

# **Board of Education of Franklin County Schools**

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**Financial Statements**

**Year Ended June 30, 2019**



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## Independent Auditors' Report

Board of Education  
Franklin County Schools  
Louisburg, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Franklin County Schools ("Board"), as of and for the year then ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Board as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School, and Restricted Revenues funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Schedules of Proportionate Share of the Net Pension and OPEB Liabilities and the Schedules of Board Contributions on pages 43 through 48 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 Board's basic financial statements. The combining and individual fund statements and budgetary schedules and the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules and the accompanying schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements 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 combining and individual fund statements and budgetary schedules, and the accompanying schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.





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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2019 on our consideration of the Board'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
December 30, 2019**



## **Board of Education of Franklin County Schools Management's Discussion and Analysis**

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This section of the Board of Education of Franklin County Schools (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2019. This information should be read in conjunction with the audited financial statements included in this report.

### ***Financial Highlights***

- For the past two years, the Franklin County Board of Commissioners has fully funded the district's request. The Franklin County Board of Education appreciates the interest that the Franklin County Board of Commissioners has shown for the education of children in our county. A close working relationship between the two boards has the potential to yield great benefits for both the students and citizens of Franklin County. The commitment of our community to the success of the district has had a visible impact, as we have made significant progress over the past several years in key areas of our strategic plan "Blueprint for Success".
- For the 2018-2019 school year, through the current expense budget, funding was approved to support an increase to our local teacher supplement from 7% to 8%.
- To further enhance recruitment and retention efforts for teachers in a competitive market, we also received funding for continuance of our \$1,000 retention bonus.
- Funding for 2018-2019 was also provided to support a one-time \$500 bonus to our classified employees as we undergo a classified salary study.
- Additional funding in the amount of \$600,000 was provided for capital outlay improvement needs and to support the maintenance of existing grounds and structures.
- The Franklin County Board of Education took the next step toward approving the construction of a new stadium at Louisburg High School. This project includes: a new football field with an 8-lane competition track, sports lighting, home and visitor field buildings, grandstand bleachers and press box, and roadway and parking lot improvements slated to open late fall of 2020.

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

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

- Independent Auditors' Report
- Management's Discussion and Analysis (required supplementary information)
- Basic Financial Statements
- Supplemental section that presents combining and budgetary statements for non-major governmental funds and budgetary statements for governmental and enterprise funds.

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *government-wide statements*. The government-wide statements are presented on the full accrual basis of accounting and include the Statement of Net Position (Deficit) and the Statement of Activities. The Statement of Net Position (Deficit) includes all of the Board's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets, deferred outflows of resources, obligations to creditors, and deferred inflows of resources. 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 funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-



## Board of Education of Franklin County Schools Management's Discussion and Analysis

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wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

### ***Government-wide Statements***

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

The two government-wide statements report the Board's net position (deficit) and how they have changed. Net position (deficit) - the difference between the total of the Board's assets and deferred outflows of resources and the total of the liabilities and deferred inflows of resources - is one way to measure the unit's financial health or position.

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

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

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

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

### ***Fund Financial Statements***

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

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

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

The governmental fund statements are shown as Exhibits 3, 4, 5 and 6 of this report.

***Proprietary funds:*** Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide



## Board of Education of Franklin County Schools Management's Discussion and Analysis

statements. The Board has two proprietary funds - both enterprise funds - the School Food Service Fund and the Child Care Fund.

The proprietary fund statements are shown as Exhibits 7, 8 and 9 of this report.

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

Net position or deficit is an indicator of the fiscal health of the Board. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$15.8 million as of June 30, 2019. The largest positive component of the net deficit is the Board's net investment in capital assets of \$116.8 million. Restricted and unrestricted net position (deficit) amounted to \$2.8 million and (\$135.4) million, respectively. The Board's overall financial position improved in the current year, as the net deficit decreased by \$1.6 million. The primary reason for the total net deficit and unrestricted net deficit in the current year is the presentation of the board's proportionate share of the net pension liability and net OPEB liability in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The net pension liability, net OPEB liability, and related components has a \$138.9 million negative effect to the Board's overall net deficit.

Following is a summary of the Statement of Net Position (Deficit):

**Table 1**  
**Condensed Statement of Net Position (Deficit)**  
**as of June 30, 2019 and 2018**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 11,627,735	\$ 10,675,813	\$ 1,046,132	\$ 1,010,178	\$ 12,673,867	\$ 11,685,991
Capital assets	116,896,176	120,136,447	399,254	497,263	117,295,430	120,633,710
Total assets	128,523,911	130,812,260	1,445,386	1,507,441	129,969,297	132,319,701
Deferred outflows of resources	19,589,975	15,296,385	727,054	573,004	20,317,029	15,869,389
Current liabilities	4,156,946	4,206,291	69,409	70,835	4,226,355	4,277,126
Long-term liabilities	109,704,690	121,291,572	4,077,276	4,475,674	113,781,966	125,767,246
Total liabilities	113,861,636	125,497,863	4,146,685	4,546,509	118,008,321	130,044,372
Deferred inflows of resources	46,367,591	34,383,222	1,717,931	1,287,999	48,085,522	35,671,221
Invested in capital assets, net of related debt	116,425,908	119,224,367	399,254	497,263	116,825,162	119,721,630
Restricted net position	2,780,777	2,294,642	3,197	6,342	2,783,974	2,300,984
Unrestricted net deficit	(131,322,026)	(135,291,449)	(4,094,627)	(4,257,668)	(135,416,653)	(139,549,117)
Total net deficit	\$ (12,115,341)	\$ (13,772,440)	\$ (3,692,176)	\$ (3,754,063)	\$ (15,807,517)	\$ (17,526,503)

The net deficit of the Board's governmental activities decreased from \$13.8 million at June 30, 2018 to \$12.1 million at June 30, 2019, a decrease of \$1.7 million. The Board's net investment in capital assets decreased by \$2.8 million



## Board of Education of Franklin County Schools Management's Discussion and Analysis

during the year due primarily to depreciation expense in excess of capital outlay. Restricted and unrestricted combined net deficit decreased by \$4.5 million as a result of the changes in the proportionate share of the Teachers' and State Employees' Retirement System plan net pension liability as well as changes to the proportionate share of the Retiree Health Benefit Fund net OPEB liability and deferred outflows and inflows of resources.

The net deficit of business-type activities decreased \$62 thousand from \$3.8 million at June 30, 2018 to \$3.7 million at June 30, 2019. This decrease in the net deficit is attributable to a decrease in operating expenses.

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

**Table 2**  
**Condensed Statement of Activities**  
**For the Fiscal Years Ended June 30, 2019 & 2018**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenues:						
<b>Program revenues:</b>						
Charges for services	\$ 1,709,194	\$ 1,646,751	\$ 1,320,987	\$ 990,739	\$ 3,030,181	\$ 2,637,490
Operating grants and contributions	53,359,382	51,453,978	3,400,385	3,735,063	56,759,767	55,189,041
Capital grants and contributions	441,812	461,526	-	-	441,812	461,526
<b>General revenues:</b>						
Unrestricted state and federal appropriations	5,377,289	5,885,295	-	21,104	5,377,289	5,906,399
Unrestricted county appropriations	19,029,295	17,765,283	-	-	19,029,295	17,765,283
Other revenues	1,103,576	602,559	9,685	25,308	1,113,261	627,867
Total revenues	81,020,548	77,815,392	4,731,057	4,772,214	85,751,605	82,587,606
Expenses:						
<b>Governmental activities:</b>						
Instructional services	56,696,581	61,450,914	-	-	56,696,581	61,450,914
System-wide support services	16,046,933	16,594,785	-	-	16,046,933	16,594,785
Ancillary services	103,996	80,406	-	-	103,996	80,406
Non-programmed charges	2,481,751	2,172,417	-	-	2,481,751	2,172,417
Unallocated depreciation expense	4,034,188	4,153,041	-	-	4,034,188	4,153,041
<b>Business-type activities:</b>						
School food service	-	-	4,473,603	4,820,975	4,473,603	4,820,975
Child care	-	-	195,567	259,565	195,567	259,565
Total expenses	79,363,449	84,451,563	4,669,170	5,080,540	84,032,619	89,532,103
Transfers in (out)	-	(92,500)	-	92,500	-	-
Increase (decrease) in net position	1,657,099	(6,728,671)	61,887	(215,826)	1,718,986	(6,944,497)
Net deficit, beginning	(13,772,440)	(7,043,769)	(3,754,063)	(3,538,237)	(17,526,503)	(10,582,006)
Net deficit, ending	\$ (12,115,341)	\$ (13,772,440)	\$ (3,692,176)	\$ (3,754,063)	\$ (15,807,517)	\$ (17,526,503)

During the year ended June 30, 2019, governmental activities generated revenues of \$81 million compared with total expenses of \$79.4 million, resulting in the aforementioned decrease in net deficit for these activities of approximately \$1.6 million. Comparatively, during the year ended June 30, 2018, governmental activities generated revenues of \$77.8 million compared with total expenses and transfers to other funds of \$84.5 million, resulting in



## **Board of Education of Franklin County Schools Management's Discussion and Analysis**

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an increase in net deficit of \$6.7 million. The primary sources of revenue were funding from the State of North Carolina, the County of Franklin, and the United States government, which respectively comprised 67.3%, 23.4%, and 5.4% of revenues. The main driving force behind the increase in revenues of \$3.5 million is an increase in state and county appropriations of \$1.8 million and \$1.3 million, respectively. Instructional services expenses comprised 74.5% of total governmental activities expenses while system-wide support services made up 19.6% of those expenses for the year ended June 30, 2019. In comparison, in the previous year, instructional services and system-wide support services were 73.7% and 20%, respectively, of total expenses.

Business-type activities generated revenue of \$4.73 million and incurred expenses of \$4.67 million, resulting in a decrease in net deficit of \$62 thousand. When compared to the prior year, food sales increased by \$234 thousand and child care revenue increased by \$174 thousand due to increases in participation in both programs. Expenditures decreased \$172 thousand due to decreases in salaries and benefits of \$134 thousand which is primarily related to the Net OPEB benefit recognized in the current year.

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

**Governmental Funds:** The focus of the Board'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 \$9.1 million at June 30, 2019, an \$862 thousand increase when compared to the prior year. Total revenues increased by \$3.2 million, or 4.1%, during the year. Total expenditures increased by \$2.4 million when compared to the prior year with the increase being primarily attributable to increased instructional service expenses. Specifically related to the General Fund, funding from Franklin County increased \$533 thousand to \$16.9 million when compared to the prior year and other revenues increased \$223 thousand primarily due to an increase in fines and forfeitures revenue. Expenditures during the period increased by \$1.1 million over the prior year due to increases in personnel costs. The Restricted Revenues Fund recognized increases in total revenues of \$178 thousand for the year ended June 30, 2019 compared to the year ended June 30, 2018. Driving the increase in revenues for the Restricted Revenues Fund were increased Medicaid reimbursements. The Board received \$731 thousand more in County capital outlay support in the fiscal year ended June 30, 2019 when compared to June 30, 2018.

**Proprietary Funds:** The Board's business-type funds reported a combined net deficit of \$3.7 million at June 30, 2019, a \$61 thousand decrease in deficit when compared to the prior year. The School Food Service Fund incurred a net loss of \$14 thousand during the year ended June 30, 2019 compared to a net loss of \$223 thousand during the year ended June 30, 2018. In comparison to the prior year, operating and nonoperating revenues decreased by \$158 thousand due to decreased federal and state reimbursements of \$350 thousand. Operating expenses decreased by \$367 thousand as a result of reduced salary and benefits expenses of \$324 thousand. The Child Care Fund generated \$271 thousand of revenue which was an increase of \$97 thousand over the prior year revenue of \$175 thousand. The increase was due to increased participation.

### ***General Fund Budgetary Highlights***

Over the course of the year, the Board revised the General Fund budget several times to account for changes in expectations of expenditures. Total budgeted revenues decreased by \$894 thousand as a result of expected decreases in county appropriations from what was originally budgeted. Total expenditures decreased \$230 thousand in the current year as a result of expected decreases in instructional service costs. For the year, the Board finished with expenditures in excess of revenues of \$184 thousand primarily due to system wide support service expenditures being \$211 thousand less than budgeted.

### ***Capital Assets***

Capital assets decreased by \$3.3 million, or 2.8%, compared to the previous year. The decrease was primarily due to continued depreciation in excess of capital outlay expenditures in the current year. The following is a summary of the capital assets, net of depreciation, at year-end. Refer to Note 2-A-4 in the Notes to the Financial Statements for more detail.



**Board of Education of Franklin County Schools  
Management's Discussion and Analysis**

**Table 3  
Summary of Capital Assets  
as of June 30, 2019 and 2018**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Land	\$ 6,776,775	\$ 6,776,775	\$ -	\$ -	\$ 6,776,775	\$ 6,776,775
Construction in progress	131,206	-	-	-	131,206	-
Buildings and improvements	106,438,327	109,548,466	-	-	106,438,327	109,548,466
Equipment and furniture	824,475	735,836	399,254	497,263	1,223,729	1,233,099
Vehicles	2,725,393	3,075,370	-	-	2,725,393	3,075,370
<b>Total</b>	<b>\$ 116,896,176</b>	<b>\$ 120,136,447</b>	<b>\$ 399,254</b>	<b>\$ 497,263</b>	<b>\$ 117,295,430</b>	<b>\$ 120,633,710</b>

***Debt Outstanding***

The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. During the year ended June 30, 2019, the Board did not issue any installment purchase obligations. Refer to Note 2-B-7 in the Notes to the Financial Statements for more detail.

***Economic Factors***

From world-renowned trail blazers like Novozymes North America to mom-and-pop restaurants and retailers, companies large and small find Franklin County an ideal location to locate, startup and grow. Franklin County businesses benefit from their location within the innovation-rich Research Triangle Region of North Carolina, home to The Research Triangle Park and three research universities that created it – Duke University, N.C. State University and the University of North Carolina at Chapel Hill.

The region attracts more than \$2 billion in federal research grants that fuel discoveries, particularly in life sciences and technology. That translates into new products, services and processes that help our existing businesses innovate and compete and new companies form and grow.

The following factors have positively affected the economic outlook of Franklin County:

- Franklin County's location is in close proximity to Wake County and continues to provide convenient commutes for working residents and potential businesses. The final phase of the widening of 401 is slated to happen in the next couple of years. This is an advantageous project for the entire county, since it will provide an easier commute to and from the Triangle/Capital City area. Improvements to this main route will improve the current travel conditions and accessibility to resources that are offered in Franklin County.
- Franklin County government also offers financial incentives to assist selected companies that will improve the county's economy and create jobs.

***Requests for Information***

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

Quinnley Coley, Chief Finance Officer  
Board of Education of Franklin County Schools  
53 West River Road  
Louisburg, North Carolina 27549



## ***Basic Financial Statements***



**Board of Education of Franklin County Schools**  
**Statement of Net Position (Deficit)**  
**June 30, 2019**

**Exhibit 1**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,820,557	\$ 834,125	\$ 10,654,682
Due from other governments	1,613,897	89,688	1,703,585
Receivables (net)	32,160	-	32,160
Net OPEB asset	81,663	3,197	84,860
Inventories	79,458	119,122	198,580
Capital assets:			
Land, improvements, and construction in progress	6,907,981	-	6,907,981
Other capital assets, net of depreciation	109,988,195	399,254	110,387,449
Total capital assets	116,896,176	399,254	117,295,430
Total assets	128,523,911	1,445,386	129,969,297
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	19,589,975	727,054	20,317,029
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	835,656	1,681	837,337
Accrued salaries and wages payable	1,619,912	-	1,619,912
Unearned revenues	-	29,446	29,446
Long-term liabilities:			
Due within one year	1,701,378	38,282	1,739,660
Due in more than one year	109,704,690	4,077,276	113,781,966
Total liabilities	113,861,636	4,146,685	118,008,321
<b>DEFERRED INFLOWS OF RESOURCES</b>	46,367,591	1,717,931	48,085,522
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	116,425,908	399,254	116,825,162
Restricted for:			
Stabilization by State Statute	42,928	-	42,928
School Capital Outlay	1,990,614	-	1,990,614
Individual Schools	665,572	-	665,572
DIPNC OPEB plan	81,663	3,197	84,860
Unrestricted	(131,322,026)	(4,094,627)	(135,416,653)
Total net deficit	\$ (12,115,341)	\$ (3,692,176)	\$ (15,807,517)

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



**Board of Education of Franklin County Schools**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 2**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 34,130,997	\$ -	\$ 30,020,271	\$ -	\$ (4,110,726)	\$ -	\$ (4,110,726)
Special populations	7,155,596	-	6,787,506	-	(368,090)	-	(368,090)
Alternative programs	3,138,575	-	2,855,234	-	(283,341)	-	(283,341)
School leadership	4,656,816	-	3,267,015	-	(1,389,801)	-	(1,389,801)
Co-curricular	2,270,541	-	-	-	(2,270,541)	-	(2,270,541)
School-based support	5,344,056	1,709,194	3,446,822	-	(188,040)	-	(188,040)
System-wide support services:							
Support and development	574,422	-	326,253	-	(248,169)	-	(248,169)
Special population support and development	494,887	-	486,715	-	(8,172)	-	(8,172)
Alternative programs and services support and development	203,230	-	76,184	-	(127,046)	-	(127,046)
Technology support	880,173	-	202,383	-	(677,790)	-	(677,790)
Operational support	10,825,978	-	5,107,549	441,812	(5,276,617)	-	(5,276,617)
Financial and human resources	1,991,880	-	314,016	-	(1,677,864)	-	(1,677,864)
Accountability	142,231	-	19,568	-	(122,663)	-	(122,663)
System-wide pupil support	121,050	-	-	-	(121,050)	-	(121,050)
Policy, leadership and public relations	813,082	-	248,755	-	(564,327)	-	(564,327)
Ancillary services	103,996	-	63,851	-	(40,145)	-	(40,145)
Non-programmed charges	2,481,751	-	137,260	-	(2,344,491)	-	(2,344,491)
Unallocated depreciation expense, excluding direct depreciation expense charged to programs	4,034,188	-	-	-	(4,034,188)	-	(4,034,188)
Total governmental activities	79,363,449	1,709,194	53,359,382	441,812	(23,853,061)	-	(23,853,061)
Business-type activities:							
School food service	4,473,603	1,049,741	3,400,385	-	-	(23,477)	(23,477)
Child care	195,567	271,246	-	-	-	75,679	75,679
Total business-type activities	4,669,170	1,320,987	3,400,385	-	-	52,202	52,202
Total primary government	\$ 84,032,619	\$ 3,030,181	\$ 56,759,767	\$ 441,812	(23,853,061)	52,202	(23,800,859)
General revenues:							
Unrestricted county appropriations - operating					16,898,091	-	16,898,091
Unrestricted county appropriations - capital					2,131,204	-	2,131,204
Unrestricted State and Federal appropriations - operating					5,377,289	-	5,377,289
Investment earnings, unrestricted					13,359	406	13,765
Miscellaneous, unrestricted					1,090,217	9,279	1,099,496
Total general revenues and transfers					25,510,160	9,685	25,519,845
Change in net position (deficit)					1,657,099	61,887	1,718,986
Net deficit, beginning					(13,772,440)	(3,754,063)	(17,526,503)
Net deficit, ending					\$ (12,115,341)	\$ (3,692,176)	\$ (15,807,517)



**Board of Education of Franklin County Schools**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**

**Exhibit 3**

	Major Funds					Total Governmental Funds
	General	State Public School	Capital Outlay	Restricted Revenues	Non-major Funds	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,138,765	\$ -	\$ 1,999,284	\$ 3,006,168	\$ 676,340	\$ 9,820,557
Due from other governments	-	1,547,687	-	-	66,210	1,613,897
Receivables	13,698	-	-	18,462	-	32,160
Due from other funds	10,768	-	-	-	-	10,768
Inventory	79,458	-	-	-	-	79,458
Total assets	<u>\$ 4,242,689</u>	<u>\$ 1,547,687</u>	<u>\$ 1,999,284</u>	<u>\$ 3,024,630</u>	<u>\$ 742,550</u>	<u>\$ 11,556,840</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 798,326	\$ -	\$ 8,670	\$ 28,660	\$ -	\$ 835,656
Accrued salaries and wages payable	180	1,547,687	-	5,835	66,210	1,619,912
Due to other funds	-	-	-	-	10,768	10,768
Total liabilities	<u>798,506</u>	<u>1,547,687</u>	<u>8,670</u>	<u>34,495</u>	<u>76,978</u>	<u>2,466,336</u>
Fund balances:						
Nonspendable:						
Inventory	79,458	-	-	-	-	79,458
Restricted:						
Stabilization by State Statute	24,466	-	-	18,462	-	42,928
School Capital Outlay	-	-	1,990,614	-	-	1,990,614
Individual Schools	-	-	-	-	665,572	665,572
Assigned:						
Other special programs	-	-	-	2,971,673	-	2,971,673
Unassigned	3,340,259	-	-	-	-	3,340,259
Total fund balances	<u>3,444,183</u>	<u>-</u>	<u>1,990,614</u>	<u>2,990,135</u>	<u>665,572</u>	<u>9,090,504</u>
Total liabilities and fund balances	<u>\$ 4,242,689</u>	<u>\$ 1,547,687</u>	<u>\$ 1,999,284</u>	<u>\$ 3,024,630</u>	<u>\$ 742,550</u>	
Amounts reported for governmental activities in the Statement of Net Position (Deficit) (Exhibit 1) are different because:						
Net OPEB asset						81,663
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.						116,896,176
Deferred outflows of resources related to pensions						16,574,199
Deferred outflows of resources related to OPEB						3,015,776
Some liabilities, including compensated absences and installment purchase obligations are not due and payable in the current period and therefore are not reported in the funds.						(4,200,132)
Net pension liability						(30,179,996)
Net OPEB liability						(77,025,940)
Deferred inflows of resources related to pensions						(1,454,547)
Deferred inflows of resources related to OPEB						(44,913,044)
Net deficit of governmental activities						<u>\$ (12,115,341)</u>

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



**Board of Education of Franklin County Schools**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 4**

	<b>Major Funds</b>					<b>Total Governmental Funds</b>
	<b>General</b>	<b>State Public School</b>	<b>Capital Outlay</b>	<b>Restricted Revenues</b>	<b>Non-major Funds</b>	
Revenues:						
Intergovernmental:						
State of North Carolina	\$ -	\$ 53,880,889	\$ 441,812	\$ 325,956	\$ -	\$ 54,648,657
Franklin County:						
Local current expense	16,898,091	-	-	-	-	16,898,091
Other	-	-	2,131,204	-	-	2,131,204
U.S. Government	-	-	-	95,920	4,310,893	4,406,813
Other	421,050	-	32,753	1,004,792	1,646,656	3,105,251
Total revenues	17,319,141	53,880,889	2,605,769	1,426,668	5,957,549	81,190,016
Expenditures:						
Current:						
Instructional services:						
Regular instructional	2,437,009	33,064,577	-	279,717	355,974	36,137,277
Special populations	391,855	5,263,612	-	333,227	1,559,932	7,548,626
Alternative programs	340,547	1,125,213	-	93,516	1,731,517	3,290,793
School leadership	1,641,530	3,289,686	-	-	16,671	4,947,887
Co-curricular	596,881	-	-	-	1,692,515	2,289,396
School-based support	775,329	4,480,720	-	238,655	138,387	5,633,091
System-wide support services:						
Support and development	273,194	253,945	-	-	72,308	599,447
Special population support and development	38,940	344,173	-	-	142,542	525,655
Alternative programs and services support and development	140,089	-	-	-	76,184	216,273
Technology support	397,673	511,425	-	-	-	909,098
Operational support	5,762,894	4,534,838	-	18,418	27,822	10,343,972
Financial and human resources	1,319,686	679,178	-	-	52,296	2,051,160
Accountability	129,480	19,568	-	-	-	149,048
System-wide pupil support	124,178	-	-	-	-	124,178
Policy, leadership and public relations	574,882	250,103	-	17,894	-	842,879
Ancillary services	44,628	63,851	-	-	-	108,479
Non-programmed charges	2,513,959	-	-	-	137,260	2,651,219
Debt service:						
Principal	-	-	441,812	-	-	441,812
Capital outlay:						
Land, buildings, and site improvement	-	-	1,151,636	-	-	1,151,636
Furnishings and equipment	-	-	259,598	-	-	259,598
Vehicles and other	-	-	105,145	-	-	105,145
Total expenditures	17,502,754	53,880,889	1,958,191	981,427	6,003,408	80,326,669
Excess (deficiency) of revenues over expenditures	(183,613)	-	647,578	445,241	(45,859)	863,347
Other financing sources (uses):						
Transfers from (to) other funds	-	-	(60,000)	-	60,000	-
Net change in fund balance	(183,613)	-	587,578	445,241	14,141	863,347
Fund balances, beginning of year	3,629,401	-	1,403,036	2,544,894	651,431	8,228,762
Decrease in reserve for inventory	(1,605)	-	-	-	-	(1,605)
Fund balances, end of year	\$ 3,444,183	\$ -	\$ 1,990,614	\$ 2,990,135	\$ 665,572	\$ 9,090,504

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



**Board of Education of Franklin County Schools**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 5**

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

Net changes in fund balances - total governmental funds	\$ 863,347
Adjustment due to the use of consumption method of recording inventory in the government-wide statements.	(1,605)
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 exceeds capital outlay in the current period.	(3,220,980)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	5,344,008
Contributions to the OPEB plan in the current fiscal year are not included in the Statement of Activities	2,787,233
Net OPEB benefit	2,277,387
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 issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	441,812
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	(6,672,519)
Loss on disposal of capital assets	(19,291)
Compensated absences	(142,293)
Total changes in net position (deficit) of governmental activities	<u>\$ 1,657,099</u>



**Board of Education of Franklin County Schools**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 6**  
**Page 1 of 3**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Franklin County	17,876,920	16,898,093	16,898,091	(2)
U.S. Government	-	-	-	-
Other	364,835	448,702	421,050	(27,652)
Total revenues	18,241,755	17,346,795	17,319,141	(27,654)
Expenditures:				
Current:				
Instructional services	6,687,283	6,430,055	6,183,151	246,904
System-wide support services	9,324,680	8,972,104	8,761,016	211,088
Ancillary services	54,792	54,392	44,628	9,764
Non-programmed charges	2,175,000	2,555,000	2,513,959	41,041
Total expenditures	18,241,755	18,011,551	17,502,754	508,797
Revenues over (under) expenditures	-	(664,756)	(183,613)	481,143
Fund balance appropriated	-	664,756	-	(664,756)
Net change in fund balance	\$ -	\$ -	(183,613)	\$ (183,613)
Fund balances, beginning of year			3,629,401	
Decrease in reserve for inventory			(1,605)	
Fund balances, end of year			<u>\$ 3,444,183</u>	



**Board of Education of Franklin County Schools**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 6**  
**Page 2 of 3**

	State Public School Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 54,929,041	\$ 56,081,372	\$ 53,880,889	\$ (2,200,483)
Franklin County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>54,929,041</u>	<u>56,081,372</u>	<u>53,880,889</u>	<u>(2,200,483)</u>
Expenditures:				
Current:				
Instructional services	49,377,164	49,278,321	47,223,808	2,054,513
System-wide support services	5,476,902	6,722,857	6,593,230	129,627
Ancillary services	74,975	80,194	63,851	16,343
Non-programmed charges	-	-	-	-
Total expenditures	<u>54,929,041</u>	<u>56,081,372</u>	<u>53,880,889</u>	<u>2,200,483</u>
Revenues over (under) expenditures	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances, beginning of year			-	
Decrease in reserve for inventory			-	
Fund balances, end of year			<u>\$ -</u>	



**Board of Education of Franklin County Schools**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 6**  
**Page 3 of 3**

	Restricted Revenues Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 377,570	\$ 329,837	\$ 325,956	\$ (3,881)
Franklin County	-	-	-	-
U.S. Government	73,750	85,000	95,920	10,920
Other	745,714	977,147	1,004,792	27,645
Total revenues	1,197,034	1,391,984	1,426,668	34,684
Expenditures:				
Current:				
Instructional services	1,058,034	1,255,974	945,115	310,859
System-wide support services	107,000	107,000	36,312	70,688
Ancillary services	-	-	-	-
Non-programmed charges	32,000	32,000	-	32,000
Total expenditures	1,197,034	1,394,974	981,427	413,547
Revenues over (under) expenditures	-	(2,990)	445,241	448,231
Fund balance appropriated	-	2,990	-	(2,990)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	445,241	<u>\$ 445,241</u>
Fund balances, beginning of year			2,544,894	
Decrease in reserve for inventory			-	
Fund balances, end of year			<u>\$ 2,990,135</u>	

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



**Board of Education of Franklin County Schools**  
**Statement of Net Position (Deficit)**  
**Proprietary Funds**  
**June 30, 2019**

**Exhibit 7**

		<b>Enterprise Funds</b>	
	<b>Major Fund</b>	<b>Non-major Fund</b>	
	<b>School Food</b>		
	<b>Service</b>	<b>Child Care</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 754,693	\$ 79,432	\$ 834,125
Due from other governments	89,688	-	89,688
OPEB asset	2,873	324	3,197
Inventories	119,122	-	119,122
Total current assets	<u>966,376</u>	<u>79,756</u>	<u>1,046,132</u>
Noncurrent assets:			
Capital assets:			
Furniture and equipment, net	<u>399,254</u>	<u>-</u>	<u>399,254</u>
Total assets	<u>1,365,630</u>	<u>79,756</u>	<u>1,445,386</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>662,924</u>	<u>64,130</u>	<u>727,054</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	1,681	-	1,681
Unearned revenue	29,446	-	29,446
Compensated absences	38,282	-	38,282
Total current liabilities	<u>69,409</u>	<u>-</u>	<u>69,409</u>
Noncurrent liabilities:			
Net pension liability	1,022,515	99,433	1,121,948
Net OPEB liability	2,641,777	270,431	2,912,208
Compensated absences	43,120	-	43,120
Total noncurrent liabilities	<u>3,707,412</u>	<u>369,864</u>	<u>4,077,276</u>
Total liabilities	<u>3,776,821</u>	<u>369,864</u>	<u>4,146,685</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,567,147</u>	<u>150,784</u>	<u>1,717,931</u>
<b>NET POSITION (DEFICIT)</b>			
Investment in capital assets	399,254	-	399,254
DIPNC OPEB Plan	2,873	324	3,197
Unrestricted	<u>(3,717,541)</u>	<u>(377,086)</u>	<u>(4,094,627)</u>
Total net deficit	<u>\$ (3,315,414)</u>	<u>\$ (376,762)</u>	<u>\$ (3,692,176)</u>

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



**Board of Education of Franklin County Schools**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit)**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 8**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-major Fund</b>	
	<b>School Food Service</b>	<b>Child Care</b>	<b>Total</b>
Operating revenues:			
Food sales	\$ 1,049,741	\$ -	\$ 1,049,741
Child care fees	-	271,246	271,246
Total operating revenues	<u>1,049,741</u>	<u>271,246</u>	<u>1,320,987</u>
Operating expenses:			
Food cost:			
Purchase of food	1,582,404	-	1,582,404
Food processing supplies	139,540	-	139,540
Donated commodities	296,761	-	296,761
Salaries and benefits	2,185,101	190,453	2,375,554
Materials and supplies	35,991	3,243	39,234
Repairs and maintenance	55,837	-	55,837
Depreciation	114,156	-	114,156
Non-capitalized equipment	11,010	-	11,010
Other	33,034	1,871	34,905
Total operating expenses	<u>4,453,834</u>	<u>195,567</u>	<u>4,649,401</u>
Operating income (loss)	<u>(3,404,093)</u>	<u>75,679</u>	<u>(3,328,414)</u>
Nonoperating revenues (expenses):			
Federal reimbursements	3,094,256	-	3,094,256
Federal commodities	296,761	-	296,761
State reimbursements	9,368	-	9,368
Interest earned	406	-	406
Other	9,279	-	9,279
Loss on disposal of capital assets	(19,769)	-	(19,769)
Total nonoperating revenues	<u>3,390,301</u>	<u>-</u>	<u>3,390,301</u>
Change in net deficit	(13,792)	75,679	61,887
Total net deficit, beginning	<u>(3,301,622)</u>	<u>(452,441)</u>	<u>(3,754,063)</u>
Total net deficit, ending	<u>\$ (3,315,414)</u>	<u>\$ (376,762)</u>	<u>\$ (3,692,176)</u>

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



**Board of Education of Franklin County Schools**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit 9**

	<b>Enterprise Funds</b>	
	<b>Major Fund</b>	<b>Non-major Fund</b>
	<b>School Food Service</b>	<b>Child Care</b>
		<b>Total</b>
Cash flows from operating activities:		
Cash received from customers	\$ 1,060,099	\$ 271,246
Cash paid for goods and services	(1,858,073)	(27,692)
Cash paid to employees for services	(2,293,032)	(201,125)
Net cash provided (used) by operating activities	(3,091,006)	42,429
Cash flows from noncapital financing activities:		
Federal and state reimbursements	3,129,579	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(35,916)	-
Cash flows from investing activities:		
Interest received on investments	406	-
Net increase in cash and cash equivalents	3,063	42,429
Cash and cash equivalents, beginning of year	751,630	37,003
Cash and cash equivalents, end of year	\$ 754,693	\$ 79,432
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (3,404,093)	\$ 75,679
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	114,156	-
Donated commodities	296,761	-
Other	9,279	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Increase in inventories	(19,562)	-
Decrease in due from other funds	22,044	-
Decrease in net OPEB asset	2,895	250
Increase deferred outflows of resources	(141,805)	(12,245)
Decrease in accounts payable and accrued liabilities	(2,739)	(534)
Decrease in due to other funds	-	(22,044)
Increase in unearned revenue	1,079	-
Increase in compensated absences payable	15,498	-
Increase in net pension liability	179,683	15,517
Decrease in net OPEB liability	(559,977)	(48,351)
Increase deferred inflows of resources	395,775	34,157
Total adjustments	313,087	(33,250)
Net cash provided (used) by operating activities	\$ (3,091,006)	\$ 42,429

**NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL ACTIVITIES:**

The School Food Service Fund received donated commodities with a value of \$296,761 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8.



## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### B. Basis of Presentation

**Government-wide Statements:** The Statement of Net Position (Deficit) 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. Interfund services provided and used are not eliminated in the process of consolidation. 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 displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor 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.

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].



**Board of Education of Franklin County Schools**  
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*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.

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

*Restricted Revenues Fund.* The Restricted Revenues Fund is used to account for activities designated for restricted purposes and generally not intended for the general K-12 student population of the Board. Funding is primarily from local and state government grants and private donations received from individual and corporate donors, along with grant monies received directly from the federal government.

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.

**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, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements.** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences that are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net 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' and Restricted Revenue Fund, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the function level for all annually budgeted funds. The Superintendent is authorized by the governing board to transfer appropriations within a fund up to \$1,000. Such transfers must be reported to the governing board at its next regular meeting. Any revisions that alter the total expenditures of any fund or exceed \$1,000 must be approved by the governing board prior to any expenditure being made. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by



**Board of Education of Franklin County Schools**  
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July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**(1) Deposits and Investments**

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

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF).

The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with state laws and regulations. It is not registered with the SEC. The STIF consists of an internal portion and an external portion in which the board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

The Board's investments are reported at amortized cost or at fair value as 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. The inventories of the Board's General Fund consist of expendable materials and supplies that are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved. Proprietary fund inventories consist of food and supplies and are recorded as expenses when consumed.

**(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, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.



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

Franklin 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 and improvements	50
Equipment and furniture	10
Vehicles	6
Computer equipment	3

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

(5) Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position (Deficit) 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 - a pension and OPEB related deferral and contributions made to the plans subsequent to the measurement date. The Statement of Net Position (Deficit) 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 meet this criterion – pension and OPEB related deferrals.

(6) Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

(7) Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2019 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made, based on prior years' records, of the current portion of compensated absences.

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



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(8) Net Position (Deficit)

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

(9) Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [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.

*Assigned fund balance* – portion of fund balance that the Board intends to use for specific purposes.

Other special programs – portion of fund balance that includes carry over funding for the applicable state and federal programs accounted for in the Restricted Revenues Fund activities as well as a portion of the fund balance that will be used by Restricted Revenues Fund activities, as determined by the governing body.

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

The Board 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. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.



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**F. Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position (Deficit).

The governmental fund Balance Sheet includes reconciliation between *fund balance - total governmental funds* and *net position (deficit) - governmental activities* as reported in the government-wide Statement of Net Position (Deficit). The net adjustment of \$(21,205,845) consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 194,091,564
Less accumulated depreciation	<u>(77,195,388)</u>
Net capital assets	116,896,176
Net OPEB asset	81,663
Pension related deferred outflows of resources	16,574,199
OPEB related deferred outflows of resources	3,015,776
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchases	(470,268)
Compensated absences	(3,729,864)
Net pension liability	(30,179,996)
Net OPEB liability	(77,025,940)
Deferred inflows of resources related to pensions	(1,454,547)
Deferred inflows of resources related to OPEB	<u>(44,913,044)</u>
Total adjustment	<u>\$ (21,205,845)</u>



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Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance 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 \$793,752 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the Statement of Activities	\$ 1,215,739
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	(4,436,719)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affects only the Statement of Net Position (Deficit) in the government-wide statements	441,812
Contributions to the pension plan in the current fiscal year not included in the Statement of Activities	5,344,008
Contributions to the OPEB plans in the current fiscal year not included in the Statement of Activities	2,787,233
Net OPEB Benefit	2,277,387
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	(6,672,519)
Loss on disposal of capital assets	(19,291)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(142,293)
Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	(1,605)
Total adjustment	<u>\$ 793,752</u>

**G. Defined Benefit Pension Plans and OPEB Plans**

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



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**2. Detail Notes on All Funds**

**A. Assets**

(1) Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Board does not have a policy regarding custodial credit risk for deposits.

At June 30, 2019, the Board had deposits with financial institutions with a carrying amount of \$10,497,109 and with the State Treasurer of \$-0-. The bank balances with the financial institutions and the State Treasurer were \$10,789,275 and 634,655, respectively. Of these balances, \$751,086 was covered by federal depository insurance and \$10,672,844 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. The Board has \$34 in petty cash.

(2) Investments

At June 30, 2019, the Board of Education had \$157,539 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Board has no policy for managing interest rate risk or credit risk.

(3) Receivables

Receivables at the government-wide level at June 30, 2019 were as follows:

	<b>Due from other governments</b>	<b>Other</b>	<b>Total</b>
Governmental activities:			
General Fund	\$ -	\$ 13,698	\$ 13,698
Other governmental activities	<u>1,613,897</u>	<u>18,462</u>	<u>1,632,359</u>
Total	<u>\$ 1,613,897</u>	<u>\$ 32,160</u>	<u>\$ 1,646,057</u>
Business-type activities:			
School food service	<u>\$ 89,688</u>	<u>\$ -</u>	<u>\$ 89,688</u>



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Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	\$ 1,547,687	Operating funds from DPI
Federal Grants Fund	<u>66,210</u>	Federal grant funds
Total governmental activities	<u>\$ 1,613,897</u>	
Business-type activities:		
School Food Service	<u>\$ 89,688</u>	Federal reimbursements

**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,776,775	\$ -	\$ -	\$ 6,776,775
Construction in progress	<u>-</u>	<u>131,206</u>	<u>-</u>	<u>131,206</u>
Total capital assets not being depreciated	<u>6,776,775</u>	<u>131,206</u>	<u>-</u>	<u>6,907,981</u>
Capital assets being depreciated:				
Buildings and improvements	165,904,417	680,925	-	166,585,342
Equipment and furniture	10,382,779	298,483	1,034,935	9,646,327
Vehicles	<u>10,846,789</u>	<u>105,125</u>	<u>-</u>	<u>10,951,914</u>
Total capital assets being depreciated	<u>187,133,985</u>	<u>1,084,533</u>	<u>1,034,935</u>	<u>187,183,583</u>
Less accumulated depreciation for:				
Buildings and improvements	56,355,951	3,791,064	-	60,147,015
Equipment and furniture	9,646,943	190,553	1,015,644	8,821,852
Vehicles	<u>7,771,419</u>	<u>455,102</u>	<u>-</u>	<u>8,226,521</u>
Total accumulated depreciation	<u>73,774,313</u>	<u>4,436,719</u>	<u>1,015,644</u>	<u>77,195,388</u>
Total capital assets being depreciated, net	<u>113,359,672</u>			<u>109,988,195</u>
Governmental activity capital assets, net	<u>\$ 120,136,447</u>			<u>\$ 116,896,176</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 4,034,188
Operational support services	<u>402,531</u>
	<u>\$ 4,436,719</u>



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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 3,093,964	\$ 35,916	\$ 170,340	\$ 2,959,540
Vehicles	<u>75,226</u>	<u>-</u>	<u>-</u>	<u>75,226</u>
Total capital assets being depreciated	<u>3,169,190</u>	<u>35,916</u>	<u>170,340</u>	<u>3,034,766</u>
Less accumulated depreciation for:				
Equipment and furniture	2,596,701	114,156	150,571	2,560,286
Vehicles	<u>75,226</u>	<u>-</u>	<u>-</u>	<u>75,226</u>
Total accumulated depreciation	<u>2,671,927</u>	<u>114,156</u>	<u>150,571</u>	<u>2,635,512</u>
School Food Service capital assets, net	<u>\$ 497,263</u>			<u>\$ 399,254</u>

(5) Construction Commitments

Subsequent to June 30, 2019, the Board entered into a construction contract with a general contractor to construct an athletics complex at Louisburg High School. The total commitment for this contract is \$6,644,743.

**B. Liabilities**

(1) Pension Plan and Other Postemployment Obligations

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

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

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



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

**Contributions.** Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2019, was 12.29% 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 \$5,535,748 for the year ended June 30, 2019.

**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, 2019, the Board reported a liability of \$31,301,944 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. The Board's proportion was .3144% and .3235% at June 30, 2019 and June 30, 2018, respectively.

For the year ended June 30, 2019, the Board recognized pension expense of \$6,911,926. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,284,437	\$ 314,136
Changes of assumptions	6,281,495	
Net difference between projected and actual earnings on pension plan investments	2,983,081	-
Changes in proportions and differences between Board contributions and proportionate share of contributions	104,047	1,195,136
Board contributions subsequent to the measurement date	<u>5,535,748</u>	<u>-</u>
Total	<u>\$ 17,188,808</u>	<u>\$ 1,509,272</u>



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The Board reported \$5,535,748 as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2020	\$ 6,204,335
2021	3,686,619
2022	307,612
2023	<u>(54,778)</u>
	<u>\$ 10,143,788</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 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, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
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%
Totals	<u>100.0%</u>	



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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 7.0%. The discount rate used is consistent with the prior measurement date. 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 liability 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 7.0 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	<b>1% Decrease (6.0%)</b>	<b>Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
Board's proportionate share of the net pension liability	\$ 59,698,112	\$ 31,301,944	\$ 7,474,747

*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 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



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the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options of the self-funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

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

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. Contributions to the RHBF plan from the board were \$2,824,176 for the year ended June 30, 2019.

***OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources of Related to OPEB***

At June 30, 2019, Board reported a liability of \$79,938,148 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2019 and 2018, the Board's proportion was 0.2806% and 0.2974%, respectively.

\$2,824,176 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, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:



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**Year ended  
June 30:**

2020	\$ (10,597,447)
2021	(10,597,447)
2022	(10,597,447)
2023	(10,588,899)
2024	(4,185,596)
	<u>\$ (46,566,836)</u>

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

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including 3.5% inflation and productivity factor
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.0 to 6.50 percent
Healthcare cost trend rate - prescription drug	5.0 to 7.25 percent
Healthcare cost trend rate - Medicare advantage	5.0 percent
Healthcare cost trend rate - administrative	3.0 percent

*Discount rate.* The discount rate used to measure the total OPEB liability for the RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

*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 Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage point higher (4.87 percent) than the current discount rate:

	<b>1% Decrease (2.87%)</b>	<b>Discount Rate (3.87%)</b>	<b>1% Increase (4.87%)</b>
Net OPEB liability	\$ 94,447,729	\$ 79,938,148	\$ 68,307,163

*Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the healthcare trend rates.* The following presents the Board's proportionate share of the net OPEB liability, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point

	<b>1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)</b>	<b>Healthcare Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00-5.00%, Administrative - 3.00%)</b>	<b>1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)</b>
Net OPEB liability	\$ 65,946,891	\$ 79,938,148	\$ 98,305,928



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*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.

**(c) Other Postemployment Disability Benefits**

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

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

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

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

*Contributions.* Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2019, 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 \$63,060 for the year ended June 30, 2019.

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 Asset, OPEB Expense, and Deferred Outflows and Inflows of Resources of Related to OPEB***

At June 30, 2019, Board reported an asset of \$84,860 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2018, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017. The total OPEB asset was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The



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Board's proportion of the net OPEB asset was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2019 and 2018, the Board's proportion was 0.2794% and 0.2874%, respectively.

\$63,060 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ended June 30:</b>	
2020	\$ 56,579
2021	56,571
2022	41,372
2023	32,027
2024	22,517
Thereafter	<u>22,506</u>
	<u>\$ 231,572</u>

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

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	3.75 percent, net of OPEB plan investment 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 asset, as well as what the Board's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower (2.75 percent) or 1 percentage point higher (4.75 percent) than the current discount rate:

	<b>1% Decrease (2.75%)</b>	<b>Discount Rate (3.75%)</b>	<b>1% Increase (4.75%)</b>
Net OPEB asset	\$ 65,023	\$ 84,861	\$ 103,892

*Common actuarial assumptions for both OPEB plans.* The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2017 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, 2018. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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



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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%
Totals	<u>100.0%</u>	

***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 OPEB expense:

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
OPEB expense (benefit)	\$ (2,364,828)	\$ 5,677	\$ (2,359,151)
OPEB liability (asset)	79,938,148	(84,860)	79,853,288
Proportionate share of the net OPEB liability (asset)	0.2806%	0.2794%	
Deferred outflows of resources			
Differences between expected and actual experience	-	148,033	148,033
Changes in assumptions	-	16,025	16,025
Net difference between projected and actual earnings on plan investments	8,597	66,091	74,688
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	2,241	2,241
Board contributions subsequent to the measurement date	2,824,176	63,060	2,887,236
Deferred inflows of resources			
Differences between expected and actual experience	5,466,523	-	5,466,523
Changes of assumptions	34,631,051	-	34,631,051
Changes in proportion and differences between Board contributions and proportionate share of contributions	6,477,859	818	6,478,677



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(2) Payables

Payables as of June 30, 2019 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental activities:			
General fund	\$ 798,326	\$ 180	\$ 798,506
Other governmental	<u>37,330</u>	<u>1,619,732</u>	<u>1,657,062</u>
Total governmental activities	<u>\$ 835,656</u>	<u>\$ 1,619,912</u>	<u>\$ 2,455,568</u>
Business-type activities:			
School food service	<u>\$ 1,681</u>	<u>\$ -</u>	<u>\$ 1,681</u>

(3) Deferred Outflows and Inflows of Resources

The balance in deferred outflows and 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 (Pension & OPEB)	\$ 2,432,468	\$ 5,780,658
Changes of assumptions (Pension & OPEB)	6,297,520	34,631,051
Net difference between projected and actual earnings on plan investments (Pension & OPEB)	3,057,769	-
Change in proportion and differences between employer contributions and proportionate share of contributions (Pension & OPEB)	106,288	7,673,813
Board contributions subsequent to the measurement date (Pension & OPEB)	<u>8,422,984</u>	<u>-</u>
Totals	<u>\$ 20,317,029</u>	<u>\$ 48,085,522</u>

(4) Unearned Revenues

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

Prepayments for meals (School Food Service Fund)	<u>\$ 29,446</u>
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(5) Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omissions claims. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers (or self-insured by the local board). Coverage is provided to the extent employees are paid from Federal or local funds. Workers' Compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction.



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This insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction. The Board carries additional flood insurance coverage of \$5 million per location and \$15 million per occurrence purchased through NC Public School Insurance Fund.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits. The Board pays 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 of the Board's funds 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 \$175,000.

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

(6) Contingent Liabilities

At June 30, 2019, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Board's attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Board's financial position.

(7) Long-Term Obligations

(a) **Installment Purchase**

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 arrangement by Banc of America Public Capital Corp at total payments less than the purchase price. During the fiscal years ended June 30, 2018, and June 30, 2017, the Board entered into installment purchase contracts to finance the purchase of school buses. The financing contract requires only principal payments at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2019 are as follows:

<u>Year Ending June 30</u>	
2020	\$ 298,350
2021	<u>171,918</u>
	<u>\$ 470,268</u>



**Board of Education of Franklin County Schools**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**(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, 2019:

	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ 912,080	\$ -	\$ 441,812	\$ 470,268	\$ 298,350
Net pension liability	24,739,582	5,440,414	-	30,179,996	-
Net OPEB liability	93,980,890	-	16,954,950	77,025,940	-
Compensated absences	<u>3,587,571</u>	<u>2,391,315</u>	<u>2,249,022</u>	<u>3,729,864</u>	<u>1,403,028</u>
Total	<u>\$123,220,123</u>	<u>\$ 7,831,729</u>	<u>\$ 19,645,784</u>	<u>\$ 111,406,068</u>	<u>\$ 1,701,378</u>
Business-type activities:					
Compensated absences	\$ 65,904	\$ 87,766	\$ 72,268	\$ 81,402	\$ 38,282
Net pension liability	926,748	195,200	-	1,121,948	-
Net OPEB liability	<u>3,520,536</u>	<u>-</u>	<u>608,328</u>	<u>2,912,208</u>	<u>-</u>
Total	<u>\$ 4,513,188</u>	<u>\$ 282,966</u>	<u>\$ 680,596</u>	<u>\$ 4,115,558</u>	<u>\$ 38,282</u>

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

**(8) Interfund Balances and Activity**

Balances due to/from other funds at June 30, 2019 consists of the following:

From the Individual Schools Fund to the General Fund for payroll related expenditure reimbursements	<u>\$ 10,768</u>
---	------------------

Transfers to/from other funds at June 30, 2019 consist of the following:

From the Capital Outlay Fund to the Individual Schools Fund for band and athletic equipment costs	<u>\$ 60,000</u>
---	------------------

**C. Fund Balance**

The Board of Education has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: revenues restricted as to use, and secondly general unrestricted revenues.

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

Total fund balance – General Fund	\$ 3,444,183
Less:	
Inventories	79,458
Stabilization by State Statute	<u>24,466</u>
Unassigned Fund Balance	<u>\$ 3,340,259</u>

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.



**Board of Education of Franklin County Schools**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

<i><b>Encumbrances</b></i>	<i><b>General Fund</b></i>	<i><b>Capital Outlay Fund</b></i>	<i><b>Non-Major Funds</b></i>
	\$-0-	\$-0-	\$-0-

**3. Summary Disclosure of Significant Contingencies**

***Federal and State Assisted Programs***

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



### ***Required Supplementary Information***

This section contains additional information required by generally accepted accounting principles.

- Schedule of the 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 Proportionate Share of the Net OPEB Liability – Retiree Health Benefit Fund
- Schedule of Board Contributions – Retiree Health Benefit Fund
- Schedule of the Proportionate Share of the Net OPEB Asset – Disability Income Plan of North Carolina
- Schedule of Board Contributions – Disability Income Plan of North Carolina



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of the Board's Proportionate Share of the Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Six Fiscal Years\***

**Schedule 1**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Board's proportion of the net pension liability	0.3144%	0.3235%	0.3392%	0.3303%	0.3243%	0.3126%
Board's proportionate share of the net pension liability	\$ 31,301,944	\$ 25,666,330	\$ 31,178,742	\$ 12,171,100	\$ 3,802,278	\$ 18,978,005
Board's covered payroll	\$ 44,015,398	\$ 44,063,774	\$ 45,835,784	\$ 44,822,779	\$ 42,653,418	\$ 42,162,910
Board's proportionate share of the net pension liability as a percentage of its covered payroll	71.12%	58.25%	68.02%	27.15%	8.91%	45.01%
Plan fiduciary net position as a percentage of the total pension liability	87.61%	89.51%	87.32%	94.64%	98.24%	90.60%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.  
Ten years of data not available.



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of Board Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Six Fiscal Years\***

**Schedule 2**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,535,748	\$ 4,698,361	\$ 4,621,740	\$ 4,116,742	\$ 4,114,149	\$ 3,652,004
Contributions in relation to the contractually required contribution □	<u>5,535,748</u>	<u>4,698,361</u>	<u>4,621,740</u>	<u>4,116,742</u>	<u>4,114,149</u>	<u>3,652,004</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 45,551,535	\$ 44,015,398	\$ 44,063,774	\$ 45,835,784	\$ 44,822,779	\$ 42,653,418
Contributions as a percentage of covered payroll □	12.15%	10.67%	10.49%	8.98%	9.18%	8.56%

\* Ten years of data not yet available



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of the Board's Proportionate Share of the Net OPEB Liability**  
**Retiree Health Benefit Fund**  
**Last Three Fiscal Years\***

**Schedule 3**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Board's proportion of the net OPEB liability	0.2806%	0.2974%	0.2971%
Board's proportionate share of the net OPEB liability	\$ 79,938,148	\$ 97,501,426	\$ 129,225,268
Board's covered payroll	\$ 44,015,398	\$ 44,063,774	\$ 45,835,784
Board's proportionate share of the net OPEB liability as a percentage of its covered payroll	181.61%	221.27%	281.93%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	3.52%	2.41%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.  
Ten years of data not available.



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of Board Contributions**  
**Retiree Health Benefit Fund**  
**Last Three Fiscal Years\***

**Schedule 4**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 2,824,176	\$ 2,636,835	\$ 2,527,287
Contributions in relation to the contractually required contribution□	<u>2,824,176</u>	<u>2,636,835</u>	<u>2,527,287</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 45,551,535	\$ 44,015,398	\$ 44,063,774
Contributions as a percentage of covered payroll□	6.20%	5.99%	5.74%

\* Ten years of data not yet available



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of the Board's Proportionate Share of the Net OPEB Asset**  
**Disability Income Plan of North Carolina**  
**Last Three Fiscal Years\***

**Schedule 5**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Board's proportion of the net OPEB asset	0.2794%	0.2874%	0.3043%
Board's proportionate share of the net OPEB asset	\$ 84,860	\$ 175,653	\$ 188,952
Board's covered payroll	\$ 44,015,398	\$ 44,063,774	\$ 45,835,784
Board's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.19%	0.40%	0.41%
Plan fiduciary net position as a percentage of the net OPEB asset	108.47%	116.23%	116.06%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.  
Ten years of data not available.



**Board of Education of Franklin County Schools**  
**Schedules of Required Supplementary Information**  
**Schedule of Board Contributions**  
**Disability Income Plan of North Carolina**  
**Last Three Fiscal Years\***

**Schedule 6**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 63,060	\$ 61,018	\$ 165,051
Contributions in relation to the contractually required contribution□	<u>63,060</u>	<u>61,018</u>	<u>165,051</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 45,551,535	\$ 44,015,398	\$ 44,063,774
Contributions as a percentage of covered payroll□	0.14%	0.14%	0.37%

\* Ten years of data not yet available



***Individual Fund Statements and Schedules***



**Board of Education of Franklin County Schools**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual**  
**Capital Outlay Fund**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 7**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 724,072	\$ 441,812	\$ (282,260)
Franklin County:			
General county revenues	2,000,000	1,999,998	(2)
Other:			
Interest earned on investments	-	1,452	1,452
Miscellaneous revenue	-	31,301	31,301
	-	32,753	32,753
Total revenues	2,724,072	2,474,563	(249,509)
Expenditures:			
Capital outlay:			
Real property and buildings		1,020,430	
Furnishings and equipment		259,598	
Buses and motor vehicles		105,145	
Total capital outlay	3,069,042	1,385,173	1,683,869
Debt service:			
Principal	724,072	441,812	282,260
Total expenditures	3,793,114	1,826,985	1,966,129
Revenues over (under) expenditures	(1,069,042)	647,578	1,716,620
Other financing sources (uses):			
Transfers to other funds	(60,000)	(60,000)	-
Installment purchase obligations issued	1,129,042	-	(1,129,042)
Total other financing sources (uses)	1,069,042	(60,000)	(1,129,042)
Net change in fund balance	\$ -	587,578	\$ 587,578
Fund balance:			
Beginning of year		1,403,036	
End of year		\$ 1,990,614	
Amounts reported on the Statement of Revenue, Expenditures and Changes in Fund Balance are different from the Budget and Actual Statement due to capital outlay activity incurred by Franklin County on behalf of the Board:			
Capital outlay contributed to the Board		131,206	
County expenditures - financed through public school bonds		(131,206)	
Fund balance		\$ 1,990,614	



**Board of Education of Franklin County Schools**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2019**

**Schedule 8**

	<b>Individual Schools</b>	<b>Federal Grants Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 676,340	\$ -	\$ 676,340
Due from other governments	-	66,210	66,210
Total assets	<u>\$ 676,340</u>	<u>\$ 66,210</u>	<u>\$ 742,550</u>
<b>LIABILITIES</b>			
Accrued salaries and wages payable	\$ -	\$ 66,210	\$ 66,210
Due to other funds	10,768	-	10,768
Total liabilities	<u>10,768</u>	<u>66,210</u>	<u>76,978</u>
<b>FUND BALANCES</b>			
Fund balance - restricted	<u>665,572</u>	<u>-</u>	<u>665,572</u>
Total liabilities and fund balances	<u>\$ 676,340</u>	<u>\$ 66,210</u>	<u>\$ 742,550</u>



**Board of Education of Franklin County Schools**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 9**

	<u>Individual Schools</u>	<u>Federal Grants Fund</u>	<u>Total</u>
Revenues:			
U.S. Government	\$ -	\$ 4,310,893	\$ 4,310,893
Other	<u>1,646,656</u>	<u>-</u>	<u>1,646,656</u>
Total revenues	<u>1,646,656</u>	<u>4,310,893</u>	<u>5,957,549</u>
Expenditures:			
Instructional services:			
Regular instructional	-	355,974	355,974
Special populations	-	1,559,932	1,559,932
Alternative programs	-	1,731,517	1,731,517
School leadership	-	16,671	16,671
Co-curricular	1,692,515	-	1,692,515
School-based support	-	138,387	138,387
Total instructional services	<u>1,692,515</u>	<u>3,802,481</u>	<u>5,494,996</u>
System-wide support services:			
Support and development	-	72,308	72,308
Special population support and development	-	142,542	142,542
Alternative programs and services			
support and development	-	76,184	76,184
Operational support	-	27,822	27,822
Financial and human resources	-	52,296	52,296
Total system-wide support services	<u>-</u>	<u>371,152</u>	<u>371,152</u>
Non-programmed charges	<u>-</u>	<u>137,260</u>	<u>137,260</u>
Total expenditures	<u>1,692,515</u>	<u>4,310,893</u>	<u>6,003,408</u>
Revenues under expenditures	(45,859)	-	(45,859)
Other financing sources			
Transfers from other funds	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Net change in fund balance	14,141	-	14,141
Fund balances:			
Beginning of year	<u>651,431</u>	<u>-</u>	<u>651,431</u>
End of year	<u>\$ 665,572</u>	<u>\$ -</u>	<u>\$ 665,572</u>



**Board of Education of Franklin County Schools**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Individual Schools**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 10**

	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers from other funds</u>	<u>Net change in fund balance</u>	<u>Fund balances July 1, 2018</u>	<u>Fund balances June 30, 2019</u>
Bunn Elementary	\$ 45,408	\$ 50,134	\$ -	\$ (4,726)	\$ 30,462	\$ 25,736
Bunn Middle	69,796	76,977	6,750	(431)	24,570	24,139
Bunn High	332,041	365,430	11,000	(22,389)	150,185	127,796
Franklinton Elementary	24,010	30,390	-	(6,380)	20,938	14,558
Franklinton Middle	38,243	65,769	6,750	(20,776)	33,193	12,417
Franklinton High	399,215	370,838	11,000	39,377	111,721	151,098
Louisburg Elementary	29,680	30,624	-	(944)	23,927	22,983
Louisburg High	286,110	299,517	11,000	(2,407)	91,942	89,535
Terrell Lane Middle	45,438	49,796	6,750	2,392	23,276	25,668
Cedar Creek Middle	101,214	99,913	6,750	8,051	37,428	45,479
Edward Best Elementary	54,966	46,771	-	8,195	28,608	36,803
Early College High School	22,801	20,748	-	2,053	10,753	12,806
Laurel Mill Elementary	41,536	39,121	-	2,415	6,152	8,567
Youngsville Elementary	59,573	67,940	-	(8,367)	32,319	23,952
Long Mill Elementary	53,271	52,952	-	319	16,575	16,894
Royal Elementary	43,354	25,595	-	17,759	9,382	27,141
	<u>\$ 1,646,656</u>	<u>\$ 1,692,515</u>	<u>\$ 60,000</u>	<u>\$ 14,141</u>	<u>\$ 651,431</u>	<u>\$ 665,572</u>



**Board of Education of Franklin County Schools**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual**  
**Federal Grants Fund**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 11**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
U.S. Government	<u>\$ 5,990,101</u>	<u>\$ 4,310,893</u>	<u>\$ (1,679,208)</u>
Expenditures:			
Instructional services	4,943,738	3,802,481	1,141,257
System-wide support services	462,168	371,152	91,016
Non-programmed charges	<u>584,195</u>	<u>137,260</u>	<u>446,935</u>
Total expenditures	<u>5,990,101</u>	<u>4,310,893</u>	<u>1,679,208</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance:			
Beginning of year		<u>-</u>	
End of year		<u>\$ -</u>	



**Board of Education of Franklin County Schools**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**School Food Service Fund**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 12**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues - food sales	\$ 1,707,354	\$ 1,049,741	\$ (657,613)
Operating expenditures:			
Business support services:			
Purchase of food		1,601,966	
Donated commodities		296,761	
Food processing supplies		139,540	
Salaries and benefits		2,293,032	
Materials and supplies		35,991	
Repairs and maintenance		55,837	
Capital outlay		35,916	
Non-capitalized equipment		11,010	
Other		33,034	
Total operating expenditures	5,164,455	4,503,087	661,368
Operating loss	(3,457,101)	(3,453,346)	3,755
Nonoperating revenues:			
Federal reimbursements	3,142,015	3,094,256	(47,759)
Federal commodities	292,799	296,761	3,962
State reimbursements	15,037	9,368	(5,669)
Interest earned	250	406	156
Other	7,000	9,279	2,279
Total nonoperating revenues	3,457,101	3,410,070	(47,031)
Excess of revenues under expenditures	\$ -	(43,276)	\$ (43,276)
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(114,156)	
Equipment purchases		35,916	
Loss on disposal of capital assets		(19,769)	
Increase in inventories		19,562	
Decrease in net OPEB asset		(2,895)	
Increase in deferred outflows of resources		141,805	
Increase in compensated absences payable		(15,498)	
Increase in net pension liability		(179,683)	
Decrease in net OPEB liability		559,977	
Increase in deferred inflows of resources		(395,775)	
Change in net deficit (full accrual)		\$ (13,792)	



**Board of Education of Franklin County Schools**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**Child Care Fund**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 13**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues - child care fees	<u>\$ 232,944</u>	<u>\$ 271,246</u>	<u>\$ 38,302</u>
Operating expenditures:			
Regular community service			
Salaries and benefits		201,125	
Materials and supplies		3,243	
Other		1,871	
	<u>245,038</u>	<u>206,239</u>	<u>38,799</u>
Revenues over (under) expenditures before other financing sources	(12,094)	65,007	77,101
Other financing sources:			
Transfers from other funds	<u>12,094</u>	<u>-</u>	<u>(12,094)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>65,007</u>	<u>\$ 65,007</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Decrease in net OPEB asset		(250)	
Increase in deferred outflows of resources		12,245	
Increase in net pension liability		(15,517)	
Decrease in net OPEB liability		48,351	
Increase in deferred inflows of resources		<u>(34,157)</u>	
Change in net deficit (full accrual)		<u>\$ 75,679</u>	



## ***Compliance Section***



## **Independent Auditors' 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**

Board of Education  
Franklin County Schools  
Louisburg, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Franklin County Schools, North Carolina ("Board") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 30, 2019.

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

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002, which we consider to be significant deficiencies.



***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2019-001.

***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 and the corrective action plan. 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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
December 30, 2019**



## **Independent Auditors' 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**

Board of Education  
Franklin County Schools  
Louisburg, North Carolina

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

We have audited the Board of Education of Franklin County Schools, North Carolina, ("Board") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2019. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for each of the Board'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, the Uniform Guidance and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board'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 Board's compliance.

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

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.



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

Management of the Board 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 Board'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 Board'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 the 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.

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
December 30, 2019**



## **Independent Auditors' 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**

Board of Education  
Franklin County Schools  
Louisburg, North Carolina

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

We have audited the Board of Education of Franklin County Schools, North Carolina ("Board") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Board's major state programs for the year ended June 30, 2019. The Board's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

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

Our responsibility is to express an opinion on compliance for each of the Board's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, 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 Board'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 on the Board's compliance.

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

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.



### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with applicable sections of section the Uniform Guidance as described in the *Audit Manual for Governmental Auditors in North Carolina* and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major state program is not modified with respect to these matters.

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

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

Management of the Board 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 Board's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance with applicable sections of 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 Board's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

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.

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
December 30, 2019**



## 1. Summary of Auditors' Results

### ***Financial Statements***

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

Internal control over financial reporting:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses ☒ yes ☐ none reported

Noncompliance material to financial statements noted ☐ yes ☒ no

### ***Federal Awards***

Internal control over major federal programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses ☐ yes ☒ 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 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of major federal programs:

#### **CFDA Numbers**

#### **Names of Federal Program or Cluster**

84.027, 84.173  
84.010

Special Education Cluster  
Title I

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

\$ 750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no



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**State Awards**

Internal control over major state programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses ☒ yes ☐ none reported

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

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

Identification of major state programs:

Program Name

N. C. Department of Public Instruction:  
State Public School Fund

## **2. Financial Statement Findings**

### **Finding 2019-001**

#### **Noncompliance: Cash Management - Reconciliation of Cash Accounts**

##### **SIGNIFICANT DEFICIENCY**

*Criteria:* State and local cash accounts should be reconciled to underlying accounting records and subledgers on a periodic basis.

*Condition:* Bank reconciliations were not being performed accurately or timely during the year which resulted in erroneous reconciling items not being investigated timely.

*Effect:* Several adjustments, some identified by Board staff and others identified as the result of the audit, were required to adjust cash accounts to actual at June 30, 2019.

*Cause:* The Board did not have an appropriate closing process on a monthly or annual basis.

*Recommendation:* Bank reconciliations should be performed and reviewed in a timely manner as a detective control to ensure that errors are identified and rectified.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding. Please refer to Schedule 16 for the Corrective Action Plan.



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***Finding 2019-002***

***System Conversion***

SIGNIFICANT DEFICIENCY

*Criteria:* The Board of Education underwent a system conversion of its accounting software during the fiscal year. System conversions can be extremely complex and requires significant oversight to ensure all records and balances are migrated and mapped properly.

*Condition:* Proper controls were not implemented to ensure that the conversion was performed accurately and that account variances were investigated timely.

*Effect:* Several adjustments, some identified by Board staff and others identified as the result of the audit, were required to adjust accounts to actual at June 30, 2019.

*Cause:* While implementing and adapting to the new financial software, certain procedures and processes were not properly vetted or reconciled to ensure a smooth transition.

*Recommendation:* The Board should identify personnel to oversee nonrecurring projects to ensure that they are completed accurately and timely.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding. Please refer to Schedule 16 for the Corrective Action Plan.

**3. Federal Award Findings and Questioned Costs**

No findings and questioned cost related to the audit of federal awards aggregating \$25,000 or more were noted.

**4. State Award Findings and Questioned Costs**

North Carolina Department of Public Instruction: State Public School Fund

***Finding 2019-001***

***Noncompliance: Cash Management - Reconciliation of Cash Accounts***

Refer to finding 2019-001 under Section II – Financial Statement Findings.





Franklin County Schools  
Central Office  
53 West River Road  
Louisburg, NC 27549

**Board of Education of Franklin County Schools  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2019**

**Schedule 15**

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There were no findings or questioned costs related to our audit of federal and state awards for the fiscal year ended June 30, 2018.



**Board of Education of Franklin County Schools  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2019**

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**Schedule 16**

***Finding 2019-001***

**SIGNIFICANT DEFICIENCY**

*Name of contact person:* Quinnley Coley, Chief of Finance

*Corrective Action:* The Board agrees with this finding. Current staff responsible for the bank reconciliation process has received appropriate training and procedures have been implemented to ensure that reconciliations are timely reviewed.

*Proposed Completion Date:* June 30, 2019

***Finding 2019-002***

**SIGNIFICANT DEFICIENCY**

*Name of contact person:* Quinnley Coley, Chief of Finance

*Corrective Action:* Corrective Action: The Board agrees with this finding. The Finance and Human Resources staff will work with future software vendor(s) to ensure that adequate support and an appropriate timeline for conversion of data is allowed to ensure a smooth transition to the new software platform.

*Proposed Completion Date:* June 30, 2019



**Board of Education of Franklin County Schools**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 17**  
**Page 1 of 2**

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b>Federal Grants:</b>			
<u>U.S. Department of Agriculture</u>			
School Nutrition Program (Note 3)			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Agriculture			
National School Lunch Program	10.555	PRC 035	\$ 296,761
Cash Assistance			
Passed-through the N.C. Department of Public Instruction			
School Breakfast Program	10.553	PRC 035	665,740
National School Lunch Program	10.555	PRC 035	2,297,809
Summer Food Service Program for Children	10.559	PRC 050	35,738
Total Cash Assistance			2,999,287
Total Child Nutrition Cluster:			3,296,048
Fruit and Vegetable Program	10.582	PRC 035	94,969
Total School Nutrition Program (Note 3)			3,391,017
Total U.S. Department of Agriculture			3,391,017
<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	1,944,470
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)			
of ESEA) - School Improvements	84.010	PRC 115	1,450
Total Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)			1,945,920
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B) -			
Education of the Handicapped	84.027	PRC 060	1,666,957
Special Needs Target Assistance	84.027	PRC 118	36,494
Special Education - Preschool Grants (IDEA Preschool) -			
Preschool Handicapped	84.173	PRC 049	53,799
Preschool Targeted Assistance	84.173	PRC 119	2,772
Total Special Education Cluster:			1,760,022
Career and Technical Education - Capacity Building Grant	84.048	PRC 017	143,567
State Personnel Development	84.323	PRC 082	5,162
English Language Acquisition Grant	84.365	PRC 104/111	33,790
Supporting Effective Instruction State Grants	84.367	PRC 103	304,534
Education for Homeless Children and Youth	84.029	PRC 026	47,405
Student Support and Academic Enrichment Program	84.424	PRC 108	70,493
Total U.S. Department of Education			2,364,973
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	NONE	PRC 031	80,537
<b>Total Federal Assistance</b>			<b>7,782,447</b>



**Board of Education of Franklin County Schools**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule 17**  
**Page 2 of 2**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b>State Grants:</b>			
Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund			\$ 50,305,283
Driver Training - SPSF		PRC 012	149,005
School Technology Fund - SPSF		PRC 015	256,725
Career and Technical Education			
- State Months of Employment		PRC 013	2,811,131
- Program Support Funds		PRC 014	119,734
Total N.C. Department of Public Instruction			<u>53,641,878</u>
<u>N.C. Department of Agriculture</u>			
State Kindergarten Breakfast Funds			9,368
<u>N.C. Department of Health and Human Services</u>			
Division of Public Health:			
State School Nurse Initiative			229,724
Non-Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
School Buses Appropriation		PRC 120	441,812
Textbooks		PRC 130/131	<u>239,011</u>
<b>Total State Assistance</b>			<u><b>54,561,793</b></u>
<b>Total Federal and State Assistance</b>			<u><b>\$ 62,344,240</b></u>

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

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Board of Education of Franklin County Schools (the "Board") under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA 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. Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Board.

**Note 2: Summary of Significant Account 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

**Note 4: Noncash Assistance**

Included in the amounts reported on the SEFSA, the Board received non-cash assistance in the form of food commodities, school buses, and textbooks. Non-cash items with a fair value of \$977,584 were received during the year ended June 30, 2019. These non-cash items received were included in the determination of federal and State awards expended for the year ended June 30, 2019.