affected the Board's ability to initiate, record, process, and report financial statements consistent with the assertions of management. Numerous audit adjustments were necessary to properly reflect accounting transactions accurately.

Cause:

Lack of adequate training and oversight in regards to job responsibilities, procedures, and processes to ensure the preparation of financial statements in accordance with GAAP.

Recommendation:

The Board should continue to evaluate internal controls to ensure the required general ledger postings are made in accordance with GAAP. Additionally, it is recommended that 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:

Finance Department Management continues to update practices and procedures, including identifying, documenting, and implementing a strong internal control framework. The work to finalize will be completed no later than June 30, 2019.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding: 2018-002 **Revenue Recognition**

Finding classification: Significant Deficiency

Criteria:

Management is responsible for ensuring revenues associated with cash receipts are recorded promptly when received, and reported accurately in the financial statements. A revenue exists when earned and realized or realizable.

Condition:

As a result of our audit procedures, we identified revenues that were inappropriately deferred in the prior year.

Effect:

Beginning fund balance was restated by \$1,416,309 to properly reflect revenues that were earned in the prior year.

Cause:

Lack of adequate training and oversight in regards to job responsibilities, procedures, and processes to ensure the preparation of financial statements in accordance with GAAP.

Recommendation:

The Board should continue to evaluate internal controls to ensure that revenue recognition is in accordance with GAAP. Additionally, it is recommended that the Board establish written processes for revenue recognition and provide training to employees that reinforces the internal control structure.

Views of responsible officials and planned corrective actions:

The accounting for deferred revenues practiced by the Finance Department for many years (and audited without exception across those years) has been modified to address this finding. Finance Department Management continues to update practices and procedures, including identifying, documenting, and implementing a strong internal control framework. The work to finalize will be completed no later than June 30, 2019.

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Schedule 5
(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported

Corrective Action Plan
For the Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2018-001 Inadequate Internal Controls over Financial Reporting

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, 2019.

Finding: 2018-002 Revenue Recognition

Finding classification: Significant Deficiency

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, 2019.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2018

Schedule 7

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number	Description	Status
2017-001	Inadequate Internal Controls over Financial Reporting & Inadequate Segregation of Duties	Partially Resolved See Finding 2018-001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2018

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	\$ <u>5,389,729</u>
School Improvement (Title I, Part A of ESEA)	84.010	PRC 105	<u>346,067</u>
Special Education Cluster:			
Individuals with Disabilities Education Act (IDEA)			
- Preschool Handicapped	84.173	PRC 049	134,628
- Education of the Handicapped	84.027	PRC 060	5,110,943
- Risk Pool	84.027	PRC 114	(294)
- Special Needs Targeted Assistance	84.027	PRC 118	9,932
- Preschool Targeted Assistance	84.173	PRC 119	<u>1,243</u>
Total Special Education Cluster			<u>5,256,453</u>
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	PRC 026	<u>29,372</u>
State Personnel Development	84.323	PRC 082	<u>5,431</u>
Improving Teacher Quality State Grants	84.367	PRC 103	<u>631,325</u>
Language Acquisition Significant Inc. Grant	84.365	PRC 104, 111	<u>148,751</u>
Twenty-First Century Community Learning Centers	84.287	PRC 110	<u>5,259</u>
Career and Technical Education - Basic Grants to States	84.048	PRC 017	275,637
Career and Technical Education - Capacity Building Grant	84.048	PRC 058	<u>47,460</u>
Total Career Technical Education			<u>323,096</u>
Student Support and Academic Enrichment Grant	84.424	PRC 108	<u>111,306</u>
Total U.S. Department of Education			<u>12,246,788</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2018

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>			
Passed-through the N.C. Department of Health and human services:			
Child and Adult Care Food Program	10.056	PRC 035	\$ 309,018
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
Passed-through the N.C. Department of Agriculture:			
National School Lunch Program	10.555	PRC 035	826,674
Non-Cash Assistance Subtotal			<u>826,674</u>
Cash Assistance:			
Passed-through the N.C. Department of Public Instruction:			
School Breakfast Program	10.553	PRC 035	2,224,318
National School Lunch Program	10.555	PRC 035	5,910,292
Summer Food Service Program for Children	10.559	PRC 035	341,147
Total Cash Assistance			<u>8,475,757</u>
Total Child Nutrition Cluster			<u>9,302,431</u>
Passed-through the N.C. Department of Agriculture:			
Cash Assistance:			
Fresh Fruit and Vegetable Program	10.582	PRC 035	208,214
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Discretionary Grants Limited Availability	10.579	PRC 053	23,256
Total U.S. Department of Agriculture			<u>9,842,919</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	-	PRC 306	425,948
Total federal assistance			<u>\$ 22,515,655</u>

ROWAN-SALISBURY BOARD OF EDUCATION, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2018

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		PRC 035	\$ <u>14,689</u>
 <u>N.C. Department of Public Instruction</u>			
State Public School Fund			<u>106,699,014</u>
Driver Training - SPSF		PRC 012	<u>339,196</u>
School Technology Fund - SPSF		PRC 015	<u>1,002,800</u>
Vocational Education			
- State Months of Employment		PRC 013	<u>5,356,642</u>
- Program Support Funds		PRC 014	<u>575,321</u>
 <u>N.C. Department of Health and Human Services</u>			
NC Pre-Kindergarten Program		PRC 413	<u>676,211</u>
 Non-Cash Assistance:			
<u>N.C. Department of Public Instruction</u>			
School Buses Appropriation		PRC 120	<u>1,156,734</u>
Total State assistance			<u>115,820,607</u>
Total federal and State assistance			<u>\$ <u>138,336,262</u></u>

Notes to the Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2018

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