

Board of Education of Beaufort County Schools

Financial Statements

Year Ended June 30, 2018

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Independent Auditors' Report

Board of Education
Beaufort County Schools
Washington, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Restricted Revenues, State Public School, and Federal Grants funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principal

As discussed in Note 5 to the financial statements, the financial statements as of and for the year ended June 30, 2017 were restated due to the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2018. Our opinion is not modified with respect to these changes.

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 46 through 51, 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 individual fund schedules and the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund 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 individual fund 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 November 30, 2018 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

November 30, 2018
Winston-Salem, North Carolina

Board of Education of Beaufort County Schools Management's Discussion and Analysis

This section of the Board of Education of Beaufort County Schools (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2018. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board experienced an increase in State funding of only \$97 thousand in FY18 compared to the \$1.2 million increase in FY17.
- BCS experienced a \$242 thousand increase in their Federal funds in FY18 compared to an increase of \$623 thousand in FY17.
- The County's Current Expense Appropriation (General Fund) increased \$286 thousand from its FY17 amount.
- Due to the lack of any additional local funding, we expected the General Fund Balance to decrease by approximately \$350 thousand based on the fact that expenditures exceeded non-fund balance revenues.
- Based on funding, the Board appropriated approximately \$508 thousand of its projected \$1.5 million dollar FY '18 General Fund Balance.

Overview of the Financial Statements

The audited financial statements of the Board of Education of Beaufort County Schools 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 budgetary schedules for the governmental and proprietary 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 and deferred outflows of resources and 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, proprietary funds, and fiduciary 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 and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

Government-wide Statements

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

Board of Education of Beaufort County Schools Management's Discussion and Analysis

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

- Over time, increases or decreases in the Board's net position (deficit) is 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 services 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 Fund and Restricted Revenues Fund.

Beaufort County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets 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, the Individual Schools Fund, the Capital Outlay Fund, the Restricted Revenues Fund, and the Federal Grants Fund.

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

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

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Board has one fiduciary fund – the Scholarship Fund, which is under the control of the administrative unit. This is accounted for as a private purpose trust fund.

The fiduciary fund statements are shown as Exhibit 10 and 11 of this report.

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

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 \$36.1 million as of June 30, 2018. The largest positive component of net deficit is the Board's net investment in capital assets of \$71.5 million. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Restricted and unrestricted net position (deficit) amounted to \$1.2 million and (\$109.2) million, respectively. 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 \$105.3 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, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 5,826,376	\$ 6,308,705	\$ 1,394,064	\$ 1,225,680	\$ 7,220,440	\$ 7,534,385
Capital assets	72,482,253	73,996,214	373,587	357,023	72,855,840	74,353,237
Total assets	78,308,629	80,304,919	1,767,651	1,582,703	80,076,280	81,887,622
Deferred outflows of resources	14,812,530	17,921,973	486,652	601,063	15,299,182	18,523,036
Current liabilities	5,144,366	5,007,773	159,843	124,466	5,304,209	5,132,239
Long-term liabilities	95,504,030	120,599,308	3,130,506	4,006,480	98,634,536	124,605,788
Total liabilities	100,648,396	125,607,081	3,290,349	4,130,946	103,938,745	129,738,027
Deferred inflows of resources	26,447,169	1,106,240	868,898	37,207	27,316,067	1,143,447
Invested in capital assets, net of related debt	71,704,197	73,244,814	373,587	357,023	72,077,784	73,601,837
Restricted net position	1,228,129	1,545,494	4,379	4,577	1,232,508	1,550,071
Unrestricted net deficit	(106,906,732)	(103,276,737)	(2,282,910)	(2,345,987)	(109,189,642)	(105,622,724)
Total net deficit	\$ (33,974,406)	\$ (28,486,429)	\$ (1,904,944)	\$ (1,984,387)	\$ (35,879,350)	\$ (30,470,816)

The net deficit of the Board's governmental activities increased from \$28.5 million at June 30, 2017 to \$34 million at June 30, 2018, an increase of \$5.5 million. The Board's net investment in capital assets decreased by \$1.5 million during the year due primarily to depreciation expense in excess of capital outlay. Restricted and unrestricted combined net deficit increased by \$3.9 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

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

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 remained relatively consistent when compared to the prior year, only decreasing slightly by \$79 thousand. This decrease is primarily attributable to an increase in federal reimbursements of \$513 thousand which was in excess of the decrease in operating revenues of \$256 thousand.

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, 2018 and 2017**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 920,284	\$ 948,586	\$ 358,690	\$ 614,898	\$ 1,278,974	\$ 1,563,484
Operating grants and contributions	45,907,585	45,382,191	3,612,037	3,134,311	49,519,622	48,516,502
Capital grants and contributions	493,622	363,551	-	-	493,622	363,551
General revenues:						
Unrestricted state and federal appropriations	1,500,325	1,962,275	-	-	1,500,325	1,962,275
Unrestricted county appropriations	15,702,700	15,291,623	-	-	15,702,700	15,291,623
Other revenues	588,624	600,373	8,518	5,262	597,142	605,635
Total revenues	65,113,140	64,548,599	3,979,245	3,754,471	69,092,385	68,303,070
Expenses:						
Governmental activities:						
Instructional services	52,018,971	49,069,253	-	-	52,018,971	49,069,253
System-wide support services	15,211,677	14,697,594	-	-	15,211,677	14,697,594
Ancillary services	55,232	70,809	-	-	55,232	70,809
Non-programmed charges	917,855	803,102	-	-	917,855	803,102
Unallocated depreciation expense	2,422,350	2,498,807	-	-	2,422,350	2,498,807
Business-type activities:						
School food service	-	-	3,639,889	3,483,625	3,639,889	3,483,625
Child care	-	-	234,945	259,186	234,945	259,186
Total expenses	70,626,085	67,139,565	3,874,834	3,742,811	74,500,919	70,882,376
Transfers in (out)	24,968	(25,168)	(24,968)	25,168	-	-
Increase (decrease) in net position	(5,487,977)	(2,616,134)	79,443	36,828	(5,408,534)	(2,579,306)
Net position, beginning previously reported	(28,486,429)	66,764,186	(1,984,387)	1,022,208	(30,470,816)	67,786,394
Restatement	-	(92,634,481)	-	(3,043,423)	-	(95,677,904)
Net deficit, beginning restated	(28,486,429)	(25,870,295)	(1,984,387)	(2,021,215)	(30,470,816)	(27,891,510)
Net deficit, ending	\$ (33,974,406)	\$ (28,486,429)	\$ (1,904,944)	\$ (1,984,387)	\$ (35,879,350)	\$ (30,470,816)

Board of Education of Beaufort County Schools Management's Discussion and Analysis

During the year ended June 30, 2018, governmental activities generated revenues of \$65.1 million, incurred expenses of \$70.6 million, and had transfers in of \$25 thousand, resulting in the aforementioned increase in net deficit for these activities of \$5.5 million. Comparatively, revenues were \$64.5 million and expenses were \$67.1 million, and had transfers out of \$25 thousand, resulting in an increase in net deficit of \$2.6 million for the year ended June 30, 2017. The State Public School Fund allotments decreased \$53 thousand and County appropriations for operations and capital increased by \$411 thousand. Various revenues received through the Restricted Revenues Fund increased by \$11 thousand in comparison to the previous year.

The major sources of revenue were funding from the State of North Carolina, Beaufort County, and the United States Government, which respectively comprised 65.5%, 24.1%, and 7.9% of revenues for the year ended June 30, 2018 and 65.9%, 23.7%, and 7.6% of revenues for the year ended June 30, 2017. As would be expected and consistent with the prior year, instructional services comprised 73.9% of total governmental-type expenses while system-wide support services made up 20.6% of expenses.

Business-type activities generated revenues of \$4 million and incurred expenses of \$3.9 million resulting in a decrease in net deficit of \$79 thousand after transfers out of \$25 thousand for the year ended June 30, 2018. In fiscal year 2017, revenues and expenditures were \$3.8 million and \$3.7 million, respectively, with a decrease in net deficit of \$36 thousand after transfers in of \$25 thousand. The majority of the current year change was driven an increase in federal reimbursements of \$513 thousand which was in excess of the decrease in operating revenues of \$256 thousand

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 \$3.2 million, a \$553 thousand decrease when compared to last year. Total funding increased by \$615 thousand. The State of North Carolina, U.S. Government, and Beaufort County funding increased \$750 thousand or 1.2%. Other revenues decreased by \$134 thousand primarily due to decreases in fines and forfeitures revenue in the general fund. Overall expenditures increased by \$1.6 million which were primarily attributable to increased instructional service expenditures.

Proprietary funds: The Board's business-type funds, the School Food Service Fund and the Child Care Fund, generated a net income (loss) in the current year of 149 thousand and \$(69) thousand, respectively. Net income in the prior year for the School Food Service Fund and the Child Care Fund were \$28 thousand and \$9 thousand, respectively. Total operating revenues for proprietary funds decreased \$256 thousand and operating expenses increased by \$132 thousand. The decrease in operating revenues was offset by an increase in federal reimbursements of \$513 thousand.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the General Fund budget several times to account for changes in revenue expectations and program allocations. Since several revenue sources are either unknown or uncertain at the beginning of the fiscal year when the original budget is adopted, budget revisions are necessary throughout the year to recognize these adjustments. Total budgeted revenues increased by \$26 thousand as a result of expected increases in fines and forfeitures from what was originally budgeted. For the year, the Board finished with revenues under expenditures of \$208 thousand primarily due to instructional services expenditures being \$116 thousand less than budgeted.

**Board of Education of Beaufort County Schools
Management’s Discussion and Analysis**

Capital Assets

Capital assets decreased by \$1.5 million when compared to the previous year. This decrease is primarily a result of continued depreciation charges on existing assets in excess of the acquisition of capital assets in the current period. The following is a summary of the capital assets, net of depreciation at year-end. Additional information regarding capital assets can be found in Note 3 in the notes to the basic financial statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,178,555	\$ 1,093,722	\$ -	\$ -	\$ 1,178,555	\$ 1,093,722
Buildings and improvements	66,808,051	68,814,218	91,557	96,462	66,899,608	68,910,680
Equipment and furniture	1,821,315	1,673,338	282,030	260,561	2,103,345	1,933,899
Vehicles	2,674,332	2,414,936	-	-	2,674,332	2,414,936
Total	\$ 72,482,253	\$ 73,996,214	\$ 373,587	\$ 357,023	\$ 72,855,840	\$ 74,353,237

Debt Outstanding

For the year ended June 30, 2018, the Board’s debt related to installment purchases had a net increase of \$27 thousand due to new school buses received in the current period in excess of continued payments on school bus leases. 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. The County holds virtually all debt issued for school capital construction. For more detailed information, please see Long-Term Obligations in Note 3 in the accompanying notes to the financial statements.

Economic Factors

- The student population has continued to decline over the past couple of years. As of September 2018, the K-12 student average daily membership was 6,444, compared to 6,593 in the previous year.
- Beaufort County’s unemployment rate dropped from 4.9% in August 2017 to 4.5% in August 2018. Whereas, the State’s unemployment rate for August 2017 was slightly less at 3.9%.
- In spite of the current trends to reduce state expenditures, Beaufort County Schools’ saw their initial state allotment in fiscal year 2017 increase from \$39.6 million to \$ 40.8 million in fiscal year 2018. And BCS’s FY ’19 initial state allotment is \$ 41.3 million.

Requests for Information

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

Mack Carawan
Finance Officer
Board of Education of Beaufort County Schools
321 Smaw Road
Washington, NC 27889

Board of Education of Beaufort County Schools
Statement of Net Position (Deficit)
June 30, 2018

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 3,478,625	\$ 1,163,425	\$ 4,642,050
Due from other governments	2,121,595	156,113	2,277,708
Receivables	20,090	3,427	23,517
Net OPEB asset	133,275	4,379	137,654
Internal balances	72,791	(72,791)	-
Inventories	-	139,511	139,511
Capital assets:			
Land and improvements	1,178,555	-	1,178,555
Other capital assets, net of depreciation	71,303,698	373,587	71,677,285
Total capital assets	<u>72,482,253</u>	<u>373,587</u>	<u>72,855,840</u>
 Total assets	 <u>78,308,629</u>	 <u>1,767,651</u>	 <u>80,076,280</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>14,812,530</u>	 <u>486,652</u>	 <u>15,299,182</u>
LIABILITIES			
Accounts payable and accrued expenses	141,640	20,303	161,943
Accrued salaries and wages payable	2,303,148	23,643	2,326,791
Unearned revenue	-	10,037	10,037
Long-term liabilities:			
Due within one year	2,699,578	105,860	2,805,438
Due in more than one year	95,504,030	3,130,506	98,634,536
 Total liabilities	 <u>100,648,396</u>	 <u>3,290,349</u>	 <u>103,938,745</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>26,447,169</u>	 <u>868,898</u>	 <u>27,316,067</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	71,704,197	373,587	72,077,784
Restricted for:			
Stabilization by State Statute	103,925	-	103,925
School Capital Outlay	314,235	-	314,235
Individual Schools	676,694	-	676,694
DIPNC OPEB plan	133,275	4,379	137,654
Unrestricted	<u>(106,906,732)</u>	<u>(2,282,910)</u>	<u>(109,189,642)</u>
 Total net deficit	 <u>\$ (33,974,406)</u>	 <u>\$ (1,904,944)</u>	 <u>\$ (35,879,350)</u>

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

**Board of Education of Beaufort County Schools
Statement of Activities
For the Fiscal Year Ended June 30, 2018**

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		Total
				Governmental Activities	Business-type Activities		
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 30,457,200	\$ -	\$ 24,551,225	\$ -	\$ (5,905,975)	\$ -	\$ (5,905,975)
Special populations	6,930,958	-	6,369,053	-	(561,905)	-	(561,905)
Alternative programs	5,276,535	-	4,214,753	-	(1,061,782)	-	(1,061,782)
School leadership	3,853,581	-	2,376,423	-	(1,477,158)	-	(1,477,158)
Co-curricular	1,289,930	906,614	-	-	(383,316)	-	(383,316)
School-based support	4,210,767	13,670	2,971,734	-	(1,225,363)	-	(1,225,363)
System-wide support services:							
Support and development	517,265	-	352,005	-	(165,260)	-	(165,260)
Special population support and development	303,824	-	283,254	-	(20,570)	-	(20,570)
Alternative programs and services support and development	451,294	-	282,292	-	(169,002)	-	(169,002)
Technology support	720,236	-	196,389	-	(523,847)	-	(523,847)
Operational support	11,407,833	-	3,461,157	493,622	(7,453,054)	-	(7,453,054)
Financial and human resource	1,137,180	-	380,979	-	(756,201)	-	(756,201)
Accountability	23,445	-	-	-	(23,445)	-	(23,445)
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership, and public relations	650,600	-	249,631	-	(400,969)	-	(400,969)
Ancillary services	55,232	-	48,324	-	(6,908)	-	(6,908)
Non-programmed charges	917,855	-	170,366	-	(747,489)	-	(747,489)
Unallocated depreciation expense, excluding direct depreciation expense charged to programs	2,422,350	-	-	-	(2,422,350)	-	(2,422,350)
Total governmental activities	70,626,085	920,284	45,907,585	493,622	(23,304,594)	-	(23,304,594)
Business-type activities:							
School food service	3,639,889	151,982	3,612,037	-	-	124,130	124,130
Child care	234,945	206,708	-	-	-	(28,237)	(28,237)
Total business-type activities	3,874,834	358,690	3,612,037	-	-	95,893	95,893
Total primary government	\$ 74,500,919	\$ 1,278,974	\$ 49,519,622	\$ 493,622	(23,304,594)	95,893	(23,208,701)
General revenues:							
Unrestricted county appropriations - operating					14,587,005	-	14,587,005
Unrestricted county appropriations - capital					1,115,695	-	1,115,695
Unrestricted State and Federal appropriations - operating					1,500,325	-	1,500,325
Investment earnings, unrestricted					17,142	8,518	25,660
Miscellaneous, unrestricted					571,482	-	571,482
Transfers in (out)					24,968	(24,968)	-
Total general revenues and transfers					17,816,617	(16,450)	17,800,167
Change in net position (deficit)					(5,487,977)	79,443	(5,408,534)
Net position, beginning, previously reported					64,148,052	1,059,036	65,207,088
Restatement					(92,634,481)	(3,043,423)	(95,677,904)
Net deficit, beginning, restated					(28,486,429)	(1,984,387)	(30,470,816)
Net deficit, ending					\$ (33,974,406)	\$ (1,904,944)	\$ (35,879,350)

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

**Board of Education of Beaufort County Schools
Balance Sheet
Governmental Funds
June 30, 2018**

Exhibit 3

	Major Funds						Total Governmental Funds
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Restricted Revenues	
ASSETS							
Cash and cash equivalents	\$ 1,656,256	\$ -	\$ -	\$ 314,235	\$ 678,345	\$ 829,789	\$ 3,478,625
Accounts receivable	20,090	-	-	-	-	-	20,090
Due from other governments	-	1,915,889	194,662	-	-	11,044	2,121,595
Due from other funds	72,791	-	-	-	-	-	72,791
Total assets	\$ 1,749,137	\$ 1,915,889	\$ 194,662	\$ 314,235	\$ 678,345	\$ 840,833	\$ 5,693,101
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 137,203	\$ -	\$ -	\$ -	\$ 1,651	\$ 2,786	\$ 141,640
Accrued salaries and wages payable	144,211	1,915,889	194,662	-	-	48,386	2,303,148
Total liabilities	281,414	1,915,889	194,662	-	1,651	51,172	2,444,788
Fund balances:							
Restricted:							
Stabilization by State Statute	92,881	-	-	-	-	11,044	103,925
School Capital Outlay	-	-	-	314,235	-	-	314,235
Individual Schools	-	-	-	-	676,694	-	676,694
Assigned:							
Subsequent years expenditures	508,479	-	-	-	-	-	508,479
Other special programs	-	-	-	-	-	778,617	778,617
Unassigned	866,363	-	-	-	-	-	866,363
Total fund balances	1,467,723	-	-	314,235	676,694	789,661	3,248,313
Total liabilities and fund balances	\$ 1,749,137	\$ 1,915,889	\$ 194,662	\$ 314,235	\$ 678,345	\$ 840,833	

Amounts reported for governmental activities in the Statement of Net Position (Deficit) (Exhibit 1) are different because:

Net OPEB asset	133,275
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	72,482,253
Deferred outflows of resources related to pensions	10,196,256
Deferred outflows of resources related to OPEB	4,616,274
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.	(4,796,508)
Net pension liability	(19,687,568)
Net OPEB liability	(73,719,532)
Deferred inflows of resources related to pensions	(831,923)
Deferred inflows of resources related to OPEB	(25,615,246)
Net deficit of governmental activities	\$ (33,974,406)

Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

Exhibit 4

	Major Funds						Total Governmental Funds
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Restricted Revenues	
Revenues:							
Intergovernmental:							
State of North Carolina Beaufort County	\$ -	\$ 41,391,840	\$ -	\$ 493,622	\$ -	\$ 843,938	\$ 42,729,400
Local current expense	14,587,005	-	-	-	-	-	14,587,005
Other	-	-	-	1,115,695	-	-	1,115,695
U.S. Government	11,837	-	4,936,282	-	-	224,013	5,172,132
Other	367,527	-	-	706	906,614	404,427	1,679,274
Total revenues	14,966,369	41,391,840	4,936,282	1,610,023	906,614	1,472,378	65,283,506
Expenditures:							
Current:							
Instructional services:							
Regular instructional	3,630,846	24,266,948	300,878	-	222	485,708	28,684,602
Special populations	167,157	4,503,604	1,865,449	-	-	4,709	6,540,919
Alternative programs	220,306	1,940,330	2,275,140	-	-	571,492	5,007,268
School leadership	1,222,606	2,382,389	-	-	-	-	3,604,995
Co-curricular	350,146	-	-	-	928,554	1,459	1,280,159
School-based support	735,713	2,930,340	41,394	-	-	261,897	3,969,344
System-wide support services:							
Support and development	91,572	340,635	11,370	-	-	45,519	489,096
Special population support and development	499	281,922	1,332	-	-	-	283,753
Alternative programs and services support and development	112,852	92,904	189,388	-	-	28,384	423,528
Technology support	79,267	587,808	-	-	-	15,020	682,095
Operational support	6,591,375	3,380,192	80,965	-	5,864	5,118	10,063,514
Financial and human resource	693,413	386,813	-	-	2,688	2,224	1,085,138
Accountability	23,516	-	-	-	-	-	23,516
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership, and public relations	350,652	249,631	-	-	-	30,048	630,331
Ancillary Services	74	48,324	-	-	-	3,329	51,727
Non-programmed charges	904,581	-	170,366	-	-	13,274	1,088,221
Debt service:							
Principal	-	-	-	493,622	-	-	493,622
Capital outlay:							
Real property and buildings	-	-	-	438,220	-	-	438,220
Furnishings and equipment	-	-	-	841,966	-	-	841,966
Vehicles and other	-	-	-	699,574	-	-	699,574
Total expenditures	15,174,575	41,391,840	4,936,282	2,473,382	937,328	1,468,181	66,381,588
Revenues over (under) expenditures	(208,206)	-	-	(863,359)	(30,714)	4,197	(1,098,082)
Other financing sources (uses):							
Transfers from (to) other funds	(17,000)	-	-	-	46,559	(4,591)	24,968
Installment purchase obligations issued	-	-	-	520,278	-	-	520,278
Net changes in fund balance	(225,206)	-	-	(343,081)	15,845	(394)	(552,836)
Fund balances:							
Beginning of year	1,692,929	-	-	657,316	660,849	790,055	3,801,149
End of year	\$ 1,467,723	\$ -	\$ -	\$ 314,235	\$ 676,694	\$ 789,661	\$ 3,248,313

Board of Education of Beaufort 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, 2018

Exhibit 5

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

Net changes in fund balances - total governmental funds \$ (552,836)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (1,513,961)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 3,897,546

Contributions to the OPEB plans in the current fiscal year are not included in the Statement of Activities 2,238,017

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (26,656)

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.

Compensated absences	225,614
Pension expense	(5,566,936)
Net OPEB expense	<u>(4,188,765)</u>

Total changes in net position (deficit) of governmental activities \$ (5,487,977)

Board of Education of Beaufort 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, 2018

	General Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Beaufort County	14,587,005	14,587,005	14,587,005	-
U.S. Government	-	-	11,837	11,837
Other	300,000	325,671	367,527	41,856
	<u>14,887,005</u>	<u>14,912,676</u>	<u>14,966,369</u>	<u>53,693</u>
Expenditures:				
Current:				
Instructional services	7,914,998	6,442,469	6,326,774	115,695
System-wide support services	6,488,782	7,959,109	7,943,146	15,963
Ancillary services	-	74	74	-
Non-programmed charges	833,225	844,024	904,581	(60,557)
Total expenditures	<u>15,237,005</u>	<u>15,245,676</u>	<u>15,174,575</u>	<u>71,101</u>
Revenues over (under) expenditures	(350,000)	(333,000)	(208,206)	124,794
Other financing sources (uses):				
Transfers to other funds	-	(17,000)	(17,000)	-
Fund balance appropriated	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(225,206)	<u>\$ (225,206)</u>
Fund balances:				
Beginning of year			<u>1,692,929</u>	
End of year			<u>\$ 1,467,723</u>	

Board of Education of Beaufort 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, 2018

	Restricted Revenues Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 62,825	\$ 843,548	\$ 843,938	\$ 390
Beaufort County	-	-	-	-
U.S. Government	-	258,357	224,013	(34,344)
Other	301,913	321,202	404,427	83,225
	<u>364,738</u>	<u>1,423,107</u>	<u>1,472,378</u>	<u>49,271</u>
Expenditures:				
Current:				
Instructional services	331,175	1,608,407	1,325,265	283,142
System-wide support services	26,436	168,206	126,313	41,893
Ancillary services	6,509	8,811	3,329	5,482
Non-programmed charges	618	75,000	13,274	61,726
Total expenditures	<u>364,738</u>	<u>1,860,424</u>	<u>1,468,181</u>	<u>392,243</u>
Revenues over (under) expenditures	-	(437,317)	4,197	441,514
Other financing sources (uses):				
Transfers to other funds	-	(5,209)	(4,591)	618
Fund balance appropriated	-	442,526	-	(442,526)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(394)	<u>\$ (394)</u>
Fund balances:				
Beginning of year			<u>790,055</u>	
End of year			<u>\$ 789,661</u>	

Board of Education of Beaufort 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, 2018

	State Public School Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 41,066,226	\$ 42,705,636	\$ 41,391,840	\$ (1,313,796)
Beaufort County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
	<u>41,066,226</u>	<u>42,705,636</u>	<u>41,391,840</u>	<u>(1,313,796)</u>
Expenditures:				
Current:				
Instructional services	36,816,103	37,320,312	36,023,611	1,296,701
System-wide support services	4,205,560	5,337,000	5,319,905	17,095
Ancillary services	44,563	48,324	48,324	-
Non-programmed charges	-	-	-	-
	<u>41,066,226</u>	<u>42,705,636</u>	<u>41,391,840</u>	<u>1,313,796</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			<u>-</u>	
End of year			<u>\$ -</u>	

Board of Education of Beaufort 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, 2018

Exhibit 6
Page 4 of 4

	Federal Grants Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Beaufort County	-	-	-	-
U.S. Government	4,522,534	6,497,057	4,936,282	(1,560,775)
Other	-	-	-	-
	<u>4,522,534</u>	<u>6,497,057</u>	<u>4,936,282</u>	<u>(1,560,775)</u>
Expenditures:				
Current:				
Instructional services	3,823,005	5,687,311	4,482,861	1,204,450
System-wide support services	278,463	348,623	283,055	65,568
Ancillary services	-	43,000	-	43,000
Non-programmed charges	421,066	418,123	170,366	247,757
	<u>4,522,534</u>	<u>6,497,057</u>	<u>4,936,282</u>	<u>1,560,775</u>
Total expenditures	<u>4,522,534</u>	<u>6,497,057</u>	<u>4,936,282</u>	<u>1,560,775</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			<u>-</u>	
End of year			<u>\$ -</u>	

Board of Education of Beaufort County Schools
Statement of Net Position (Deficit)
Proprietary Funds
June 30, 2018

Exhibit 7

	Enterprise		Totals
	Major Fund	Non-major Fund	
	School Food	Child	
	Service	Care	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,090,010	\$ 73,415	\$ 1,163,425
Accounts receivable	3,427	-	3,427
Due from other governments	156,113	-	156,113
OPEB asset	4,047	332	4,379
Inventories	139,511	-	139,511
Total current assets	<u>1,393,108</u>	<u>73,747</u>	<u>1,466,855</u>
Noncurrent assets:			
Capital assets:			
Furniture, equipment and vehicles, net	<u>373,587</u>	<u>-</u>	<u>373,587</u>
Total assets	<u>1,766,695</u>	<u>73,747</u>	<u>1,840,442</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>449,780</u>	<u>36,872</u>	<u>486,652</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	19,927	376	20,303
Accrued salaries and wages payable	23,643	-	23,643
Due to other funds	72,791	-	72,791
Unearned revenue	10,037	-	10,037
Compensated absences	101,403	4,457	105,860
Total current liabilities	<u>227,801</u>	<u>4,833</u>	<u>232,634</u>
Noncurrent liabilities:			
Net pension liability	597,810	49,007	646,817
Net OPEB liability	2,238,483	183,507	2,421,990
Compensated absences	52,643	9,056	61,699
Total noncurrent liabilities	<u>2,888,936</u>	<u>241,570</u>	<u>3,130,506</u>
Total liabilities	<u>3,116,737</u>	<u>246,403</u>	<u>3,363,140</u>
DEFERRED INFLOWS OF RESOURCES	<u>803,064</u>	<u>65,834</u>	<u>868,898</u>
NET POSITION (DEFICIT)			
Investment in capital assets	373,587	-	373,587
DIPNC OPEB plan	4,047	332	4,379
Unrestricted	<u>(2,080,960)</u>	<u>(201,950)</u>	<u>(2,282,910)</u>
Total net deficit	<u>\$ (1,703,326)</u>	<u>\$ (201,618)</u>	<u>\$ (1,904,944)</u>

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

Board of Education of Beaufort County Schools
Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit)
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

Exhibit 8

	Enterprise		Totals
	Major Fund	Non-major Fund	
	School Food Service	Child Care	
Operating revenues:			
Food sales	\$ 151,982	\$ -	\$ 151,982
Child care fees	-	206,708	206,708
Total operating revenues	<u>151,982</u>	<u>206,708</u>	<u>358,690</u>
Operating expenses:			
Food cost:			
Purchase of food	1,042,813	-	1,042,813
Donated commodities	261,307	-	261,307
Salaries and benefits	1,958,552	182,861	2,141,413
Indirect costs	20,000	-	20,000
Materials and supplies	154,421	44,621	199,042
Repairs and maintenance	49,065	-	49,065
Contracted services	38,714	-	38,714
Depreciation	64,709	-	64,709
Non-capitalized equipment	28,688	-	28,688
Other	21,620	7,463	29,083
Total operating expenses	<u>3,639,889</u>	<u>234,945</u>	<u>3,874,834</u>
Operating loss	<u>(3,487,907)</u>	<u>(28,237)</u>	<u>(3,516,144)</u>
Nonoperating revenues:			
Federal reimbursements	3,350,663	-	3,350,663
Federal commodities	261,307	-	261,307
State reimbursements	67	-	67
Interest earned	7,437	1,081	8,518
Total nonoperating revenues	<u>3,619,474</u>	<u>1,081</u>	<u>3,620,555</u>
Income (loss) before transfers	131,567	(27,156)	104,411
Transfers from (to) other funds	<u>17,000</u>	<u>(41,968)</u>	<u>(24,968)</u>
Change in net position (deficit)	148,567	(69,124)	79,443
Total net position (deficit), beginning	960,939	98,097	1,059,036
Restatement	<u>(2,812,832)</u>	<u>(230,591)</u>	<u>(3,043,423)</u>
Total net deficit, beginning, restated	<u>(1,851,893)</u>	<u>(132,494)</u>	<u>(1,984,387)</u>
Total net deficit, ending	<u>\$ (1,703,326)</u>	<u>\$ (201,618)</u>	<u>\$ (1,904,944)</u>

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

Board of Education of Beaufort County Schools
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

Exhibit 9

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 146,443	\$ 206,708	\$ 353,151
Cash paid for goods and services	(1,338,331)	(52,082)	(1,390,413)
Cash paid to employees for services	(1,872,909)	(176,847)	(2,049,756)
Net cash used by operating activities	<u>(3,064,797)</u>	<u>(22,221)</u>	<u>(3,087,018)</u>
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	17,000	(41,968)	(24,968)
Federal and state reimbursements	3,285,293	-	3,285,293
Net cash provided (used) by noncapital activities	<u>3,302,293</u>	<u>(41,968)</u>	<u>3,260,325</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(81,273)	-	(81,273)
Cash flows from investing activities:			
Interest earned on investments	7,437	1,081	8,518
Net increase (decrease) in cash and cash equivalents	163,660	(63,108)	100,552
Cash and cash equivalents, beginning of year	926,350	136,523	1,062,873
Cash and cash equivalents, end of year	<u>\$ 1,090,010</u>	<u>\$ 73,415</u>	<u>\$ 1,163,425</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (3,487,907)	\$ (28,237)	\$ (3,516,144)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	64,709	-	64,709
Donated commodities	261,307	-	261,307
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:			
Increase in inventories	(2,553)	-	(2,553)
Increase in accounts receivable	(40)	-	(40)
Decrease in net OPEB asset	183	15	198
Increase in accounts payable and accrued liabilities	19,543	2	19,545
Increase in accrued salaries and wages payable	3,703	-	3,703
Decrease in deferred outflows of resources	95,645	18,766	114,411
Decrease in net pension liability	(110,038)	(25,197)	(135,235)
Decrease in net OPEB liability	(645,928)	(52,952)	(698,880)
Increase in deferred inflows of resources	769,387	62,304	831,691
Decrease in unearned revenue	(5,499)	-	(5,499)
(Decrease) increase in compensated absences payable	(27,309)	3,078	(24,231)
Total adjustments	<u>423,110</u>	<u>6,016</u>	<u>429,126</u>
Net cash used by operating activities	<u>\$ (3,064,797)</u>	<u>\$ (22,221)</u>	<u>\$ (3,087,018)</u>

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$261,307 during the fiscal year. The receipt of these commodities and equipment is reflected as a nonoperating revenue on Exhibit 8.

Board of Education of Beaufort County Schools
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2018

Exhibit 10

	Private Purpose Trust
ASSETS	
Cash	\$ 75,000
NET POSITION	
Assets held in trust for scholarships	\$ 75,000

**Board of Education of Beaufort County Schools
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2018**

Exhibit 11

	Private Purpose Trust
Additions:	
Contributions and other revenue	\$ 13,274
Interest	930
Total additions	<u>14,204</u>
Change in net position	14,204
Net position, beginning	<u>60,796</u>
Net position, ending	<u><u>\$ 75,000</u></u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Board of Education of Beaufort County Schools (“Board”) 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 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 Beaufort 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, except for fiduciary funds. 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, including its fiduciary fund. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The fiduciary fund is presented separately.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from 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 Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

Federal Grants Fund. The Federal Grants Fund includes appropriations from the U.S. Government 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 is reported as a capital projects fund. It is mandated by State law [G.S.115C-426]. Capital projects are funded by Beaufort County appropriations, restricted sales tax moneys, proceeds of county debt issued for public school construction, and lottery proceeds as well as certain State assistance.

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

Restricted Revenues Fund. The Restricted Revenues Fund is used to account for activities designated for specific purposes and generally not intended for the general K-12 student population of the Board. Funding is primarily from local sources and the U.S. 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.

The Board reports the following fiduciary fund:

Scholarship Fund. The Scholarship Fund is used to account for scholarship money under the control of the Board for the benefit of students in the district.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, state, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences 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.

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

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 special revenue funds, as required by 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 PRC level for all annually budgeted funds. The superintendent is authorized by the governing board to transfer appropriations within a fund without limitation and without a report being made. The superintendent is not authorized to transfer contingency appropriations within a fund, nor may he transfer amounts between funds. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

(1) Deposits and Investments

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

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

The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with state laws and regulations. It is not registered with the SEC. It 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. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

(2) Cash and Cash Equivalents

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

(3) Inventories

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

(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 assets received after July 1, 2015 are recorded at the 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

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities and 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 three 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.

Beaufort 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	10-50
Equipment and furniture	3-10
Vehicles	6-10

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 related deferrals 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, 2018 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made, based on prior years' records, of the current portion of compensated absences.

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

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

(8) Net Position (Deficit)

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

(9) Fund Balance

In the governmental fund financial statements, fund balance is composed of three 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:

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.

 Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by function within funds up to \$1,000,000.

 Other special programs – portion of 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: revenues restricted as to use, then general unrestricted revenues.

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

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 a 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 \$(37,222,719) 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)	\$ 128,451,490
Less accumulated depreciation	<u>(55,969,237)</u>
Net capital assets	72,482,253
Net OPEB asset	133,275
Pension related deferred outflows of resources	10,196,256
OPEB related deferred outflows of resources	4,616,274
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 financing	(778,056)
Compensated absences	(4,018,452)
Net pension liability	(19,687,568)
Net OPEB liability	(73,719,532)
Deferred inflows of resources related to pensions	(831,923)
Deferred inflows of resources related to pensions	<u>(25,615,246)</u>
Total adjustment	<u>\$ (37,222,719)</u>

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

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

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 \$(4,935,141) 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	\$ 1,332,085
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	(2,846,046)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the Statement of Activities	(520,278)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the Statement of Net Position (Deficit) in the government-wide statements	493,622
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	3,897,546
Contributions to the OPEB plans in the current fiscal year are not included on the Statement of Activities	2,238,017
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	(5,566,936)
OPEB expense	(4,188,765)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>225,614</u>
Total adjustment	<u>\$ (4,935,141)</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.

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

2. Stewardship, Compliance, and Accountability

(1) Excess of Expenditures over Appropriations

During the fiscal year ended June 30, 2018, the Board reported expenditures within the General Fund that violated State law [G.S. 115C-441] because they exceeded the amounts appropriated in the budget ordinance. At the legal level of budgetary control, the General Fund exceeded the amounts appropriated in the budget ordinance by \$70,825. This violation occurred because the Board was not appropriately monitoring expenditures against the budget. See additional detail on Schedule 10 and 11.

3. Detail Notes on All Funds

A. Assets

(1) Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Board has no policy regarding custodial credit risk for deposits.

At June 30, 2018, the Board had deposits with financial institutions with a carrying amount of \$3,149,798 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$1,809,012 and \$683,979 respectively. Of these balances, \$272,267 was covered by federal depository insurance and \$2,220,724 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. At June 30, 2018, the Board's petty cash totaled \$160.

(2) Investments

At June 30, 2018, the Board of Education had \$23,602 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. There was \$1,543,490 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.4 years at June 30, 2018. The Board has no policy for managing interest rate risk or credit risk.

(3) Receivables

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

	<u>Due from (to) other funds</u>	<u>Due from other governments</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ 72,791	\$ -	\$ 20,090	\$ 92,881
Other governmental activities	<u>-</u>	<u>2,121,595</u>	<u>-</u>	<u>2,121,595</u>
Total governmental activities	<u>\$ 72,791</u>	<u>\$ 2,121,595</u>	<u>\$ 20,090</u>	<u>\$ 2,214,476</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>Due from (to) other funds</u>	<u>Due from other governments</u>	<u>Other</u>	<u>Total</u>
Business-type activities:				
School Food Service Fund	\$ (72,791)	\$ 156,113	\$ 3,427	\$ 86,749

Internal balances consist of administrative costs due to the General Fund from the School Food Service Fund.

Due from other governments consists of the following:

Governmental activities:			
State Public School Fund		1,915,889	Operating funds from DPI
Federal Grants Fund		194,662	Federal grant funds
Restricted Revenues Fund		<u>11,044</u>	ROTC grant funds
Total governmental activities		<u>\$ 2,121,595</u>	
Business-type activities:			
School Food Service Fund		<u>\$ 156,113</u>	USDA reimbursements

(4) Capital Assets

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

	<u>Beginning Balances</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,093,722	\$ -	\$ 84,833	\$ -	\$ 1,178,555
Total capital assets not being depreciated	<u>1,093,722</u>	<u>-</u>	<u>84,833</u>	<u>-</u>	<u>1,178,555</u>
Capital assets being depreciated:					
Buildings and improvements	112,607,330	-	79,010	-	112,686,340
Equipment and furniture	3,663,170	-	451,103	-	4,114,273
Vehicles	9,755,183	-	717,139	-	10,472,322
Total capital assets being depreciated	<u>126,025,683</u>	<u>-</u>	<u>1,247,252</u>	<u>-</u>	<u>127,272,935</u>
Less accumulated depreciation for:					
Buildings and improvements	43,793,112	-	2,085,177	-	45,878,289
Equipment and furniture	1,989,832	-	303,126	-	2,292,958
Vehicles	7,340,247	-	457,743	-	7,797,990
Total accumulated depreciation	<u>53,123,191</u>	<u>-</u>	<u>2,846,046</u>	<u>-</u>	<u>55,969,237</u>
Total capital assets being depreciated, net	<u>72,902,492</u>				<u>71,303,698</u>
Governmental activity capital assets, net	<u>\$ 73,996,214</u>				<u>\$ 72,482,253</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 2,422,350
Operational support	<u>423,696</u>
Total	<u>\$ 2,846,046</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>Beginning</u> <u>Balances</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:					
School Food Service Fund:					
Capital assets being depreciated:					
Building	\$ 196,192	\$ -	\$ -	\$ -	\$ 196,192
Equipment, furniture and vehicles	<u>1,394,007</u>	<u>-</u>	<u>81,273</u>	<u>-</u>	<u>1,475,280</u>
Total	<u>1,590,199</u>	<u>-</u>	<u>81,273</u>	<u>-</u>	<u>1,671,472</u>
Less accumulated depreciation for:					
Building	99,730	-	4,905	-	104,635
Equipment, furniture and vehicles	<u>1,133,446</u>	<u>-</u>	<u>59,804</u>	<u>-</u>	<u>1,193,250</u>
Total accumulated depreciation	<u>1,233,176</u>	<u>-</u>	<u>64,709</u>	<u>-</u>	<u>1,297,885</u>
School Food Service capital assets, net	<u>\$ 357,023</u>				<u>\$ 373,587</u>

B. Liabilities

(1) Pension Plan and Other Postemployment Obligations

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

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

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible

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

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2018, was 10.72% 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 \$4,025,597 for the year ended June 30, 2018.

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

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

At June 30, 2018, the Board reported a liability of \$20,334,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. The Board's proportion was .2563% and .2615% at June 30, 2018 and June 30, 2017, respectively.

For the year ended June 30, 2018, the Board recognized pension expense of \$5,743,082. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 440,812	\$ 665,244
Changes of assumptions	3,212,526	
Net difference between projected and actual earnings on pension plan investments	2,751,932	-
Changes in proportions and differences between Board contributions and proportionate share of contributions	100,378	194,011
Board contributions subsequent to the measurement date	<u>4,025,597</u>	<u>-</u>
Total	<u>\$ 10,531,245</u>	<u>\$ 859,255</u>

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The Board reported \$4,025,597 as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 1,121,687
2020	3,831,850
2021	1,794,209
2022	<u>(1,101,353)</u>
	<u>\$ 5,646,393</u>

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

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

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

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

Future ad hoc COLA 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:

<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>	

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

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

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

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Net pension liability	\$ 41,856,582	\$ 20,334,385	\$ 2,301,528

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 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.

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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 \$2,259,264 for the year ended June 30, 2018.

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

At June 30, 2018, Board reported a liability of \$76,141,522 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2018, the Board's proportion was 0.2322%.

\$2,259,264 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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**Year ended
June 30:**

2019	\$ (4,815,945)
2020	(4,815,945)
2021	(4,815,945)
2022	(4,815,945)
2023	<u>(4,808,872)</u>
	<u>\$ (24,072,652)</u>

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

Inflation	2.75 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.0 to 6.50 percent
Healthcare cost trend rate - prescription drug	5.0 to 7.25 percent
Healthcare cost trend rate - Medicare advantage	4.0 to 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 3.58%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Board's proportionate share of the net OPEB liability, as well as what the 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 (2.58 percent) or 1-percentage point higher (4.58 percent) than the current discount rate:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	\$ 90,832,463	\$ 76,141,522	\$ 64,489,522

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

	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)	Healthcare Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00-5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)
Net OPEB liability	\$ 62,200,611	\$ 76,141,522	\$ 94,670,775

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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, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$52,280 for the year ended June 30, 2018.

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

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

At June 30, 2018, Board reported an asset of \$137,654 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB asset was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2018, the Board's proportion was 0.2252%.

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\$52,280 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, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended</u> <u>June 30:</u>		
2019	\$	21,567
2020		21,567
2021		21,560
2022		<u>7,539</u>
	<u>\$</u>	<u>72,233</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:

	<u>1%</u> <u>Decrease</u> <u>(2.75%)</u>	<u>Discount</u> <u>Rate</u> <u>(3.75%)</u>	<u>1%</u> <u>Increase</u> <u>(4.75%)</u>
Net OPEB asset	\$ 117,027	\$ 137,654	\$ 158,330

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

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

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

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

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<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	\$ 4,251,807	\$ 74,576	\$ 4,326,383
OPEB liability (asset)	76,141,522	(137,654)	76,003,868
Proportionate share of the net OPEB liability (asset)	0.2322%	0.2252%	
Deferred outflows of resources			
Differences between expected and actual experience	-	37,742	37,742
Net difference between projected and actual earnings on plan investments	-	30,173	30,173
Changes in proportion and differences between Board contributions and proportionate share of contributions	2,384,160	4,318	2,388,478
Board contributions subsequent to the measurement date	2,259,264	52,280	2,311,544
Deferred inflows of resources			
Differences between expected and actual experience	5,459,487	-	5,459,487
Changes of assumptions	20,969,028	-	20,969,028
Net difference between projected and actual earnings on plan investments	28,297	-	28,297

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(2) Payables

Payables as of June 30, 2018 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 137,203	\$ 144,211	\$ 281,414
Other governmental	<u>4,437</u>	<u>2,158,937</u>	<u>2,163,374</u>
Total governmental activities	<u>\$ 141,640</u>	<u>\$ 2,303,148</u>	<u>\$ 2,444,788</u>
Business-type activities			
School Food Service	\$ 19,927	\$ 23,643	\$ 43,570
Child Care	<u>376</u>	<u>-</u>	<u>376</u>
Total business-type activities	<u>\$ 20,303</u>	<u>\$ 23,643</u>	<u>\$ 43,946</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)	\$ 478,554	\$ 6,124,731
Changes of assumptions (Pension & OPEB)	3,212,526	20,969,028
Net difference between projected and actual earnings on plan investments (Pension & OPEB)	2,782,105	28,297
Change in proportion and differences between employer contributions and proportionate share of contributions (Pension & OPEB)	2,488,856	194,011
Board contributions subsequent to the measurement date (Pension & OPEB)	<u>6,337,141</u>	<u>-</u>
Totals	<u>\$ 15,299,182</u>	<u>\$ 27,316,067</u>

(4) Unearned Revenues

The balance in unearned revenues as of June 30, 2018 is composed of the following elements:

Prepayments of meals (School Food Service Fund)	<u>\$ 10,037</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, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from Federal and local funds. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. The Trust has an annual aggregate limit for general liability of \$2,550,000 and \$2,550,000 for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing

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For the Fiscal Year Ended June 30, 2018

fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. Coverage is provided on an “all risk” perils contract. Buildings and content are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction.

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

In accordance with G.S. 115C-442, the Board’s employees who have custody of the Board’s monies at any given time 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.

(6) Contingent Liabilities

At June 30, 2018, the Board was a defendant to various lawsuits. In the opinion of the Board’s management and the Board’s attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Board’s financial position.

(7) Long-Term Obligations

(a) *Installment Purchases*

The Board is authorized by State law [G.S. 115C-528] to enter into installment purchase contracts to finance the purchase or improvement of personal property and to secure its obligations under such contracts by security interest in all or a portion of the property purchased or improved.

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. During the fiscal years ended June 30, 2016, June 30, 2017, and June 30, 2018, the Board entered into an installment purchase contracts to finance the purchase of the school buses. The financing contract requires only principal payments at the beginning of each contract year.

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

<u>Year Ending</u> <u>June 30</u>	
2019	\$ 431,653
2020	216,333
2021	<u>130,070</u>
	<u>\$ 778,056</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

(b) Long-Term Obligation Activity

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

	<u>July 1, 2017</u>				<u>Current</u>
	<u>Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>portion</u>
Governmental activities:					
Installment purchases	\$ 751,400	\$ 520,278	\$ 493,622	\$ 778,056	\$ 431,653
Net pension liability	23,251,582	-	3,564,014	19,687,568	-
Net OPEB liability	94,991,791	-	21,272,259	73,719,532	-
Compensated absences	<u>4,244,066</u>	<u>2,169,642</u>	<u>2,395,256</u>	<u>4,018,452</u>	<u>2,267,925</u>
Total	<u>\$123,238,839</u>	<u>\$ 2,689,920</u>	<u>\$ 27,725,151</u>	<u>\$ 98,203,608</u>	<u>\$ 2,699,578</u>
Business-type activities:					
Net pension liability	\$ 782,052	\$ -	\$ 135,235	\$ 646,817	\$ -
Net OPEB liability	3,120,871	-	698,881	2,421,990	-
Compensated absences	<u>191,790</u>	<u>98,591</u>	<u>122,822</u>	<u>167,559</u>	<u>105,860</u>
Total	<u>\$ 4,094,713</u>	<u>\$ 98,591</u>	<u>\$ 956,938</u>	<u>\$ 3,236,366</u>	<u>\$ 105,860</u>

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

(8) Interfund Balances and Activity

Balances due to/from other funds at June 30, 2018 consists of the following:

From the School Food Service Fund to the General Fund for expenditure reimbursements \$ 72,791

Transfers to/from other funds at June 30, 2018 consists of the following:

From the General Fund to the School Food Service Fund for economic assistance \$ 17,000

From the Restricted Revenues Fund to the Child Care Fund for economic assistance \$ 4,591

From the Child Care Fund to the Individual School Fund for economic assistance \$ 46,559

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	\$ 1,467,723
Less:	
Stabilization by State Statute	92,881
Appropriated Fund Balance in 2018-2019 Budget	<u>508,479</u>
Unassigned Fund Balance	<u>\$ 866,363</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

4. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

5. Change in Accounting Principal/Restatement

The Board implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ending June 30, 2017. The implementation of the statement required the Board to record beginning net OPEB asset, net OPEB liability, and the effects on net position (deficit) of contributions made by the Board during the measurement period (fiscal year 2017). As a result, net position for the governmental and business-type activities decreased by \$92,634,481 and \$3,043,423, respectively.

Board of Education of Beaufort 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 Five Fiscal Years*

Schedule 1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability	0.2563%	0.2615%	0.2626%	0.2603%	0.2600%
Board's proportionate share of the net pension liability	\$ 20,334,385	\$ 24,033,634	\$ 9,678,803	\$ 3,052,281	\$ 15,784,649
Board's covered payroll	\$ 37,518,780	\$ 37,226,657	\$ 38,162,160	\$ 36,206,751	\$ 36,615,666
Board's proportionate share of the net pension liability as a percentage of its covered payroll	54.20%	64.56%	25.36%	8.43%	43.11%
Plan fiduciary net position as a percentage of the total pension liability	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 Beaufort County Schools
Schedules of Required Supplementary Information
Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Last Five Fiscal Years***

Schedule 2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 4,025,597	\$ 3,945,614	\$ 3,387,825	\$ 3,449,536	\$ 3,092,864
Contributions in relation to the contractually required contribution	<u>4,025,597</u>	<u>3,945,614</u>	<u>3,387,825</u>	<u>3,449,536</u>	<u>3,092,864</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 37,562,032	\$ 37,518,780	\$ 37,226,657	\$ 38,162,160	\$ 36,206,751
Contributions as a percentage of covered payroll	10.72%	10.52%	9.10%	9.04%	8.54%

* Ten years of data not yet available

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

Schedule 3

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB liability	0.2322%	0.2255%
Board's proportionate share of the net OPEB liability	\$ 76,141,522	\$ 98,112,662
Board's covered payroll	\$ 37,518,780	\$ 37,226,657
Board's proportionate share of the net OPEB liability as a percentage of its covered payroll	202.94%	263.55%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

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

**Board of Education of Beaufort County Schools
Schedules of Required Supplementary Information
Schedule of Board Contributions
Retiree Health Benefit Fund
Last Two Fiscal Years***

Schedule 4

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 2,259,264	\$ 2,150,295
Contributions in relation to the contractually required contribution	<u>2,259,264</u>	<u>2,150,295</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 37,562,032	\$ 37,518,780
Contributions as a percentage of covered payroll	6.01%	5.73%

* Ten years of data not yet available

Board of Education of Beaufort 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 Two Fiscal Years*

Schedule 5

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB asset	0.2252%	0.2317%
Board's proportionate share of the net OPEB asset	\$ 137,654	\$ 143,892
Board's covered payroll	\$ 37,518,780	\$ 37,226,657
Board's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.37%	0.39%
Plan fiduciary net position as a percentage of the net OPEB asset	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 Beaufort County Schools
Schedules of Required Supplementary Information
Schedule of Board Contributions
Disability Income Plan of North Carolina
Last Two Fiscal Years***

Schedule 6

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 52,280	\$ 140,571
Contributions in relation to the contractually required contribution	<u>52,280</u>	<u>140,571</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 37,562,032	\$ 37,518,780
Contributions as a percentage of covered payroll	0.14%	0.37%

* Ten years of data not yet available

Board of Education of Beaufort County Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Capital Outlay Fund
For the Fiscal Year Ended June 30, 2018

Schedule 7

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 899,970	\$ 493,622	\$ (406,348)
Beaufort County:			
General county revenues	1,115,695	1,115,695	-
Other:			
Interest earned on investments	500	706	206
Total revenues	<u>2,016,165</u>	<u>1,610,023</u>	<u>(406,142)</u>
Expenditures:			
Capital outlay:			
Real property and buildings		438,220	
Furniture and equipment		841,966	
Buses and motor vehicles		699,574	
Total capital outlay	<u>2,293,789</u>	<u>1,979,760</u>	<u>314,029</u>
Debt service:			
Principal	899,970	493,622	406,348
Total expenditures	<u>3,193,759</u>	<u>2,473,382</u>	<u>720,377</u>
Revenues under expenditures	<u>(1,177,594)</u>	<u>(863,359)</u>	<u>314,235</u>
Other financing sources:			
Installment purchase obligations issued	<u>520,278</u>	<u>520,278</u>	<u>-</u>
Fund balance appropriated	<u>657,316</u>	<u>-</u>	<u>(657,316)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (343,081)</u>	<u>\$ (343,081)</u>
Fund balance:			
Beginning of year		<u>657,316</u>	
End of year		<u>\$ 314,235</u>	

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

Schedule 8

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Food sales	\$ 231,125	\$ 151,982	\$ (79,143)
Operating expenditures:			
Business support services:			
Purchase of food		1,045,366	
Donated commodities		261,307	
Salaries and benefits		1,876,612	
Indirect costs		20,000	
Materials and supplies		154,421	
Repairs and maintenance		49,065	
Contracted services		38,714	
Other		21,620	
Non-capitalized equipment		28,688	
Capital outlay		81,273	
Total operating expenditures	<u>3,738,825</u>	<u>3,577,066</u>	<u>161,759</u>
Operating loss	<u>(3,507,700)</u>	<u>(3,425,084)</u>	<u>82,616</u>
Nonoperating revenues:			
Federal reimbursements	3,078,550	3,350,663	272,113
Federal commodities	315,750	261,307	(54,443)
State reimbursements	-	67	67
Interest earned	4,650	7,437	2,787
Other	86,750	-	(86,750)
Total nonoperating revenues	<u>3,485,700</u>	<u>3,619,474</u>	<u>133,774</u>
Excess of revenues over (under) expenditures before other financing sources	(22,000)	194,390	216,390
Other financing sources:			
Transfers from other funds	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Excess of revenues over (under) expenditures before fund balance appropriated	(5,000)	211,390	216,390
Fund balance appropriated	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Excess revenues and other sources over expenditures	<u>\$ -</u>	<u>211,390</u>	<u>\$ 211,390</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(64,709)	
Equipment purchases		81,273	
Decrease in net OPEB asset		(183)	
Decrease in net pension liability		110,038	
Decrease in net OPEB liability		645,928	
Increase in deferred inflows of resources		(769,387)	
Decrease in deferred outflows of resources		(95,645)	
Decrease in compensated absences payable		27,309	
Increase in inventories		2,553	
Change in net position (full accrual)		<u>\$ 148,567</u>	

Board of Education of Beaufort County Schools
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Child Care Fund
For the Fiscal Year Ended June 30, 2018

Schedule 9

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Child care fees	\$ 206,708	\$ 206,708	\$ -
Operating expenditures:			
Regular community service:			
Salaries and benefits		176,847	
Materials and supplies		44,621	
Other		7,463	
Total operating expenditures	<u>302,344</u>	<u>228,931</u>	<u>73,413</u>
Revenues under expenditures	<u>(95,636)</u>	<u>(22,223)</u>	<u>73,413</u>
Other financing sources (uses):			
Interest earned	1,081	1,081	-
Transfers to other funds	<u>(41,968)</u>	<u>(41,968)</u>	-
Total other financing sources (uses)	<u>(40,887)</u>	<u>(40,887)</u>	-
Revenues and other sources under expenditures	(136,523)	(63,110)	73,413
Fund balance appropriated	<u>136,523</u>	<u>-</u>	<u>(136,523)</u>
Revenues and fund balance appropriated under expenditures	<u>\$ -</u>	(63,110)	<u>\$ (63,110)</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Decrease in net OPEB asset		(15)	
Decrease in net pension liability		25,197	
Decrease in net OPEB liability		52,952	
Increase in deferred inflows of resources		(62,304)	
Decrease in deferred outflows of resources		(18,766)	
Increase in compensated absences payable		<u>(3,078)</u>	
Change in net position (full accrual)		<u>\$ (69,124)</u>	

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
Beaufort County Schools
Washington, 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 Beaufort County Schools, North Carolina ("Board"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 30, 2018.

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.

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 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, which we consider to be a significant deficiency

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

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 purpose.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
November 30, 2018**

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
Beaufort County Schools
Washington, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Board of Education of Beaufort 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, 2018. 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 types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the 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
November 30, 2018**

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
Beaufort County Schools
Washington, North Carolina

Report on Compliance for Each Major State Program

We have audited the Board of Education of Beaufort 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 its major state programs for the year ended June 30, 2018. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the 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, 2018.

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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the 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 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 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
November 30, 2018**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with 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

Noncompliance material to federal awards yes no

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:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
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

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

Noncompliance material to state awards yes no

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:

<u>Program Name</u>
North Carolina Department of Public Instruction State Public School Fund Career and Technical Education – State Months of Employment

2. Financial Statement Findings

Finding 2018-001

Expenditures in excess of budget for General Fund

SIGNIFICANT DEFICIENCY

Criteria: General statutes state that all monies received and expended by a local government or public authority should be included in the budget ordinance.

Condition: For the General Fund, the Board expended \$70,825 more for PRC 36 (Charter Schools) than appropriated in the annual budget ordinance.

Effect: Monies were spent that had not been appropriated.

Cause: The Board received and expended appropriations that had not been budgeted for in the budget ordinance and a budget amendment was not adopted.

Recommendation: Budget amendments should be adopted when it is known that funds are going to be expended in a different budgetary control level than what was originally adopted prior to expending the funds.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 11 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

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



Mark Doane, Interim Superintendent
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**Board of Education of Beaufort County Schools
Corrective Action Plan
For the Fiscal Year Ended June 30, 2018**

Schedule 11

Finding 2018-001

SIGNIFICANT DEFICIENCY

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board accepts this finding. However, this finding is related to the adjustment of overlooked allocations that were not discovered until after the year-end. Had management been aware of this oversight, the appropriate budgetary procedures would have been followed.

The Board would like to note that while addressing this oversight, management did not expend funds in excess of the total General Fund Budget. Staff has been made aware of this oversight and will review the details of the General Ledger to ensure all allocations are processed timely and with the appropriate budgetary funds.

Proposed completion date: November 30, 2018



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**Board of Education of Beaufort County Schools
Summary Schedule of Prior Year's Audit Findings
For the Fiscal Year Ended June 30, 2018**

Schedule 12

Finding 2017-001

Status: Corrected

Finding 2017-002

Status: Corrected

Finding 2017-003

Status: Corrected

**Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2018**

**Schedule 13
(Page 1 of 3)**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
School Nutrition Program (Note 3)			
<u>Child Nutrition Cluster:</u>			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Public Instruction			
National School Lunch Program	10.555	PRC 035	\$ 261,307
Total Non-Cash Assistance			261,307
Cash Assistance			
Passed-through the N.C. Department of Public Instruction			
School Breakfast Program	10.553	PRC 035	626,477
National School Lunch Program	10.555	PRC 035	2,559,937
Total Cash Assistance			3,186,414
Total Child Nutrition Cluster			3,447,721
Fruit and Vegetable Program	10.582	PRC 035	119,820
Farm to School Grant	10.575	PRC 035	44,429
Total School Nutrition Program (Note 3)			3,611,970
Total U. S. Department of Agriculture			3,611,970
<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	2,246,129
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) - Reward School Mini-Grant	84.010	PRC 100	2,651
Total Title I Grants to Local Educational Agencies (Title I)			2,248,780
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B) -			
Education of the Handicapped	84.027	PRC 060	1,473,707
Coordinated Early Intervening Services	84.027	PRC 070	141,890
Special Needs Target Assistance	84.027	PRC 118	11,517
Special Education - Preschool Grants (IDEA Preschool) -			
Risk Pool Program	84.173	PRC 114	81,191
Targeted Assistance	84.173	PRC 119	1,939
Preschool Handicapped	84.173	PRC 049	71,633
Total Special Education Cluster			1,781,877
Career and Technical Education - Basic Grants to States	84.048	PRC 058	48,796
Career and Technical Education - Capacity Building Grant	84.048	PRC 017	116,075
Special Education - State Personnel Development	84.323	PRC 082	29,294
Rural Education	84.358	PRC 109	174,108
English Language Acquisition Grants	84.365	PRC 104, 111	44,081
Supporting Effective Instruction State Grants	84.367	PRC 103	251,070
Twenty-First Century Community Learning Centers	84.287	PRC 110	202,250
Student Support and Academic Enrichment Program	84.424	PRC 108	39,951
Total U. S. Department of Education			4,936,282
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	NONE	PRC 031	116,457

**Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2018**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Department of Homeland Security</u> Passed-through N.C. Dept. of Public Safety: Division of Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		11,837
<u>U.S. Department of Health and Human Services</u> Passed-through the N.C. Department of Health and Human Services School Nurse Funding Initiative	93.994		142,857
Total Federal Assistance			8,819,403
State Grants:			
Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund (SPSF)			\$ 38,808,154
Driver Training - SPSF		PRC 012	95,639
School Technology Fund - SPSF		PRC 015	73,096
Career and Technical Education			
- State Months of Employment		PRC 013	2,304,460
- Program Support Funds		PRC 014	109,314
Total N.C. Department of Public Instruction			41,390,663
<u>N.C. Department of Agriculture</u>			
State Kindergarten Breakfast Funds			67
<u>N.C. Department of Juvenile Justice & Delinquency Prevention</u>			
Juvenile Crime Prevention Program			79,191
<u>N.C. Department of Health and Human Services</u>			
Division of Child Development:			
State School Nurse Initiative			107,143
Disability Evaluations			390
<u>N.C. Department of Cultural Resources</u>			
State Arts Council Grant			8,000
<u>Other State Assistance</u>			
Vocational Rehabilitation			3,830
Education and Workforce Innovation			106,614
Demonstrative Classroom			7,468
Non-Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
School Buses Appropriation		PRC 120	493,622
Textbooks		PRC 130, 131	1,177
Total State Assistance			42,198,165
Total Federal and State Assistance			\$ 51,017,568

**Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2018**

**Schedule 13
(Page 3 of 3)**

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 Beaufort County Schools (Board) under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 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: Non-cash 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 \$756,106 were received during the year ended June 30, 2018. These non-cash items received were included in the determination of federal and State awards expended for the year ended June 30, 2018.