

HERTFORD COUNTY BOARD OF EDUCATION  
FINANCIAL REPORT  
June 30, 2017

**Hertford County Board of Education**  
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**June 30, 2017**

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## **FINANCIAL SECTION**



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Independent Auditors' Report

To the Hertford County Board of Education  
Winton, 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 Hertford County Board of Education, North Carolina, as of and for the year then ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hertford County Board of Education's basic financial statements as listed in the table of contents.

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

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

**Auditors' Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Hertford County Board of Education, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, State Public School Fund, and Other Restricted Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 40 and 41, 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 Hertford County Board of Education's basic financial statements. The combining and individual non-major fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purpose of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 on our consideration of Hertford County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of 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 Hertford County Board of Education's internal control over financial reporting and compliance.

*Thompson, Rice, Scott, Adams & Co., P.A.*

**Whiteville, NC**

**October 18, 2017**



## Management's Discussion and Analysis

This section of the Hertford County Board of Education's (the Board) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2017. This information should be read in conjunction with the audited financial statements included in this report.

### ***Financial Highlights***

- The Board experienced a decrease in enrollment of 6 students from the previous year. The Board is working diligently with the Hertford County Board of Commissioners to find ways to fund increases required for the continuing improvement of educational services for Hertford County students.
- The assets of Hertford County Board of Education exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,355,664 (net position). Of this amount, \$17,784,394 represents the Board's investment in capital assets.
- At the close of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$7,016,648, an increase of \$869,504 in comparison with the prior year.

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

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

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

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

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds and proprietary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary fund is presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of 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 inflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the Board's net position 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 Board's activities are divided into two categories in the government-wide statements:

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

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

## Fund Financial Statements

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

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

Hertford County Board of Education has two types of funds:

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

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

*Proprietary funds:* Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. Hertford County Board of Education has one proprietary fund, an enterprise fund, the School Food Service Fund.

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

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

Net position is an indicator of the fiscal health of the Board. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,355,664 as of June 30, 2017. The largest component of net position is investment in capital assets, of \$17,784,394. It comprises 91.88% of total net position.

Following is a summary of the Statement of Net Position:

**Table 1**  
**Condensed Statement of Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>June 30 2017</b>	<b>June 30 2016</b>	<b>June 30 2017</b>	<b>June 30 2016</b>	<b>June 30 2017</b>	<b>June 30 2016</b>
Current assets	\$ 8,641,219	\$ 7,601,928	\$ 938,396	\$ 877,369	\$ 9,579,615	\$ 8,479,297
Capital assets	17,856,913	18,120,293	94,286	66,768	17,951,199	18,187,061
Total assets	<u>26,498,132</u>	<u>25,722,221</u>	<u>1,032,682</u>	<u>944,137</u>	<u>27,530,814</u>	<u>26,666,358</u>
Deferred outflows of resources	7,199,243	1,542,800	217,175	47,325	7,416,418	1,590,125
Current liabilities	12,364,852	5,684,499	351,649	156,986	12,716,501	5,841,485
Long-term liabilities	1,939,568	1,844,764	57,505	58,594	1,997,073	1,903,358
Total liabilities	<u>14,304,420</u>	<u>7,529,263</u>	<u>409,154</u>	<u>215,580</u>	<u>14,713,574</u>	<u>7,744,843</u>
Deferred inflows of resources	854,887	1,359,089	23,107	55,258	877,994	1,414,347
Net investment in capital assets	17,690,108	17,977,929	94,286	66,768	17,784,394	18,044,697
Restricted net position	940,187	920,649	-	-	940,187	920,649
Unrestricted net position	<u>(92,227)</u>	<u>(521,909)</u>	<u>723,310</u>	<u>653,856</u>	<u>631,083</u>	<u>131,947</u>
Total net assets	<u>\$ 18,538,068</u>	<u>\$ 18,376,669</u>	<u>\$ 817,596</u>	<u>\$ 720,624</u>	<u>\$ 19,355,664</u>	<u>\$ 19,097,293</u>

Note that net position increased by 1.35% over the previous year. The increase in net position was due largely because of the increase in current assets in the governmental activities. Unrestricted net position increased in the business-type activities primarily because of an increase in current assets and capital assets in the School Food Service Fund.

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

**Table 2**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>6/30/17</b>	<b>6/30/16</b>	<b>6/30/17</b>	<b>6/30/16</b>	<b>6/30/17</b>	<b>6/30/16</b>
Revenues:						
<b>Program revenues:</b>						
Charges for services	\$ 679,803	\$ 654,142	\$ 74,092	\$ 62,325	\$ 753,895	\$ 716,467
Operating grants and contributions	25,827,297	26,092,870	1,950,160	2,045,983	27,777,457	28,138,853
Capital grants and contributions	228,477	142,367	-	-	228,477	142,367
<b>General revenues:</b>						
Other revenues	6,032,671	5,472,098	688	511	6,033,359	5,472,609
<b>Total revenues</b>	<b>32,768,248</b>	<b>32,361,477</b>	<b>2,024,940</b>	<b>2,108,819</b>	<b>34,793,188</b>	<b>34,470,296</b>
Expenses:						
<b>Governmental activities:</b>						
Instructional programs	23,058,445	21,824,211	-	-	23,058,445	21,824,211
System-wide Support	8,168,881	7,494,861	-	-	8,168,881	7,494,861
Ancillary services	52,407	45,178	-	-	52,407	45,178
Non-programmed charges	120,179	121,432	-	-	120,179	121,432
Interest on long-term debt	-	-	-	-	-	-
Unallocated Depreciation	1,206,937	1,260,129	-	-	1,206,937	1,260,129
<b>Business-type activities:</b>						
Food service	-	-	1,927,968	1,894,569	1,927,968	1,894,569
<b>Total expenses</b>	<b>32,606,849</b>	<b>30,745,811</b>	<b>1,927,968</b>	<b>1,894,569</b>	<b>34,534,817</b>	<b>32,640,380</b>
Increase (decrease) in net position	161,399	1,615,666	96,972	214,250	258,371	1,829,916
Net position, beginning	18,376,669	16,761,003	720,624	506,374	19,097,293	17,267,377
Net position, ending	\$ 18,538,068	\$ 18,376,669	\$ 817,596	\$ 720,624	\$ 19,355,664	\$ 19,097,293

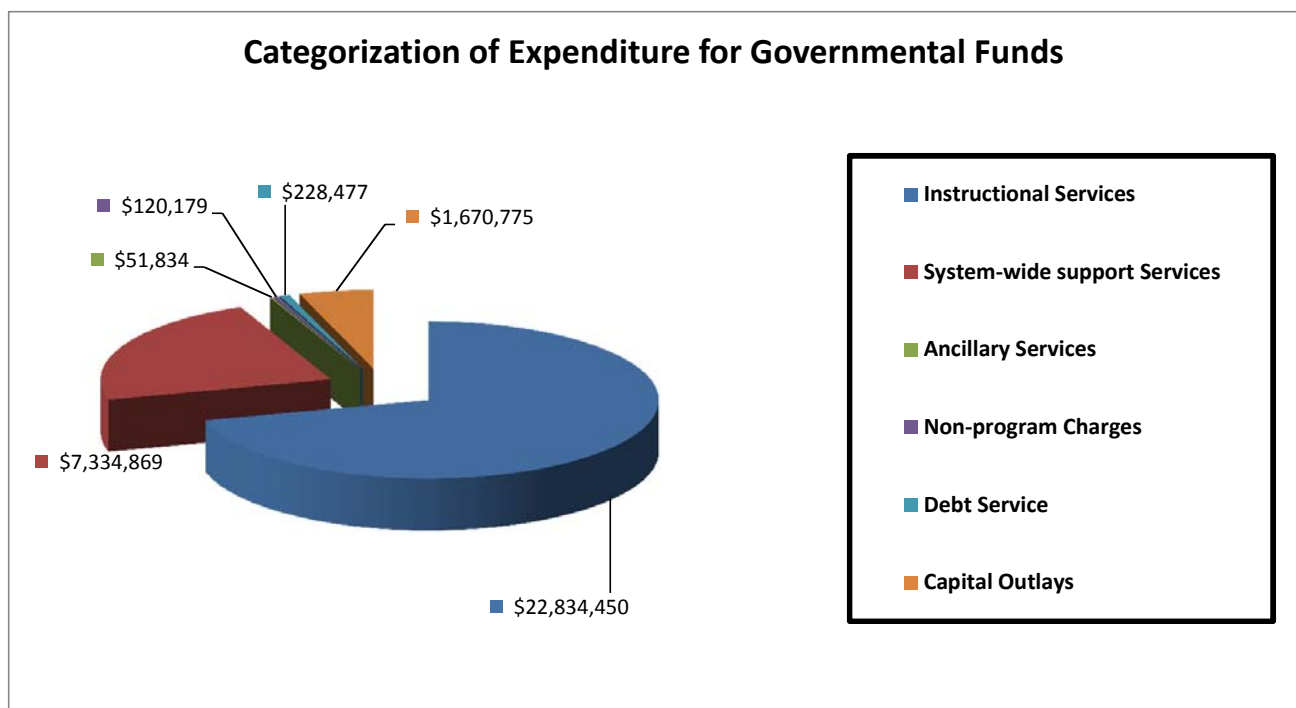
Total governmental activities generated revenues of \$32,768,248 while expenses in this category totaled \$32,606,849. Comparatively, revenues were \$32,361,477 and expenses totaled \$30,745,811, for the year ended June 30, 2016. The increase in net position stands at \$161,399, compared to an increase of \$1,615,666 in 2016. Instructional services comprised 70.72% of total governmental-type expenses while system-wide support services made up 25.05% of those expenses for 2017. County funding comprised 17.75% of total governmental revenue. In 2016, County funding was 16.52%. Much of the remaining 82.25% of total governmental revenue for 2017 consists of restricted State and Federal money. Business-type activities generated revenue of \$2,024,940 and had expenses of \$1,927,968. Net position increased in the business-type activities by \$96,972.

### Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$7,016,648, a \$869,504 increase over the prior year. The General Fund, Other Restricted Fund, and Capital Outlay Fund had revenues in excess of expenditures of \$227,333, \$633,662, and \$14,653, respectively. The individual schools had combined expenditures in excess of revenues in of \$6,144. Expenditures increased from the prior year, and included \$1,324,754 in capitalizable assets.

**Proprietary Funds:** The Board's School Food Service Fund reflected an increase of 13.46% in net position from last year. Revenues decreased and expenses increased during the current year. Revenue decreased during the year, but still exceeded expenditures, resulting in an increase in net position.



Expenditures presented on modified accrual basis of accounting.

### **General Fund Budgetary Highlights**

Over the course of the year, the Board revised the budget several times to account for changes in expenditure expectations. The total general fund budget did not change during the year.

### **Capital Assets**

Capital assets decreased by \$235,862 from the previous year. Total capital assets decreased as a result of depreciation expense exceeding acquisitions for the year. Major asset purchases included technology equipment, buses, and a HVAC replacement project.

The following is a summary of the capital assets, net of depreciation at year-end.

**Table 3**  
**Summary of Capital Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>6/30/17</b>	<b>6/30/16</b>	<b>6/30/17</b>	<b>6/30/16</b>	<b>6/30/17</b>	<b>6/30/16</b>
Land	\$ 481,321	\$ 481,321	\$ -	\$ -	\$ 481,321	\$ 481,321
Construction in progress	68,775	37,424	-	-	68,775	37,424
Buildings	39,517,626	38,668,348	-	-	39,517,626	38,668,348
Equipment and furniture	9,913,911	9,614,083	394,284	357,657	10,308,195	9,971,740
Less accumulated depreciation	(32,124,720)	(30,680,883)	(299,998)	(290,889)	(32,424,718)	(30,971,772)
Total	<u>\$ 17,856,913</u>	<u>\$ 18,120,293</u>	<u>\$ 94,286</u>	<u>\$ 66,768</u>	<u>\$ 17,951,199</u>	<u>\$ 18,187,061</u>

### **Debt Outstanding**

During the year, the Board's outstanding debt increased by \$24,441, as a result of debt payments on school bus leases that were offset by the acquisition of three new buses. 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.

### **Economic Factors**

The Board anticipates enrollment will increase slightly over the next several years and will need a relatively steady or increasing stream of income in order to maintain existing facilities and equipment and to update and improve instructional efforts. County funding is a major source of income for the Board; therefore the County's economic outlook directly affects that of the schools. The following economic factors must be considered when viewing the County's ability to provide the required level of funding.

- The County's unemployment rate of 5.4% is a little higher than the state average of 4.2%.

### **Requests for Information**

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

Cynthia H. Martin, Finance Director  
Hertford County Board of Education  
701 N. Martin Street  
Winton, NC 27986

# **BASIC FINANCIAL STATEMENTS**

**Hertford County Board of Education**  
**Statement of Net Position**  
**June 30, 2017**

Exhibit 1

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,256,875	\$ 898,993	\$ 8,155,868
Investments	-	-	-
Due from other governments	1,286,893	78,042	1,364,935
Receivables (net)	3,668	840	4,508
Internal balances	93,783	(93,783)	-
Inventories	-	54,304	54,304
Capital assets (Note 1)			
Land, improvements, and construction in progress	550,096	-	550,096
Other capital assets, net of depreciation	17,306,817	94,286	17,401,103
Total capital assets	<u>17,856,913</u>	<u>94,286</u>	<u>17,951,199</u>
Total assets	<u>26,498,132</u>	<u>1,032,682</u>	<u>27,530,814</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	7,199,243	217,175	7,416,418
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	543,615	3,972	547,587
Accrued salaries and wages payable	979,347	13,024	992,371
Prepaid meals	-	2,085	2,085
Long-term liabilities:			
Net pension liability	10,841,890	332,568	11,174,458
Due within one year	103,577	-	103,577
Due in more than one year	1,835,991	57,505	1,893,496
Total liabilities	<u>14,304,420</u>	<u>409,154</u>	<u>14,713,574</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	854,887	23,107	877,994
<b>NET POSITION</b>			
Net investment in capital assets	17,690,108	94,286	17,784,394
Restricted:			
Individual Schools	69,443	-	69,443
Stabilization by State Statute	16,133	-	16,133
School Capital Outlay	854,611	-	854,611
Unrestricted	(92,227)	723,310	631,083
Total net position	<u>\$ 18,538,068</u>	<u>\$ 817,596</u>	<u>\$ 19,355,664</u>

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



**Hertford County Board of Education**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

Exhibit 2

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
<b>Primary government</b>							
<b>Governmental Activities:</b>							
Instructional programs:							
Regular	\$ 12,983,556	\$ -	\$ 12,100,829	\$ -	\$ (882,727)	\$ -	\$ (882,727)
Special	3,233,962	-	3,116,561	-	(117,401)	-	(117,401)
Alternative programs	2,498,570	-	2,561,845	-	63,275	-	63,275
School leadership	1,890,756	-	1,740,991	-	(149,765)	-	(149,765)
Co-curricular	425,214	419,070	-	-	(6,144)	-	(6,144)
School-based support	2,026,387	-	1,922,735	-	(103,652)	-	(103,652)
System-wide support services:							
Support and development	407,633	-	117,970	-	(289,663)	-	(289,663)
Special populations	18,061	-	23,616	-	5,555	-	5,555
Alternative programs	113,798	-	102,940	-	(10,858)	-	(10,858)
Technology support	429,410	-	220,876	-	(208,534)	-	(208,534)
Operational support	5,447,430	260,733	2,852,003	228,477	(2,106,217)	-	(2,106,217)
Financial and human resource	787,166	-	549,862	-	(237,304)	-	(237,304)
Accountability	-	-	-	-	-	-	-
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership, and public							
relations	965,383	-	381,506	-	(583,877)	-	(583,877)
Ancillary services	52,407	-	49,682	-	(2,725)	-	(2,725)
Non-programmed charges	120,179	-	85,881	-	(34,298)	-	(34,298)
Unallocated depreciation expense	1,206,937	-	-	-	(1,206,937)	-	(1,206,937)
Total Governmental activities	<u>32,606,849</u>	<u>679,803</u>	<u>25,827,297</u>	<u>228,477</u>	<u>(5,871,272)</u>	<u>-</u>	<u>(5,871,272)</u>
<b>Business-type activities:</b>							
School Food service	1,927,968	74,092	1,950,160	-	-	96,284	96,284
Total business-type activities	<u>1,927,968</u>	<u>74,092</u>	<u>1,950,160</u>	<u>-</u>	<u>-</u>	<u>96,284</u>	<u>96,284</u>
Total primary government	<u>\$ 34,534,817</u>	<u>\$ 753,895</u>	<u>\$ 27,777,457</u>	<u>\$ 228,477</u>	<u>(5,871,272)</u>	<u>96,284</u>	<u>(5,774,988)</u>
General revenues:							
Unrestricted county appropriations - operating					4,398,524	-	4,398,524
Unrestricted county appropriations - capital					1,418,448	-	1,418,448
Miscellaneous, unrestricted					172,465	-	172,465
Gain(loss) on disposal					36,080	-	36,080
Investment earnings, unrestricted					7,154	688	7,842
Transfers					-	-	-
Total general revenues and transfers					<u>6,032,671</u>	<u>688</u>	<u>6,033,359</u>
Change in net position					161,399	96,972	258,371
Net position, beginning					<u>18,376,669</u>	<u>720,624</u>	<u>19,097,293</u>
Net position, ending					<u>\$ 18,538,068</u>	<u>\$ 817,596</u>	<u>\$ 19,355,664</u>

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

**Hertford County Board of Education  
Balance Sheet  
Governmental Funds  
June 30, 2017**

Exhibit 3

	Major Funds				Non-Major Governmental Fund	
	General Fund	State Public School Fund	Capital Outlay Fund	Other Restricted Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,028,371	\$ -	\$ 824,653	\$ 3,330,344	\$ 73,507	\$ 7,256,875
Due from other governments	13,347	798,741	371,748	30,949	72,108	1,286,893
Accounts receivable	2,786	-	-	882	-	3,668
Due from other funds	-	-	-	93,783	-	93,783
Total assets	<u>\$ 3,044,504</u>	<u>\$ 798,741</u>	<u>\$ 1,196,401</u>	<u>\$ 3,455,958</u>	<u>\$ 145,615</u>	<u>\$ 8,641,219</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 181,237	\$ -	\$ 341,790	\$ 16,524	\$ 4,064	\$ 543,615
Due to other funds	-	-	-	-	-	-
Accrued salaries and benefits	66,209	798,741	-	49,749	64,648	979,347
Total liabilities	<u>247,446</u>	<u>798,741</u>	<u>341,790</u>	<u>66,273</u>	<u>68,712</u>	<u>1,522,962</u>
Deferred inflows of resources	-	-	-	94,149	7,460	101,609
Fund balances:						
Nonspendable						
Inventories	-	-	-	-	-	-
Restricted						
Stabilization by State Statute	16,133	-	-	-	-	16,133
School Capital Outlay	-	-	854,611	-	-	854,611
Individual Schools	-	-	-	-	69,443	69,443
Committed						
Other Restricted Funds	-	-	-	3,295,536	-	3,295,536
Assigned						
Subsequent Year's Expenditures	1,157,800	-	-	-	-	1,157,800
Unassigned	1,623,125	-	-	-	-	1,623,125
Total fund balances	<u>2,797,058</u>	<u>-</u>	<u>854,611</u>	<u>3,295,536</u>	<u>69,443</u>	<u>7,016,648</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,044,504</u>	<u>\$ 798,741</u>	<u>\$ 1,196,401</u>	<u>\$ 3,455,958</u>	<u>\$ 145,615</u>	<u>\$ 8,641,219</u>

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

**Hertford County Board of Education  
Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position  
June 30, 2017**

Exhibit 3a

Total fund balance, governmental funds	\$ 7,016,648
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	17,856,913
Market Value of Investments	-
Deferred outflows of resources related to pensions	7,199,243
Some liabilities, (such as Installment Payables and Compensated Absences), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Position.	(1,939,568)
Net Pension liability	(10,841,890)
Deferred inflows of resources related to pensions	(753,278)
Net Position of governmental activities	<u><u>\$ 18,538,068</u></u>

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

**Hertford County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

Exhibit 4

	Major Funds				Non-Major Governmental Funds	Total Governmental Funds
	General Fund	State Public School Fund	Capital Outlay Fund	Other Restricted Funds	Other Governmental Funds	
<b>REVENUES</b>						
State of North Carolina	\$ -	\$ 22,298,117	\$ 228,477	\$ 841,305	\$ -	\$ 23,367,899
U.S. Government	-	-	-	230,525	2,452,585	2,683,110
Hertford County	4,398,524	-	1,418,448	-	-	5,816,972
Other	80,927	-	14,062	350,128	419,070	864,187
Total	4,479,451	22,298,117	1,660,987	1,421,958	2,871,655	32,732,168
<b>EXPENDITURES</b>						
Current:						
Instructional						
Regular Instructional	767,660	11,790,550	-	63,096	236,231	12,857,537
Special Populations	85,749	2,441,540	-	3,618	670,774	3,201,681
Alternative Programs	43,412	457,584	-	780,522	1,188,254	2,469,772
School Leadership	143,379	1,739,871	-	954	-	1,884,204
Co-Curricular	-	-	-	-	425,214	425,214
School-Based Support	84,393	1,707,748	-	63,865	140,036	1,996,042
System-wide support services					-	-
Support and Development	285,136	117,971	-	-	-	403,107
Special Populations Support and Development	971	22,234	-	-	1,382	24,587
Alternative programs and Services Support	2,092	-	-	-	102,940	105,032
Technology Support	207,327	216,112	-	-	-	423,439
Operational Support	1,796,393	2,846,580	-	-	5,423	4,648,396
Financial and Human Resources	227,327	528,198	-	-	21,664	777,189
Accountability	-	-	-	-	-	-
System-Wide Pupil Support Policy, Leadership, and Public Relations	571,829	380,047	-	1,243	-	953,119
Ancillary services	2,152	49,682	-	-	-	51,834
Non-Program Charges	34,298	-	-	-	85,881	120,179
Debt Service						
Principal	-	-	228,477	-	-	228,477
Interest	-	-	-	-	-	-
Capital outlay						
Real Property and Buildings	-	-	896,949	-	-	896,949
Furniture and Equipment	-	-	400,720	-	-	400,720
Buses and Motor Vehicles	-	-	373,106	-	-	373,106
Total Expenditures	4,252,118	22,298,117	1,899,252	913,298	2,877,799	32,240,584
Excess (deficiency) of revenues over expenditures	227,333	-	(238,265)	508,660	(6,144)	491,584
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers to other funds	-	-	-	-	-	-
Sale of Assets (Stock)	-	-	-	125,002	-	125,002
Installment purchase obligations issued	-	-	252,918	-	-	252,918
Total other financing sources and (uses)	-	-	252,918	125,002	-	377,920
Net change in fund balances	227,333	-	14,653	633,662	(6,144)	869,504
Fund balances - beginning	2,569,725	-	839,958	2,661,874	75,587	6,147,144
Prior Period Adjustment	-	-	-	-	-	-
Fund balances - ending	\$ 2,797,058	\$ -	\$ 854,611	\$ 3,295,536	\$ 69,443	\$ 7,016,648

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

**Hertford County Board of Education**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2017**

Exhibit 4a

Net change in fund balances - total governmental funds:	\$ 869,504
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period.	(263,380)
Change in market value of investments - unrealized gains/losses are not reported on the fund statements	(87,188)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. Difference in accrued investment income and income reported in fund statements.	1,733,763
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(24,441)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Pension expense	(1,996,496)
Compensated absences	(70,363)
Change in net position of governmental activities	<u><u>\$ 161,399</u></u>

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

**Hertford County Board of Education**  
**General Fund and Annually Budgeted Major Special Revenue Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual**  
**For the Year Ended June 30, 2017**

Exhibit 5

	General Fund				State Public School Fund				Other Restricted Fund			
	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final			Original	Final			Original	Final		
<b>REVENUES</b>												
State of North Carolina	\$ -	\$ -	\$ -	\$ -	\$ 23,620,310	\$ 24,196,982	\$ 22,298,117	\$ (1,898,865)	\$ 905,096	\$ 905,096	\$ 841,305	\$ -
U.S. Government	-	-	-	-	-	-	-	-	106,715	118,465	230,525	112,060
Hertford County	4,398,524	4,398,524	4,398,524	-	-	-	-	-	-	-	-	-
Other	52,000	52,000	80,927	28,927	-	-	-	-	265,122	288,884	350,128	-
Total revenues	4,450,524	4,450,524	4,479,451	28,927	23,620,310	24,196,982	22,298,117	(1,898,865)	1,276,933	1,312,445	1,421,958	112,060
<b>EXPENDITURES</b>												
Current:												
Instructional												
Regular	1,295,420	970,622	767,660	202,962	12,889,665	12,669,731	11,790,550	879,181	298,096	321,859	63,096	258,763
Special Populations	205,187	94,826	85,749	9,077	2,394,305	2,441,025	2,441,540	(515)	-	9,500	3,618	5,882
Alternative programs	22,465	45,237	43,412	1,825	321,084	557,279	457,584	99,695	834,096	834,096	780,522	53,574
School leadership	115,969	165,748	143,379	22,369	1,883,880	1,739,871	1,739,871	-	-	-	954	(954)
Co-curricular	-	-	-	-	-	-	-	-	-	-	-	-
School-based support	72,000	153,462	84,393	69,069	1,748,046	1,708,276	1,707,748	528	64,741	66,990	63,865	3,125
System-wide support services:												
Support and development	351,221	293,596	285,136	8,460	479,545	622,697	117,971	504,726	-	-	-	-
Special populations	1,000	1,511	971	540	45,811	22,234	22,234	-	-	-	-	-
Alternative programs	-	2,092	2,092	-	-	-	-	-	-	-	-	-
Technology support	272,623	410,471	207,327	203,144	271,596	324,399	216,112	108,287	-	-	-	-
Operational support	2,349,440	2,245,527	1,796,393	449,134	2,598,013	2,846,580	2,846,580	-	80,000	80,000	-	80,000
Financial and human												
resources	273,797	296,233	227,327	68,906	515,948	805,161	528,198	276,963	-	-	-	-
Accountability	-	-	-	-	-	-	-	-	-	-	-	-
System-wide pupil support	-	-	-	-	-	-	-	-	-	-	-	-
Policy, leadership, and												
public relations	435,872	694,147	571,829	122,318	427,417	380,047	380,047	-	-	125,002	1,243	123,759
Ancillary services												
Community	-	-	-	-	-	-	-	-	-	-	-	-
Nutrition	2,630	3,152	2,152	1,000	45,000	79,682	49,682	30,000	-	-	-	-
Non-programmed charges	26,000	47,000	34,298	12,702	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	5,423,624	5,423,624	4,252,118	1,171,506	23,620,310	24,196,982	22,298,117	1,898,865	1,276,933	1,437,447	913,298	524,149
Revenues over (under) expenditures	(973,100)	(973,100)	227,333	1,200,433	-	-	-	-	-	(125,002)	508,660	636,209
<b>OTHER FINANCING SOURCES</b>												
Fund balance appropriated	973,100	973,100	-	(973,100)	-	-	-	-	-	-	-	-
Sale of Assets (Stock)	-	-	-	-	-	-	-	-	-	125,002	125,002	-
Total other financing sources												
and (uses)	973,100	973,100	-	(973,100)	-	-	-	-	-	125,002	125,002	-
Net change in fund balances	\$ -	\$ -	227,333	\$ 227,333	\$ -	\$ -	-	\$ -	\$ -	\$ -	633,662	\$ 636,209
Fund balances, beginning			2,569,725				-				2,661,874	
Fund balances, ending			<u>\$ 2,797,058</u>				<u>\$ -</u>				<u>\$ 3,295,536</u>	

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

**Hertford County Board of Education  
Statement of Net Position  
Proprietary Funds  
June 30, 2017**

Exhibit 6

	<b>Enterprise Fund</b>
	<b>Major Fund</b>
	<b>School Food Service</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 898,993
Due from other governments	78,042
Receivables (net)	840
Inventories	54,304
Total current assets	<u>1,032,179</u>
Non-current assets:	
Capital Assets:	
Equipment	394,284
Less accumulated depreciation	<u>(299,998)</u>
Total non-current assets	<u>94,286</u>
Total assets	<u><u>\$ 1,126,465</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 217,175</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 3,972
Due to other funds	93,783
Accrued salaries and wages payable	13,024
Prepaid Meals	2,085
Total current liabilities	<u>112,864</u>
Non-current liabilities:	
Net Pension liability	332,568
Compensated absenses	57,505
Total non-current liabilities	<u>390,073</u>
Total liabilities	<u>502,937</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	23,107
<b>NET POSITION</b>	
Net investment in capital assets	94,286
Unrestricted	723,310
Total net position	<u><u>\$ 817,596</u></u>

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

**Hertford County Board of Education**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

Exhibit 7

	<b>Enterprise Fund</b>
	<b>Major Fund</b>
	<b>School Food Service</b>
<b>OPERATING REVENUES:</b>	
Food sales	\$ 67,572
Miscellaneous local revenues	6,520
Total operating revenues	<u>74,092</u>
<b>OPERATING EXPENDITURES:</b>	
Purchase of food	639,922
Donated commodities	108,520
Salaries and benefits	859,788
Indirect cost	157,788
Materials and supplies	59,501
Repairs and maintenance	13,276
Contracted services	9,400
Depreciation	9,109
Capital outlay	63,916
Other	6,748
Total operating expenditures	<u>1,927,968</u>
Operating income (loss)	(1,853,876)
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Federal reimbursements	1,821,161
Federal commodities used	128,999
Investment earnings	688
Indirect cost not paid	-
Total non-operating revenues (expenses)	<u>1,950,848</u>
Income (loss) before contributions and transfers	96,972
Transfers from other funds	<u>-</u>
Change in net position	96,972
Total net position, beginning	720,624
Total net position, ending	<u><u>\$ 817,596</u></u>

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



**Hertford County Board of Education**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2017**

Exhibit 8  
Page 1 of 2

	<b>Enterprise Fund</b>
	<b>Major Fund</b>
	<b>School Food Service</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 65,895
Cash paid for goods and services	(973,044)
Cash paid to employees for services	(866,350)
Other operating revenues	6,520
Net cash used by operating activities	<u>(1,766,979)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal reimbursements	1,840,458
Due to / from other funds	(32,637)
Total cash provided by noncapital financing activities	<u>1,807,821</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(36,627)
Disposition of capital assets	-
Total cash provided by capital and related financing activities	<u>(36,627)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>688</u>
Net increase/(decrease) in cash and cash equivalents	4,903
Cash and cash equivalents, July 1	894,090
Cash and cash equivalents, June 30	<u>\$ 898,993</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (1,853,876)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	9,109
Donated commodities consumed	108,520
Indirect cost not paid	-
Changes in assets and liabilities:	
(Increase)/decrease in accounts receivable	(840)
(Increase)/decrease in inventory	(21,465)
Increase/(decrease) in accounts payable	(1,028)
Increase/(decrease) in prepaid meals	(837)
Increase/(decrease) in net pension liability	196,528
(Increase)/decrease in deferred outflows	(169,850)
Increase/(decrease) in deferred inflows	(32,151)
Increase/(decrease) in compensated absences	(1,089)
Total adjustments	<u>86,897</u>
Net cash used by operating activities	<u>\$ (1,766,979)</u>

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

**Hertford County Board of Education  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2017**

Exhibit 8  
Page 2 of 2

**Non-cash operating and non capital financing activities:**

The School Food Service Fund received donated commodities with a value of \$128,999 during the fiscal year. The receipt of the commodities is recognized as a non-operating revenue. The Fund recorded the consumption of \$108,520 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 7.

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

**Hertford County Board of Education**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

The Hertford County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Hertford 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 and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

*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.

*Other Restricted Fund.* The Other Restricted Grants Fund is used to account for various restricted funds that are not required to be in the State Public School Fund or the Federal Grants Fund.

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

The Board reports the following major enterprise fund:

*School Food Service Fund.* The School Food Service Fund is used to account for the food service program within the school system.

#### C. Measurement Focus and Basis of Accounting

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

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

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

#### D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose code level for all annually budgeted funds. The Superintendent is authorized by the governing Board to transfer amounts within individual funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the governing board. During the year, several immaterial 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 fair value as determined by quoted market prices. The Board has 2,189 shares in a MetLife investment policy. Those shares were allocated to those with active eligible life insurance policies on the date that MetLife went public, which was 4/7/2000. These shares have a cost basis of \$0, so there is no value recorded on the fund statements for this policy. This stock was sold in the fiscal year ending June 30, 2017.

### 2. Cash and Cash Equivalents

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

### 3. Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The board had no inventories in the General Fund. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

### 4. Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1950 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities such as student desks, are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Hertford 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:

	Years
Buildings	10 - 40
Equipment and furniture	5 - 12
Vehicles	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 liabilities, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has two items that meet this criterion - a pension related deferral and contributions made to the pension plan in the current fiscal year. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has three items that meet this criterion - grants receivable in the general fund, sales tax receivable in the Special Revenue funds, and pension related deferrals.

#### 6. Long-term obligations

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

#### 7. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2017 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis.

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

#### 8. Net Position/Fund Balances

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

#### Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Restricted for School Capital Outlay - portion of fund balance that can only be used for School Capital Outlay.

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.

Committed Fund Balance - portion of fund balance that can only be used for specific purpose imposed by majority vote by quorum of Board of Education's governing body (highest level of decision-making authority) and in certain instances approval by the County's governing body is required. Any changes or removal of specific purpose requires majority action by the governing bodies that approved the original action.

Assigned fund balance - portion of fund balance that Hertford County Board of Education intends to use for specific purposes.

Subsequent year's expenditures - portion of total 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 resource or appropriation within funds up to \$100,000.

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

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

## 9. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between fund balance of the governmental funds and net position of the governmental activities as reported in the government-wide statement of net position. The net adjustment of \$11,521,420 consists of several elements as follows:

Description	Amount
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)	\$ 49,981,633
Less Accumulated Depreciation	(32,124,720)
Net Capital Assets	17,856,913

Description	Amount
Pension related deferred outflows of resources	
Contributions made to the pension plan in current fiscal year	1,733,763
Difference between projected and actual earnings on plan investments	3,866,565
Changes in assumptions	1,598,915
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment Purchases	(166,805)
Compensated absences	(1,772,763)
Net Pension liability	(10,841,890)
Deferred inflows of resources related to pensions	
Changes in proportion and differences between employer contributions and proportionate share of contributions	(240,876)
Differences between expected and actual experience	(512,402)
Total Adjustment	<u>\$ 11,521,420</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$708,105) as follows:

Description	Amount
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.	\$ (1,586,400)
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	1,324,754
Amount by which retirement of asset cost exceeded accumulated depreciation.	<u>(1,734)</u>
Net Capital Assets	(263,380)
Change in market value of investments - unrealized gains/losses are not reported on the fund statements	(87,188)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities - it affects only the government-wide statement of net position	(252,918)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net position in the government-wide statements.	228,477
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	1,733,763
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Pension expense	(1,996,496)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(70,363)
Total Adjustment	<u>\$ (708,105)</u>



## 10. Defined Benefit Pension Plans

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

## II. Stewardship, Compliance, and Accountability

### Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations for the year ended June 30, 2017.

## III. Detail Notes on All Funds

### A. Assets

#### 1. Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the 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, 2017, the Board had deposits with financial institutions with a carrying amount of \$8,155,868 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$8,191,319 and \$161,656, respectively. Of these balances, \$543,132 was covered by federal depository insurance and \$7,809,844 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

## 2. Accounts Receivable.

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

	Due from other funds (Internal Balances)	Due from other governments	Other
Governmental activities:			
General Fund	\$ -	\$ 13,347	\$ 2,786
Other governmental activities	93,783	1,273,546	882
Total	<u>\$ 93,783</u>	<u>\$ 1,286,893</u>	<u>\$ 3,668</u>
Business-type activities:			
School Food Service	\$ (93,783)	\$ 78,042	\$ 840
Total	<u>\$ (93,783)</u>	<u>\$ 78,042</u>	<u>\$ 840</u>

Due from other governments consists of the following:

Governmental Activities:		
General Fund	\$ 13,347	County - Fines & Forfeitures
State Public School Fund	798,741	Operating Funds from DPI
Federal Grants Fund	64,648	Federal Grants Fund
Federal Grants Fund	5,500	Sales tax refund receivable
Capital Outlay Fund	12,694	Sales tax refund receivable
Capital Outlay Fund	359,054	County - Capital Outlay
Other Restricted Funds	4,643	JROTC
Other Restricted Funds	1,212	NC DHHS
Other Restricted Funds	25,094	Sales tax refund receivable
Individual Schools	1,960	Sales tax refund receivable
Total	<u>\$ 1,286,893</u>	
Business-type activities:		
School Food Service Fund	\$ 59,456	USDA Reimbursement Claim
School Food Service Fund	15,635	DHHS - Summer Feeding
School Food Service Fund	2,951	Sales tax refund receivable
Total	<u>\$ 78,042</u>	

### 3. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 481,321	\$ -	\$ -	\$ 481,321
Construction in Progress	37,424	257,861	(226,510)	68,775
Total capital assets not being depreciated	<u>518,745</u>	<u>257,861</u>	<u>(226,510)</u>	<u>550,096</u>
Capital assets being depreciated:				
Buildings and Improvements	38,668,348	849,278	-	39,517,626
Equipment, furniture, and Vehicles	9,614,083	444,125	(144,297)	9,913,911
Total capital assets being depreciated	<u>48,282,431</u>	<u>1,293,403</u>	<u>(144,297)</u>	<u>49,431,537</u>
Less accumulated depreciation for:				
Buildings and Improvements	23,125,244	827,399	-	23,952,643
Equipment, furniture, and Vehicles	7,555,639	759,001	(142,563)	8,172,077
Total accumulated depreciation	<u>30,680,883</u>	<u>1,586,400</u>	<u>(142,563)</u>	<u>32,124,720</u>
Total capital assets being depreciated, net	<u>17,601,548</u>	<u>\$ (292,997)</u>	<u>\$ (1,734)</u>	<u>17,306,817</u>
Governmental activity capital assets, net	<u>\$ 18,120,293</u>			<u>\$ 17,856,913</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 1,206,937
Operational support services	379,463
Total	<u>\$ 1,586,400</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and office equipment	\$ 357,657	\$ 36,627	\$ -	\$ 394,284
Total capital assets being depreciated	<u>357,657</u>	<u>36,627</u>	<u>-</u>	<u>394,284</u>
Less accumulated depreciation for:				
Furniture and office equipment	290,889	9,109	-	299,998
Total accumulated depreciation	<u>290,889</u>	<u>\$ 9,109</u>	<u>\$ -</u>	<u>299,998</u>
Business-type activity capital assets, net	<u>\$ 66,768</u>			<u>\$ 94,286</u>

### Construction Commitments

Hertford County Schools has active construction projects at June 30, 2017. The projects consist of a HVAC replacement contract and a football stadium contract. There was a remaining commitment of \$137,551 and \$61,216, respectively, at year end.

## 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 12 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 serves as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute six percent of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contributions rate for the year ended June 30, 2017, was 9.98% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$1,783,287 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Board reported a liability of \$11,174,458 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the Board's proportion was .1216% and .1244%, respectively.

For the year ended June 30, 2017, the Board recognized pension expense of \$2,040,549. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ 528,120
Changes of assumptions	1,647,961	-
Net difference between projected and actual earnings on pension plan investments	3,985,170	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	248,265
Board contributions subsequent to the measurement date	1,783,287	-
Total	<u>\$ 7,416,418</u>	<u>\$ 776,385</u>

\$1,783,287 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 743,683
2019	773,533
2020	2,130,840
2021	1,208,688
2022	-
Thereafter	-
	<u>\$ 4,856,744</u>

***Actuarial Assumptions.*** The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
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%
<i>Total</i>	<i>100.0%</i>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate.** The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	\$ 21,016,996	\$ 11,174,458	\$ 2,898,233

**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 Post-employment Benefits

### 1. Healthcare Benefits

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

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

**Funding Policy:** The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 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 total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2017, 2016, and 2015, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$1,038,751, \$973,191, and \$970,029, respectively. These contributions represented 6.02%, 5.60%, and 5.49%, of covered payroll, respectively.

### 2. Long-term Disability Benefits

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

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

*Funding Policy.* An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 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 the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S. 127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2017, 2016, and 2015, the Board paid all annual required contributions to the DIPNC for disability benefits of \$67,901, \$71,251, and \$72,443, respectively. These contributions represented .38%, .41%, and .41%, respectively of covered payroll.

## 2. Accounts Payable

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

	Vendors	Salaries and Benefits	Total
Governmental Activities:			
General	\$ 181,237	\$ 66,209	\$ 247,446
Other Governmental	362,378	913,138	1,275,516
Total governmental activities	<u>\$ 543,615</u>	<u>\$ 979,347</u>	<u>\$ 1,522,962</u>
Business-type Activities			
School Food Service	\$ 3,972	\$ 13,024	\$ 16,996
Total business-type activities	<u>\$ 3,972</u>	<u>\$ 13,024</u>	<u>\$ 16,996</u>



### 3. Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Grants not yet earned (Other Restricted Funds)	\$ -	\$ 94,149
Sales tax refunds receivable (Federal Grants)	-	5,500
Sales tax refunds receivable (Individual Schools)	-	1,960
Change in proportion and difference between employer contributions and proportionate share of contributions	-	248,265
Changes in assumptions	1,647,961	
Employer contributions subsequent to the measurement date	1,783,287	-
Difference between projected and actual earnings on plan investments	3,985,170	-
Difference between expected and actual experience	-	528,120
Totals	\$ <u>7,416,418</u>	\$ <u>877,994</u>

### 4. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board 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 \$600,000 per claim. The Trust has an annual aggregate limit for general liability and errors and omissions claims of \$2,550,000. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers. Coverage is provided to the extent employees are paid from Federal or local funds. Worker's compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk-financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the fund in the event of a catastrophic event. The fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. In addition, employees had the option of receiving health care benefits through one of the health maintenance organizations (HMOs) offering coverage to teachers and State employees. Effective October 1, 2001, HMOs were no longer offered to Board employees. 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 \$75,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

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

##### 5. Contingent Liabilities

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

##### 6. Long-Term Obligations

###### Installment Purchase

The State has accepted the bid to purchase buses through a special third party financing arrangement by Mercedes Benz Financial Services USA LLC at total payments less than the purchase price. In June 2014, the Board entered into an installment purchase contract to finance the purchase of three school buses. The financing contract requires only principal payments of \$61,667 due at November 15 each contract year.

The State has accepted the bid to purchase buses through a special third party financing arrangement by Banc of America Public Capital Corp at total payments less than the purchase price. In September 2015, the Board entered into an installment purchase contract to finance the purchase of two school buses. The financing contract requires only principal payments of \$40,798 due at November 15 each contract year.

The State has accepted the bid to purchase buses through a special third party financing arrangement by Banc of America Public Capital Corp at total payments less than the purchase price. In March 2016, the Board entered into an installment purchase contract to finance the purchase of three school buses. The financing contract requires only principal payments of \$40,798 due upon receipt of the buses and then at November 15 each contract year.

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

Year Ending June 30	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 103,577	\$ -
2019	63,228	-
Total	<u>\$ 166,805</u>	<u>\$ -</u>

## Long-Term Obligation Activity

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

	Balance July 01, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion
Governmental activities:					
Installment purchase	\$ 142,364	252,918	\$ 228,477	\$ 166,805	\$ 103,577
Net Pension Liability	4,446,872	6,395,018	-	10,841,890	-
Compensated absences	1,702,400	70,363	-	1,772,763	-
Total	<u>\$ 6,291,636</u>	<u>\$ 6,718,299</u>	<u>\$ 228,477</u>	<u>\$ 12,781,458</u>	<u>\$ 103,577</u>
Business-type activities:					
Net Pension Liability	\$ 138,040	\$ 194,528	\$ -	\$ 332,568	\$ -
Compensated absences	58,594	-	1,089	57,505	-
Total	<u>\$ 196,634</u>	<u>\$ 194,528</u>	<u>\$ 1,089</u>	<u>\$ 390,073</u>	<u>\$ -</u>

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

## C. Interfund Balances and Activity

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

	Amount
From the School Food Service Fund to the Other Restricted Fund for Indirect Cost	\$ 95,026
From the Other Restricted Fund to the School Food Service Fund for Bank Service Charges	(1,243)
Total interfund balances	<u>\$ 93,783</u>

## 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: federal funds, State funds, local non-Board of Education funds, Board of Education funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

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

Total fund balance - General Fund	\$ 2,797,058
Less:	
Inventories	-
Stabilization by State Statute	16,133
Appropriated Fund Balance in 2018 Budget	1,157,800
Remaining Fund Balance	<u>\$ 1,623,125</u>

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

	<u>General</u> <u>Fund</u>	<u>State Public</u> <u>School Fund</u>	<u>Federal Grants</u> <u>Fund</u>	<u>Capital Outlay</u>	<u>Other</u> <u>Restricted</u> <u>Funds</u>
Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ -

#### IV. Summary Disclosure of Significant Contingencies

##### Federal and State Assisted Programs

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

#### V. Significant Effects of Subsequent Events

##### Fines, Forfeitures and Supplemental School Tax

Hertford County Board of Education has paid all amounts due to Charter Schools for years prior to June 30, 2017 as of the report date. Currently, there are 27 students from Hertford County attending charter schools.

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## **REQUIRED SUPPLEMENTAL FINANCIAL DATA**

Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System

Schedule of Contributions to Local Government Employees' Retirement System

**Hertford County Board of Education**  
**Schedules of Required Supplementary Information**  
**SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Teachers' and State Employees' Retirement System**  
**Last Four Fiscal Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset)	0.122%	0.124%	0.128%	0.133%
Board's proportionate share of the net pension liability (asset)	\$ 11,174,458	\$ 4,582,912	\$ 1,499,644	\$ 1,551,631
Board's covered-employee payroll	\$ 17,338,709	\$ 17,680,706	\$ 17,837,027	\$ 18,353,800
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	64.45%	25.92%	8.41%	8.45%
Plan fiduciary net position as a percentage of the total pension liability	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.

**Hertford County Board of Education  
Schedule of Board Contributions  
Teachers' and State Employees' Retirement System  
Last Four Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,783,287	\$ 1,590,125	\$ 1,616,715	\$ 1,546,811
Contributions in relation to the contractually required contribution	<u>1,783,287</u>	<u>1,590,125</u>	<u>1,616,715</u>	<u>1,546,811</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 17,868,608	\$ 17,338,709	\$ 17,680,706	\$ 17,837,027
Contributions as a percentage of covered-employee payroll	9.98%	9.17%	9.14%	8.67%



**Combining and Individual Fund  
Financial Statements Section**

**Hertford County Board of Education  
General Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-1

	2017		
	Budget	Actual	Positive (Negative) Variance
REVENUES			
Hertford County Appropriation	\$ 4,398,524	\$ 4,398,524	\$ -
Other			
Fines and Forfeitures	50,000	74,649	24,649
Interest earned on investments	2,000	6,278	4,278
Indirect Cost Allocated	-	-	-
Miscellaneous	-	-	-
Total	52,000	80,927	28,927
Total revenues	4,450,524	4,479,451	28,927
EXPENDITURES			
Instructional services:			
Regular instructional services:			
Regular curricular services		722,387	
CTE curricular services		45,273	
Total	970,622	767,660	202,962
Special populations services:			
Children with disabilities		50,848	
Pre-K Children with Disabilities		1,851	
Speech and language pathology		18,188	
Academically gifted		12,056	
Limited English proficiency		2,806	
Total	94,826	85,749	9,077
Alternative Programs and services:			
Alternative instructional		12,795	
Attendance and social work		1,898	
Remedial and supplemental		12,848	
Pre-K readiness		14,424	
Extended day / year instructional		1,447	
Total	45,237	43,412	1,825
School leadership services	165,748	143,379	22,369

**Hertford County Board of Education  
General Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-1

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
School-based support services:			
Educational Media services		7,610	
Guidance services		20,420	
Health services		21,595	
Safety and security		30,305	
Instructional Technology		-	
Staff development		4,463	
Parent involvement		-	
Total	153,462	84,393	69,069
System-wide support services:			
Support and development services:			
Regular curricular		200,789	
CTE curricular		84,347	
	293,596	285,136	8,460
Special population support and development	1,511	971	540
Alternative programs and services support and development services	2,092	2,092	-
Technology support services	410,471	207,327	203,144
Operational support services:			
Communication services		121,886	
Public Utility and Energy		817,241	
Custodial / Housekeeping		109,888	
Transportation services		425,829	
Maintenance		321,549	
Total	2,245,527	1,796,393	449,134
Financial and human resource services:			
Financial services		203,015	
Human resource services		24,312	
Total	296,233	227,327	68,906
Policy, leadership and public relations:			
Board of education		131,511	
Legal services		124,806	
Audit services		14,500	
Leadership services		208,367	
Public relations and marketing		92,645	
Total	694,147	571,829	122,318

**Hertford County Board of Education  
General Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-1

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
Ancillary services			
Community Service		-	
Nutrition		2,152	
Total	3,152	2,152	1,000
Non-Programmed charges			
Payments to charter schools		34,298	
Total	47,000	34,298	12,702
Total expenditures	5,423,624	4,252,118	1,171,506
Excess of revenues over (under)	(973,100)	227,333	1,200,433
<b>OTHER FINANCING SOURCES (USES)</b>			
Fund balance appropriated	973,100	-	(973,100)
Total other financing sources and (uses)	973,100	-	(973,100)
Net Change in Fund Balance	<u>\$ -</u>	227,333	<u>\$ 227,333</u>
Fund balance, beginning		2,569,725	
Fund balance, ending		<u>\$ 2,797,058</u>	

**Hertford County Board of Education  
State Public School Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-2

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
<b>REVENUES</b>			
State of North Carolina	\$ 24,196,982	\$ 22,298,117	\$ (1,898,865)
<b>EXPENDITURES</b>			
<b>Instructional services:</b>			
Regular Instructional services:			
Regular curricular services		10,653,051	
CTE curricular services		1,137,499	
Total	12,669,731	11,790,550	879,181
Special populations services:			
Children with Disabilities		1,955,687	
Special Populations CTE		-	
Pre-K Children with Disabilities		66,890	
Speech and language pathology		171,440	
Academically gifted		143,125	
Limited English proficiency		104,398	
Total	2,441,025	2,441,540	(515)
Alternative programs and services:			
Alternative instructional services		190,366	
Attendance and social work		68,697	
Remedial and supplemental		51,804	
Extended day / year instructional		146,717	
Total	557,279	457,584	99,695
School leadership services	1,739,871	1,739,871	-
School-based support services:			
Educational media		318,566	
Guidance services		804,206	
Health services		271,354	
Safety and Security		313,622	
Total	1,708,276	1,707,748	528
<b>System-wide support services:</b>			
Support and development services:			
Regular curricular support		112,699	
CTE curricular support		5,272	
Total	622,697	117,971	504,726
Special population support	22,234	22,234	-
Technology support services	324,399	216,112	108,287

**Hertford County Board of Education  
State Public School Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-2

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
Operational support			
Public Utility and Energy		51,881	
Custodial / Housekeeping		911,715	
Transportation		1,472,337	
Maintenance		410,647	
Total	<u>2,846,580</u>	<u>2,846,580</u>	<u>-</u>
Financial and human resource:			
Financial services		348,883	
Human resource services		179,315	
Total	<u>805,161</u>	<u>528,198</u>	<u>276,963</u>
Policy, leadership and public relations:			
Leadership services		380,047	
Total	<u>380,047</u>	<u>380,047</u>	<u>-</u>
Ancillary services	<u>79,682</u>	<u>49,682</u>	<u>30,000</u>
Nonprogrammed charges	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>24,196,982</u>	<u>22,298,117</u>	<u>1,898,865</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

**Hertford County Board of Education  
Other Restricted Funds  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-3

	2017		
	Budget	Actual	Positive (Negative) Variance
REVENUES			
State of North Carolina			
School Nurse Funding	\$ 50,000	\$ 50,000	\$ -
Smart Start	48,500	48,200	(300)
NC Pre-K	777,171	709,586	(67,585)
NC IRIS Grant	-	-	-
Other	29,425	33,519	4,094
Total	905,096	841,305	(63,791)
U.S. Government			
JROTC	54,000	54,717	717
NCSBA Medicaid	50,000	48,026	(1,974)
Medicaid reimbursement	1,000	125,156	124,156
Other	13,465	2,626	(10,839)
Total	118,465	230,525	112,060
Other			
Tuition and fees	7,000	6,400	(600)
Rental of school property	1,500	3,674	2,174
Contributions and donations	122	4,463	4,341
Albemarle Math/Science	20,000	3,684	(16,316)
Erate	-	4,465	4,465
NC Quest	-	-	-
Digital Learning Grant	-	299	299
Interest earned on investments	3,500	876	(2,624)
Indirect cost allocated	200,000	260,733	60,733
Insurance Settlement	-	4,376	4,376
Miscellaneous local operating revenues	56,762	61,158	4,396
Total	288,884	350,128	61,244
Total revenues	1,312,445	1,421,958	109,513
EXPENDITURES			
Instructional services:			
Regular instructional services:			
Regular curricular services		63,096	
CTE curricular services		-	
Total	321,859	63,096	258,763

**Hertford County Board of Education**  
**Other Restricted Funds**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

Exhibit B-3

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
Special Populations services:			
Children with Disabilities		150	
Academically Gifted		500	
Limited English Proficiency		2,968	
Total	9,500	3,618	5,882
Alternative Programs and services:			
Pre-K Readiness / Remedial and Supp		780,522	
Extended day / year instruction		-	
Total	834,096	780,522	53,574
School leadership services	-	954	(954)
School-based support services:			
Guidance services		927	
Health services		62,938	
Total	66,990	63,865	3,125
Total instructional programs	1,232,445	912,055	320,390
System-wide support services:			
Operational support services:			
Maintenance of plant		-	
Custodial / Housekeeping		-	
Warehouse and Delivery		-	
Total	80,000	-	80,000
Policy, leadership and public relations:			
Leadership		1,243	
Total	125,002	1,243	123,759
Total supporting services	205,002	1,243	203,759
Total expenditures	1,437,447	913,298	524,149
Excess of revenues over (under) expenditures	(125,002)	508,660	633,662



**Hertford County Board of Education  
Other Restricted Funds  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-3

	2017		Positive (Negative) Variance
	Budget	Actual	
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds	-	-	-
Sale of Assets (Stock)	125,002	125,002	-
Fund balance appropriated	-	-	-
Total other financing sources and (uses)	125,002	125,002	-
 NET CHANGE IN FUND BALANCE	 \$ -	 633,662	 \$ 633,662
 Fund balance, beginning		2,661,874	
Prior period adjustment (see Note VI)		-	
 Fund balance, ending		 \$ 3,295,536	

**Hertford County Board of Education  
Capital Outlay Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2017**

Exhibit B-4

	2017		
	Budget	Actual	Positive (Negative) Variance
<b>REVENUES</b>			
State of North Carolina:			
Public School Capital Fund	\$ 236,000	\$ -	\$ (236,000)
State appropriations - Buses	240,000	228,477	(11,523)
Total State of North Carolina	476,000	228,477	(247,523)
Hertford County:			
Restricted portion of sales taxes	1,426,723	1,418,448	(8,275)
Other:			
Interest Income	900	-	(900)
Disposition of Fixed Assets	-	-	-
Insurance Settlement	14,062	14,062	-
Miscellaneous	-	-	-
Total Other	14,962	14,062	(900)
Total Revenues	1,917,685	1,660,987	(256,698)
<b>EXPENDITURES</b>			
Capital outlay:			
Real Property and Buildings	1,160,658	896,949	
Furniture and equipment	391,537	400,720	
Motor vehicles	425,490	373,106	
Total Capital Outlay	1,977,685	1,670,775	306,910
Debt Service:			
Principal	240,000	228,477	
Interest	-	-	
Total Debt Service	240,000	228,477	11,523
Total Expenditures	2,217,685	1,899,252	318,433
Revenues Over (Under) Expenditures	(300,000)	(238,265)	61,735
<b>OTHER FINANCING SOURCES (USES)</b>			
Installment purchase obligations issued	300,000	252,918	(47,082)
Fund balance appropriated	-	-	-
Total other financing sources and (uses)	300,000	252,918	(47,082)
Net Change in Fund Balance	\$ -	14,653	\$ 14,653
<b>FUND BALANCE</b>			
Beginning of year, July 1		839,958	
End of year, June 30		\$ 854,611	

**Hertford County Board of Education  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017**

	Special Revenue Funds		
	Federal Grant Fund	Individual Schools	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 73,507	\$ 73,507
Due from other governments	70,148	1,960	72,108
Accounts receivable	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
Total assets	<u>70,148</u>	<u>75,467</u>	<u>145,615</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	-	4,064	4,064
Due to other funds	-	-	-
Accrued salaries and benefits	<u>64,648</u>	<u>-</u>	<u>64,648</u>
Total liabilities	<u>64,648</u>	<u>4,064</u>	<u>68,712</u>
Deferred inflows of resources	<u>5,500</u>	<u>1,960</u>	<u>7,460</u>
Fund balances:			
Nonspendable:			
Inventories	-	-	-
Prepaid expenses	-	-	-
Restricted:			
Stabilization by State Statute	-	-	-
School Capital Outlay	-	-	-
Individual Schools	-	69,443	69,443
Committed:			
Other Restricted Funds	-	-	-
Assigned:			
Subsequent Year's Expenditures	-	-	-
Unassigned:	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>69,443</u>	<u>69,443</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 70,148</u>	<u>\$ 75,467</u>	<u>\$ 145,615</u>

**Hertford County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

	Special Revenue Funds		Total Nonmajor Special Revenue Funds
	Federal Grant Fund	Individual Schools	
<b>REVENUES</b>			
State of North Carolina	\$ -	\$ -	\$ -
U.S. Government	2,452,585	-	2,452,585
Hertford County	-	-	-
Other	-	419,070	419,070
Total Revenues	<u>2,452,585</u>	<u>419,070</u>	<u>2,871,655</u>
<b>EXPENDITURES</b>			
Current:			
Instructional services			
Regular Instructional	236,231	-	236,231
Special Populations	670,774	-	670,774
Alternative Programs	1,188,254	-	1,188,254
School Leadership	-	-	-
Co-Curricular	-	425,214	425,214
School-Based Support	140,036	-	140,036
System-wide support services			
Support and Development	-	-	-
Special Populations Support and Development	1,382	-	1,382
Alternative programs and Services			
Support	102,940	-	102,940
Technology Support	-	-	-
Operational Support	5,423	-	5,423
Financial and Human Resources	21,664	-	21,664
Accountability	-	-	-
System-Wide Pupil Support	-	-	-
Policy, Leadership, and Public Relations	-	-	-
Ancillary services	-	-	-
Non-Program Charges	85,881	-	85,881
Capital outlay			
Real Property and Buildings	-	-	-
Furniture and Equipment	-	-	-
Buses and Motor Vehicles	-	-	-
Debt Service			
Principal	-	-	-
Total Expenditures	<u>2,452,585</u>	<u>425,214</u>	<u>2,877,799</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(6,144)</u>	<u>(6,144)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds	-	-	-
Installment purchase obligations issued	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	(6,144)	(6,144)
Fund balances, beginning	-	75,587	75,587
Fund balances, ending	<u>\$ -</u>	<u>\$ 69,443</u>	<u>\$ 69,443</u>

**Hertford County Board of Education**  
**Federal Grants Fund**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

Exhibit C-3

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
<b>REVENUES</b>			
U.S. Government	\$ 3,975,740	\$ 2,452,585	\$ (1,523,155)
<b>EXPENDITURES</b>			
<b>Instructional services:</b>			
Regular Instructional services:			
Regular curricular services		187,384	
CTE curricular services		48,847	
Total	468,396	236,231	232,165
Special populations services:			
Children with Disabilities		650,328	
Pre-K children with disabilities		20,446	
Speech and language pathology		-	
Limited English proficiency		-	
Total	741,942	670,774	71,168
Alternative programs and services:			
Alternative instructional		116,984	
Attendance and social work		1,364	
Remedial and supplemental		932,119	
Pre-K readiness		-	
Extended day / year instructional		137,787	
Total	2,215,288	1,188,254	1,027,034
Co-Curricular Services	500	-	500
School-based support services:			
Educational media services		-	
Guidance services		1,311	
Health services		126,849	
Staff development		-	
Parent involvement		11,876	
Total	173,690	140,036	33,654

**Hertford County Board of Education**  
**Federal Grants Fund**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2017**

Exhibit C-3

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
<b>System-wide support services:</b>			
Support and development services:			
Regular curricular support		-	
CTE curricular support		-	
Total	-	-	-
Special population support and development services	1,500	1,382	118
Alternative programs and services support and development services	133,187	102,940	30,247
Operational support services:			
Transportation		5,423	
Total	47,540	5,423	42,117
Financial and human resource:			
Financial Services		-	
Human resource		21,664	
Total	39,694	21,664	18,030
Ancillary services	-	-	-
Nonprogrammed charges	154,004	85,881	68,123
Total Expenditures	3,975,741	2,452,585	1,523,156
Net Change in Fund Balance	<u>\$ (1)</u>	-	<u>\$ 1</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

Combining Balance Sheet and Statement of Revenues,  
Expenditures, and Changes in Fund Balance – Individual  
Schools

**Hertford County Board of Education**  
**Combining Balance Sheet**  
**Individual Schools**  
**June 30, 2017**

Exhibit C-4

	Cash and Investments	Due From Other Governments	Total Assets	Accounts Payable	Due to Other Funds	Deferred Revenue	Fund Balance	Total Liabilities & Fund Balance
Bearfield Primary	\$ 16,758	\$ 619	\$ 17,377	\$ -	\$ -	\$ 619	\$ 16,758	\$ 17,377
Hertford County Middle	13,475	637	14,112	-	-	637	13,475	14,112
Riverview Elementary	2,789	476	3,265	-	-	476	2,789	3,265
Ahoskie Elementary	14,986	126	15,112	-	-	126	14,986	15,112
Hertford County High	20,509	-	20,509	4,064	-	-	16,445	20,509
Hertford County Early College	2,227	72	2,299	-	-	72	2,227	2,299
CSB Student Development	2,763	30	2,793	-	-	30	2,763	2,793
Total	<u>\$ 73,507</u>	<u>\$ 1,960</u>	<u>\$ 75,467</u>	<u>\$ 4,064</u>	<u>\$ -</u>	<u>\$ 1,960</u>	<u>\$ 69,443</u>	<u>\$ 75,467</u>



**Hertford County Board of Education**  
**Combining Statement of Revenues, Expenditures And**  
**Changes in Fund Balance -- Individual Schools**  
**For the Year Ended June 30, 2017**

Exhibit C-5

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	<u>Revenues</u>	<u>Transfers and Expenditures</u>	<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>Fund Balance June 30, 2017</u>
Bearfield Primary	\$ 58,332	\$ 56,336	\$ 1,996	\$ 16,758
Hertford County Middle	52,898	53,898	(1,000)	13,475
Riverview Elementary	30,155	29,981	174	2,789
Ahoskie Elementary	26,958	21,809	5,149	14,986
Hertford County High	200,996	211,577	(10,581)	16,445
Hertford County Early College	15,229	16,415	(1,186)	2,227
CSB Student Development	<u>34,502</u>	<u>35,198</u>	<u>(696)</u>	<u>2,763</u>
Total	<u>\$ 419,070</u>	<u>\$ 425,214</u>	<u>\$ (6,144)</u>	<u>\$ 69,443</u>

## ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises -- where the intent of the government's council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; where the government's council has decided that the periodic determination of net income is appropriate for accountability purposes.

**School Food Service Fund** -- This fund is used to account for the food service program within the school system.

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

Exhibit D-1

	2017		
	Budget	Actual	Positive (Negative) Variance
<b>OPERATING REVENUES:</b>			
Food sales	\$ 167,000	\$ 67,572	\$ (99,428)
Miscellaneous local revenues	50,000	6,520	(43,480)
Total operating revenues	217,000	74,092	(142,908)
<b>OPERATING EXPENDITURES:</b>			
Business support services:			
Purchase of food		639,922	
Donated commodities		108,520	
Salaries and benefits		865,259	
Indirect cost		157,788	
Materials and supplies		59,501	
Repairs and maintenance		13,276	
Contracted services		9,400	
Other		6,748	
Total business support services	2,373,486	1,860,414	513,072
Capital outlay	169,314	100,543	68,771
Total operating expenditure	2,542,800	1,960,957	581,843
Operating income (loss)	(2,325,800)	(1,886,865)	438,935
<b>NON-OPERATING REVENUES:</b>			
Federal reimbursements	2,204,300	1,821,161	(383,139)
Federal commodities used	120,000	128,999	8,999
Investment earnings	1,500	688	(812)
Indirect cost not paid	-	-	-
Total operating revenues (expenditures)	2,325,800	1,950,848	(374,952)
Excess of revenues over (under) expenditures before other financing sources	-	63,983	63,983
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Fund balance appropriated	-	-	-
Total other financing sources and (uses)	-	-	-
Excess of revenues and other financing sources over (under) expenditures	\$ -	63,983	\$ 63,983
Reconciliation from modified accrual to full accrual basis:			
Excess of revenue and other sources over expenditures			
Reconciling items:			
Contributions to the pension plan in current fiscal year		49,525	
Depreciation		(9,109)	
Pension expense		(44,054)	
Capital Outlay		36,627	
Total Reconciling Items		32,989	
Change in Net Position (full accrual)		\$ 96,972	

# **COMPLIANCE SECTION**



**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***

**Independent Auditors' Report**

To the Board of Education  
Hertford County, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hertford County Board of Education as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Hertford County Board of Education's basic financial statements, and have issued our report thereon dated October 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance 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 of Education'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 function, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

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

### Purpose of this Report

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

*Thompson, Rice, Scott, Adams & Co., P.A.*

**Whiteville, NC**

**October 18, 2017**



**Thompson, Price, Scott, Adams & Co, P.A.**

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**Alan W. Thompson, CPA**

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**Gregory S. Adams, CPA**

**Report on Compliance With Requirements Applicable to Each Major Federal Program  
And Internal Control Over Compliance In Accordance With Uniform Guidance and the  
State Single Audit Implementation Act**

**Independent Auditors' Report**

To the Board of Education  
Hertford County, North Carolina

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

We have audited the Hertford County Board of Education's compliance with the types of compliance requirements described in the OMB *Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Hertford County Board of Education's major federal programs for the year ended June 30, 2017. The Hertford County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

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

In our opinion, the Hertford County Board of Education 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, 2017.

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

Management of the Hertford County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hertford County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major 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 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.

*Thompson, Rice, Scott, Adams & Co., P.A.*

**Whiteville, NC**

**October 18, 2017**





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**Report on Compliance With Requirements Applicable To Each Major State Program And  
Internal Control Over Compliance In Accordance With Uniform Guidance and the  
State Single Audit Implementation Act**

**Independent Auditors' Report**

To the Board of Education  
Hertford County, North Carolina

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

We have audited the Hertford County Board of Education's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Hertford County Board of Education's major state programs for the year ended June 30, 2017. The Hertford County Board of Education's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

**Members**

**American Institute of CPAs - N.C. Association of CPAs - AICPA Division of Firms**

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

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

In our opinion, the Hertford County Board of Education 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, 2017.

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

Management of the Hertford County Board of Education's 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 Hertford County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance 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 state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Thompson, Rice, Scott, Adams & Co., P.A.*

**Whiteville, NC**

**October 18, 2017**

**Hertford County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

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

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Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency(s) identified  
that are not considered to be  
material weaknesses \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements noted \_\_\_\_\_ yes   X   no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency(s) identified  
that are not considered to be  
material weaknesses \_\_\_\_\_ yes   X   none reported

Noncompliance material to federal awards noted \_\_\_\_\_ yes   X   no

Type of auditor's 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   X   no

Identification of major federal programs:

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CFDA Numbers    Names of Federal Program or Cluster

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84.010    Title I, Part A Cluster  
          Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)

84.367    Supporting Effective Instruction

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

Auditee qualified as low-risk auditee   X   yes \_\_\_\_\_ no

**Hertford County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

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

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**State Awards**

Internal control over major State programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency(s) identified that are not considered  
to be material weaknesses \_\_\_\_\_ yes   X   none reported

Noncompliance material to State awards \_\_\_\_\_ yes   X   no

Type of auditor's report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance  
with State Single Audit Implementation Act \_\_\_\_\_ yes   X   no

Identification of major State programs:

Program Name  
State Public School Fund

**Hertford County Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

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**Section II. Financial Statement Findings**

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None reported.

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

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None reported.

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

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None reported.

**Hertford County Board of Education  
Corrective Action Plan  
For the Year Ended June 30, 2017**

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**Section II. Financial Statement Findings**

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None reported.

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

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None reported.

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

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None reported.

**Hertford County Board of Education  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2017**

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None Reported.

**Hertford County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

<b>Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>2017 Expenditures</b>
<b>Federal Grants:</b>			
<b><u>U. S. Department of Agriculture</u></b>			
<b><u>Food and Nutrition Service</u></b>			
School Nutrition Program (Note 3)			
<u>Child Nutrition Cluster</u>			
Non-Cash Assistance (Commodities):			
Passed-through the N.C. Department of Agriculture:			
Commodity Supplemental Food Program	10.555		\$ 108,520
Non-Cash Assistance			108,520
Cash Assistance:			
Passed-through the N. C. Department of Public Instruction:			
School Breakfast Program	10.553		523,364
National School Lunch Program	10.555		1,266,759
Summer Food Service Program for Children	10.559		31,038
Total Cash Assistance			1,821,161
Total Child Nutrition Cluster			1,929,681
Total School Nutrition Program (Note 3)	10.582		1,929,681
Total U. S. Department of Agriculture			1,929,681
<b><u>U. S. Department of Education</u></b>			
<b><u>Office of Elementary and Secondary Education</u></b>			
Passed-through the N. C. Department of Public Instruction:			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	84.010	PRC 050	1,068,692
Total Title I, Part A Cluster			1,068,692
School Improvements Cluster			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) - School Improvements	84.010	PRC 105	149,949
Total School Improvement Cluster			149,949



**Hertford County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

<b><u>Grantor/Pass-Through Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>State/ Pass-through Grantor's Number</u></b>	<b><u>2017 Expenditures</u></b>
<b><u>Special Education Cluster:</u></b>			
Special Education - Grants to States (IDEA, Part B) - Education of the Handicapped	84.027	PRC 060	762,415
Special Education - Preschool Grants (IDEA Preschool) - Preschool Handicapped	84.173	PRC 049	18,138
Special Needs Targeted Assistance	84.027	PRC 118	2,510
Children with Special Needs Risk Pool	84.027	PRC 114	38,879
Preschool Targeted Assistance	84.173	PRC 119	2,608
Total Special Education Cluster			<u>824,550</u>
Career and Technical Education - Basic Grants to States	84.048	PRC 017	51,818
Special Education - State Personnel Development Grant	84.323	PRC 082	2,339
Rural Education	84.358	PRC 109	26,481
Supporting Effective Instruction	84.367	PRC 103	192,385
21st Century Community Learning Center	84.287	PRC 110	<u>136,371</u>
Total U.S. Department of Education			<u>2,452,585</u>
<b><u>U. S. Department of Defense</u></b>			
Direct Program:			
ROTC	None	PRC 301	<u>54,717</u>
Total federal assistance			\$ <u>4,436,983</u>
<b>State Grants:</b>			
Cash Assistance:			
<b><u>N. C. Department of Public Instruction</u></b>			
State Public School Fund			\$ 21,125,247
Driver Training - SPSF		PRC 012	53,833
School Technology Fund - SPSF		PRC 015	-
Vocational Education			
-- State Months of Employment		PRC 013	893,262
-- Program Support Funds		PRC 014	<u>225,775</u>
Total N. C. Department of Public Instruction			<u>22,298,117</u>

**Hertford County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

<b>Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>2017 Expenditures</b>
<b><u>N.C. Department of Health and Human Services</u></b>			
Division of Child Development			
Smart Start			48,200
NC Pre-Kindergarten Program			721,455
Division of Public Health			
School Nurse Funding Initiative			50,000
Total N.C. Department of Health and Human Services			819,655
NonCash Assistance:			
<b><u>N. C. Department of Public Instruction</u></b>			
School Buses Appropriation			228,477
Textbooks - Noncash			-
Total State Assistance			23,346,249
Total Federal and State Assistance			\$ 27,783,232

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Hertford County Board of Education under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. 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 Hertford County Board of Education, it is not intended to and does not present the financial position, changes in net assets or cash flows of Hertford County Board of Education.

2 Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Hertford County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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