SCOTLAND COUNTY
BOARD OF EDUCATION
Laurinburg, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2017

SCOTLAND COUNTY BOARD OF EDUCATION
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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Scotland County Board of Education 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, State Public School and Federal Grants funds for the year then ended in conformity 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 3 through 10 and the Schedule of the Board's Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 43 and 44, 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 opinions on the financial statements that collectively comprise the Scotland County Board of Education's basic financial statements. The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund schedule, budgetary 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017 on our consideration of the Scotland County Board of Education's internal control over financial reporting and on 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 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 Scotland County Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

October 9, 2017
Rockingham, North Carolina
(910) 997-1418

This section of the Scotland 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

For the fiscal year ended June 30, 2017, the Board's total government-wide net position decreased by $2.7 million, or 10.4%. Governmental activities net position decreased by $2.8 million, or 11.5%, and business-type activities net position increased by $158,000, or 13.0%.

- Total government-wide net investment in capital assets decreased by $1.3 million, or 4.1% from the prior year. Governmental activities net investment in capital assets decreased by $1.3 million, or 4.0%, and business-type activities net investment in capital assets decreased by $33,000, or 12.6%.

- Total restricted net position increased by $61,000, or 10.0%. Restricted net position is found only in the governmental activities.

- The Board's total government-wide unrestricted net position at June 30, 2017 decreased by $1.4 million from the prior year. Governmental activities unrestricted net position decreased by $1.6 million while business-type activities unrestricted net position increased by $191,000 over the prior year.

- The Board receives funding from the Scotland County Board of Commissioners under Chapter 707 of the 1963 Session Laws, which was amended by the 2002 General Assembly. For the 2016-2017 fiscal year, the Board of Education received a 2.3% decrease in local County appropriation.

Overview of the Financial Statements

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

- *Independent Auditors' Report*

- *Management's Discussion and Analysis (required supplementary information)*

- *Basic Financial Statements*

- *Required supplemental section that presents budgetary schedules and other schedules for governmental and enterprise funds.*

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

Government-wide Statements

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

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

- Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating.

- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of its school buildings and other physical assets.

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

- *Governmental activities*: Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and State and federal aid finance most of these activities.

- *Business-type activities*: The Board charges fees to help it cover the costs of certain services it provides. School food service 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.

Scotland County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements, in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund and the Federal Grants Fund.

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

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

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

Fiduciary Funds: The Board is the trustee, or fiduciary, for assets that belong to others, such as the Private Purpose Trust Fund. The Board is responsible for ensuring that the assets reported in this fund are used only for their intended purpose and by those to whom the assets belong. The Board excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The fiduciary fund statements are shown as Exhibits 10 and 11.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by $22.9 million as of June 30, 2017 as compared to $25.6 million as of June 30, 2016, a decrease of $2.7 million. The largest component of net position is net investment in capital assets of $31.3 million. Following is a summary of the Statement of Net Position at June 30, 2017 and 2016:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Current assets	$ 5,748,095	$ 6,493,774	$ 1,594,187	$ 1,399,943	$ 7,342,282	$ 7,893,717
Capital assets	31,414,301	32,403,442	231,099	264,368	31,645,400	32,667,810
Total assets	37,162,396	38,897,216	1,825,286	1,664,311	38,987,682	40,561,527
Deferred outflows of resources	14,694,219	3,001,061	471,863	92,552	15,166,082	3,093,613
Current liabilities	4,283,655	4,084,425	137,963	147,306	4,421,618	4,231,731
Long-term liabilities	24,460,791	10,790,886	737,376	300,383	25,198,167	11,091,269
Total liabilities	28,744,446	14,875,311	875,339	447,689	29,619,785	15,323,000
Deferred inflows of resources	1,552,445	2,650,953	49,852	95,172	1,602,297	2,746,125
Net investment in capital assets	31,049,377	32,340,391	231,099	264,368	31,280,476	32,604,759
Restricted net position	671,987	611,170	-	-	671,987	611,170
Unrestricted net position (deficit)	(10,161,640)	(8,579,548)	1,140,859	949,634	(9,020,781)	(7,629,914)
Total net position	$ 21,559,724	$ 24,372,013	$ 1,371,958	$ 1,214,002	$ 22,931,682	$ 25,586,015

The net position of the Board's governmental activities decreased $2.8 million during the year, from $24.4 million at June 30, 2016 to $21.6 million at June 30, 2017, indicating a decline in the financial condition of the Board. Restricted net position increased by $61,000 due to an increase in General Fund receivables which are restricted by State statute. Unrestricted net position decreased by $1.6 million from the prior year primarily due to increased pension expense associated with GASB 68. Net investment in capital assets decreased $1.3 million due to an excess of depreciation expense over capital additions for the year.

The net position of the Board's business-type activities increased $158,000 during the year. This increase of $158,000 is the net profit generated by our school food service operations during the 2017 fiscal year.

The following table shows the revenues and expenses of the Board for the current and prior fiscal years:

Table 2
Condensed Statement of Activities
For the Fiscal Years Ended June 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Revenues:						
Program revenues:						
Charges for services	$ 1,147,689	$ 1,202,753	$ 271,168	$ 266,872	$ 1,418,857	$ 1,469,625
Operating grants and contributions	43,806,474	43,973,064	3,786,869	3,652,138	47,593,343	47,625,202
Capital grants and contributions	128,647	21,017	-	-	128,647	21,017
General revenues:						
County appropriations	10,883,014	11,361,367	-	-	10,883,014	11,361,367
State appropriations	3,595,286	3,500,057	-	-	3,595,286	3,500,057
Other revenues	199,160	434,706	10,616	10,055	209,776	444,761
Total revenues	59,760,270	60,492,964	4,068,653	3,929,065	63,828,923	64,422,029
Expenses:						
Governmental activities:						
Instructional services	48,999,404	44,833,837	-	-	48,999,404	44,833,837
System-wide support services	13,468,046	13,531,757	-	-	13,468,046	13,531,757
Ancillary services	5,446	12,272	-	-	5,446	12,272
Payments to other governments	13,710	18,218	-	-	13,710	18,218
Unallocated depreciation	38,347	44,567	-	-	38,347	44,567
Business-type activities:						
School food service	-	-	3,958,303	3,811,558	3,958,303	3,811,558
Total expenses	62,524,953	58,440,651	3,958,303	3,811,558	66,483,256	62,252,209
Excess (deficiency) before transfers	(2,764,683)	2,052,313	110,350	117,507	(2,654,333)	2,169,820
Transfers in (out)	(47,606)	(45,000)	47,606	45,000	-	-
Change in net position	(2,812,289)	2,007,313	157,956	162,507	(2,654,333)	2,169,820
Beginning net position	24,372,013	22,364,700	1,214,002	1,051,495	25,586,015	23,416,195
Ending net position	$ 21,559,724	$ 24,372,013	$ 1,371,958	$ 1,214,002	$ 22,931,682	$ 25,586,015

Total governmental activities generated revenues of $59.8 million while expenses in this category totaled $62.5 million for the year ended June 30, 2017, resulting in the aforementioned decrease in net position of $2.8 million (including transfers to business-type activities of $48,000). Comparatively, revenues were $60.5 million, expenses totaled $58.4 million and transfers out were $45,000 for the year ended June 30, 2016, resulting in an increase in net position of $2.0 million. In comparing the two years, revenues decreased by $733,000, or 1.2%, while expenses increased by $4.1 million, or 7.0%. The overall increase in expenses is primarily attributable to a $3.4 million increase in GASB 68 pension expense. See the footnotes for discussion of pension-related amounts and disclosures.

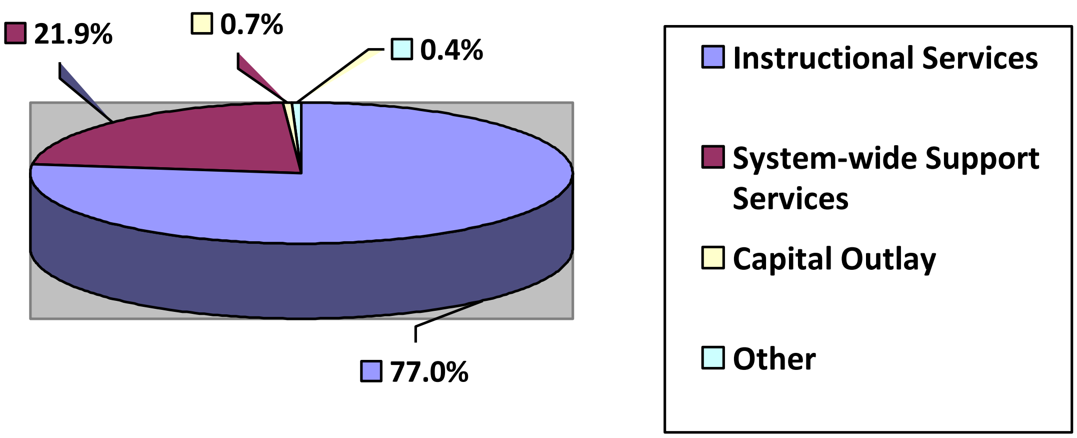
The Board's primary sources of revenues were funding from the State of North Carolina, Scotland County, and the United States Government, which respectively comprised 69.4%, 17.6% and 8.9% of our total governmental activities revenues. As would be expected, the major component of our expenses was instructional services which accounted for 78.4% of our total expenses during the most recent fiscal year. Of the remaining 21.6% of our total expenses, 21.5% was attributable to system-wide support services.

Our business-type activities generated revenues of $4.1 million, while expenses in this category totaled $4.0 million for the year ended June 30, 2017. For the year, net position increased by $158,000, including $48,000 of transfers from governmental activities. Comparatively, revenues were $3.9 million, expenses were $3.8 million and transfers from governmental activities were $45,000 for the year ended June 30, 2016 for an increase in net position of $163,000. In comparing the two years, revenues increased $140,000, or 3.6%, primarily due to a $137,000 increase in federal reimbursements. Expenses increased by $147,000, or 3.9%. An increase in salary and benefit costs was the primary factor contributing to the rise in expenses.

Financial Analysis of the Board's Funds

Governmental Funds: The focus of Scotland 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 $3.3 million at June 30, 2017, a decrease of $722,000 from the $4.1 million reported at June 30, 2016. The Board's General Fund reported a decrease in fund balance for the year of $753,000 while the Capital Outlay Fund reported an increase of $41,000. The Individual Schools Fund reported a decrease in fund balance of $10,000 for the year. There were no significant changes in revenues or expenditures reported for the Capital Outlay and Individual Schools funds compared to the prior year. See the section below titled *General Fund Budgetary Highlights* for more discussion regarding amounts reported in the General Fund. The State Public School Fund and Federal Grants Fund do not carry fund balance. All revenues are expended in the year received. Revenues and expenditures in these two funds remained fairly consistent with the amounts reported in the prior year.

Categorization of Expenditures for Governmental Funds



Expenditures presented on modified accrual basis of accounting.

Proprietary Fund: The Board's business-type fund, the School Food Service Fund, reported an increase in net position of $158,000 for the fiscal year ended June 30, 2017 compared to an increase of $163,000 for the same 2016 period. See the section above titled *Financial Analysis of the Board as a Whole* for more discussion regarding the Board's School Food Service Fund operations for the year ended June 30, 2017.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and program allocations. The effect of these revisions was to increase the original budget by $386,000 during the year. Since several revenue sources are either unknown or uncertain at the beginning of the fiscal year when the original budget is adopted, budget revisions are necessary throughout the year to recognize these adjustments.

For the year, the Board's General Fund reported a decrease in fund balance of $753,000. Revenues decreased $617,000, or 4.4% from the prior year while expenditures increased $1.0 million, or 7.8%. The decrease in revenues is largely due to a 2.3% decrease in local County appropriation. Instructional services expenditures increased $1.1 million over the prior year. This increase was attributable to an investment in 1:1 student technology to increase student engagement and the support software needed to maximize the investment. Expenditures exceeded budget by $315,000 for the year, due primarily to unexpected delays in funding from the County for certain expenditures incurred by the Board.

Capital Assets

Total primary government capital assets were $31.6 million at June 30, 2017 compared to $32.7 million at June 30, 2016, a decrease of 3.1%. The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2017 and 2016. More detailed information about the Board's capital assets is contained in Note 3 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Land	$ 447,751	$ 453,601	$ -	$ -	$ 447,751	$ 453,601
Buildings and improvements	29,856,440	31,105,534	-	-	29,856,440	31,105,534
Equipment and furniture	388,612	387,300	231,099	264,368	619,711	651,668
Vehicles	721,498	457,007	-	-	721,498	457,007
Total	$ 31,414,301	$ 32,403,442	$ 231,099	$ 264,368	$ 31,645,400	$ 32,667,810

Debt Outstanding

During the year, the Board's long-term debt increased to $302,000 at June 30, 2017. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds virtually all debt issued for school capital construction. More detailed information about the Board's outstanding debt is contained in Note 3 to the financial statements.

Economic Factors

County funding is a major source of income for the school district; therefore, the County's economic outlook directly affects that of the school district. Scotland County's economy remains vested in industrial manufacturing. The following factors impact the current economic outlook of Scotland County and the Board of Education:

- Scotland County's unemployment rate continues to be higher than the national and State averages.

- Scotland County Schools continues to lose students – close to 1,000 over the last ten years. Opposed to losing students to charter and private schools, the decrease is correlated to the overall county population which is following the same basic direction.

- The County Commissioners work diligently to attract manufacturing companies through various incentive programs that are run through the Scotland County Economic Development Program along with the Chamber of Commerce. The focus has been on building an inventory of acreage with the proper sewer, water and fiber capacities that can attract large industrial companies.

- In June of 2015 the Scotland County Board of Education and the Scotland County Board of Commissioners agreed on a three year agreement that deviated from the General Statute mandated funding formula (only binding funding formula in the State of North Carolina) that has been in place since the 1960's. Simply put, the agreement has a 2.25% reduction per year until FY 2017-18, and a stipulation that neither the Board of Education nor the Board of County Commissioners can seek a new general statute to remove the underlying funding formula. Also, for the next three years a funding agreement of $300,000 per year has been set for capital outlay. An additional list of needs outside of the $300,000 allotment has been sent to the County Manager from the Superintendent per the five year facility study and other staff observations. This reduction has helped facilitate a reduction of 2 cents per $100 valuation on the County's ad valorem property tax rate.

- State mandated raises and the cut of 2.25% discussed in the above paragraph illustrate the necessity for the board of education to use fund balance to balance the budget for 2017-18. Additional budget amendments will appropriate more fund balance due to a provision in House Bill 1030 calling for merit based bonuses for State-paid employees that are non-educators only. The Board feels that it is imperative to include all employees that are non-educators in the merit based bonus process regardless of what fund they are paid from.

- Phase I of consolidation, which closed two elementary schools and one middle school, is viewed as a success. Phase II has been divided up into Phase II and III, where phase II consists of adding wings to two elementary schools and phase III consisting of building an elementary school, then closing four existing elementary schools. With the final count of schools going from three middle schools to two middle schools and eight elementary schools to four elementary schools with both phases of consolidation. Phase II is set to begin in FY 2018-19.

These factors were considered in preparing the Board's budget for the new fiscal year. The Board's budget was created with a focus on protecting instructional program allocations and certified personnel.

Requests for Information

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

Jay Toland, Chief Financial Officer
Scotland County Board of Education
322 South Main Street
Laurinburg, NC 28352

SCOTLAND COUNTY BOARD OF EDUCATION **Exhibit 1**
STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 3,569,580	$ 1,496,204	$ 5,065,784
Due from other governments	1,903,318	149,367	2,052,685
Receivables	132,223	-	132,223
Internal balances	142,974	(142,974)	-
Inventories	-	91,590	91,590
Capital assets:			
Land	447,751	-	447,751
Other capital assets, net of depreciation	30,966,550	231,099	31,197,649
Total capital assets	31,414,301	231,099	31,645,400
Total assets	37,162,396	1,825,286	38,987,682
Deferred Outflows of Resources	14,694,219	471,863	15,166,082
Liabilities			
Accounts payable and accrued expenses	418,347	-	418,347
Accrued salaries and wages payable	2,000,392	77,797	2,078,189
Unearned revenue	-	7,698	7,698
Long-term liabilities:			
Due within one year	1,864,916	52,468	1,917,384
Due in more than one year	1,912,257	13,295	1,925,552
Net pension liability	22,548,534	724,081	23,272,615
Total liabilities	28,744,446	875,339	29,619,785
Deferred Inflows of Resources	1,552,445	49,852	1,602,297
Net position			
Net investment in capital assets	31,049,377	231,099	31,280,476
Restricted for:			
Stabilization by State statute	307,181	-	307,181
School capital outlay	85,793	-	85,793
Individual schools activities	279,013	-	279,013
Unrestricted (deficit)	(10,161,640)	1,140,859	(9,020,781)
Total net position	$ 21,559,724	$ 1,371,958	$ 22,931,682

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

SCOTLAND COUNTY BOARD OF EDUCATION ***Exhibit 2***
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	$ 27,840,345	$ -	$ 21,636,206	$ -	$ (6,204,139)	$ -	$ (6,204,139)
Special populations	6,815,971	-	6,436,407	-	(379,564)	-	(379,564)
Alternative programs	5,581,028	-	5,193,808	-	(387,220)	-	(387,220)
School leadership	3,269,276	-	1,639,837	-	(1,629,439)	-	(1,629,439)
Co-curricular	1,433,887	1,138,179	-	-	(295,708)	-	(295,708)
School-based support	4,058,708	-	3,055,394	-	(1,003,314)	-	(1,003,314)
System-wide support services:							
Support and development	769,281	-	228,802	-	(540,479)	-	(540,479)
Special population support and development	1,046,539	-	747,761	-	(298,778)	-	(298,778)
Alternative programs and services support and development	220,512	-	212,032	-	(8,480)	-	(8,480)
Technology support	569,241	-	101,305	-	(467,936)	-	(467,936)
Operational support	8,031,020	-	3,616,930	128,647	(4,285,443)	-	(4,285,443)
Financial and human resource services	1,282,128	9,510	488,330	-	(784,288)	-	(784,288)
Accountability	216,967	-	20,611	-	(196,356)	-	(196,356)
System-wide pupil support	64,374	-	(17,229)	-	(81,603)	-	(81,603)
Policy, leadership and public relations	1,268,173	-	333,652	-	(934,521)	-	(934,521)
Ancillary services	5,446	-	4,669	-	(777)	-	(777)
Payments to other governments	13,710	-	107,959	-	94,249	-	94,249
Unallocated depreciation expense**	38,347	-	-	-	(38,347)	-	(38,347)
Total governmental activities	62,524,953	1,147,689	43,806,474	128,647	(17,442,143)	-	(17,442,143)
Business-type activities:							
School food service	3,958,303	271,168	3,786,869	-	-	99,734	99,734
Total primary government	$ 66,483,256	$ 1,418,857	$ 47,593,343	$ 128,647	(17,442,143)	99,734	(17,342,409)
General revenues:							
Unrestricted county appropriations - operating					10,583,014	-	10,583,014
Unrestricted county appropriations - capital					300,000	-	300,000
Unrestricted State appropriations - operating					3,495,286	-	3,495,286
Unrestricted State appropriation - capital					100,000	-	100,000
Investment earnings, unrestricted					8,381	5,281	13,662
Miscellaneous, unrestricted					190,779	5,335	196,114
Transfers					(47,606)	47,606	-
Total general revenues and transfers					14,629,854	58,222	14,688,076
Change in net position					(2,812,289)	157,956	(2,654,333)
Net position - beginning					24,372,013	1,214,002	25,586,015
Net position - ending					$ 21,559,724	$ 1,371,958	$ 22,931,682

**This amount excludes the depreciation that is included in the direct expenses of the various programs.

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

SCOTLAND COUNTY BOARD OF EDUCATION **_Exhibit 3_**
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	Major Funds				Non-major Fund	
	General	State Public School	Federal Grants	Capital Outlay	Individual Schools	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 3,259,661	$ -	$ -	$ 30,906	$ 279,013	$ 3,569,580
Due from other governments	31,984	1,633,654	137,680	100,000	-	1,903,318
Accounts receivable	132,223	-	-	-	-	132,223
Due from other funds	142,974	-	-	-	-	142,974
Total assets	$ 3,566,842	$ 1,633,654	$ 137,680	$ 130,906	$ 279,013	$ 5,748,095
Liabilities and Fund balances						
Liabilities:						
Accounts payable and accrued liabilities	$ 373,234	$ -	$ -	$ 45,113	$ -	$ 418,347
Accrued salaries and wages payable	229,058	1,633,654	137,680	-	-	2,000,392
Total liabilities	602,292	1,633,654	137,680	45,113	-	2,418,739
Fund balances:						
Restricted:						
Stabilization by State statute	307,181	-	-	-	-	307,181
School capital outlay	-	-	-	85,793	-	85,793
Individual schools	-	-	-	-	279,013	279,013
Assigned:						
Subsequent year's expenditures	379,239	-	-	-	-	379,239
Unassigned	2,278,130	-	-	-	-	2,278,130
Total fund balances	2,964,550	-	-	85,793	279,013	3,329,356
Total liabilities and fund balances	$ 3,566,842	$ 1,633,654	$ 137,680	$ 130,906	$ 279,013	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	31,414,301
Deferred outflows of resources related to pensions	14,694,219
Some liabilities, including those for compensated absences and installment purchases, are not due and payable in the current period and therefore are not reported in the funds.	(3,777,173)
Net pension liability	(22,548,534)
Deferred inflows of resources related to pensions	(1,552,445)
Net position of governmental activities	$ 21,559,724

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

SCOTLAND COUNTY BOARD OF EDUCATION ***Exhibit 4***

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2017

	Major Funds				Non-major Fund	
	General	State Public School	Federal Grants	Capital Outlay	Individual Schools	Total Governmental Funds
Revenues:						
State of North Carolina	$ 1,344,611	$ 40,203,296	$ -	$ 228,647	$ -	$ 41,776,554
Scotland County:						
Local current expense	10,583,014	-	-		-	10,583,014
Other	-	-	-	300,000	-	300,000
U.S. Government	426,192	-	4,916,774	-	-	5,342,966
Other	909,621	-	-	162,110	1,138,179	2,209,910
Total revenues	13,263,438	40,203,296	4,916,774	690,757	1,138,179	60,212,444
Expenditures:						
Current:						
Instructional services:						
Regular instructional	3,653,441	22,288,743	362,371	8,006	-	26,312,561
Special populations	682,567	5,102,188	934,794	-	-	6,719,549
Alternative programs	1,670,749	1,531,670	2,317,527	-	-	5,519,946
School leadership	918,806	2,283,862	3,200	-	-	3,205,868
Co-curricular	280,696	-	-	-	1,148,515	1,429,211
School-based support	452,656	3,503,701	42,218	-	-	3,998,575
System-wide support services:						
Support and development	463,944	288,111	2,992	-	-	755,047
Special population support and development	284,312	90,884	656,877	-	-	1,032,073
Alternative programs and services support and development	5,103	1,726	210,306	-	-	217,135
Technology support	90,053	470,607	-	-	-	560,660
Operational support	3,730,908	3,504,302	65,022	533,082	-	7,833,314
Financial and human resource services	816,771	500,550	213,508	-	-	1,530,829
Accountability	125,131	89,228	-	-	-	214,359
System-wide pupil support	-	63,311	-	-	-	63,311
Policy, leadership and public relations	819,831	432,138	-	-	-	1,251,969
Ancillary services	777	4,669	-	-	-	5,446
Non-programmed charges	20,435	-	107,959	-	-	128,394
Debt service:						
Principal retirement	-	-	-	128,647	-	128,647
Capital outlay	-	-	-	410,803	-	410,803
Total expenditures	14,016,180	40,155,690	4,916,774	1,080,538	1,148,515	61,317,697
Revenues over (under) expenditures	(752,742)	47,606	-	(389,781)	(10,336)	(1,105,253)
Other financing sources (uses):						
Transfers to other funds	-	(47,606)	-	-	-	(47,606)
Installment purchase obligations issued	-	-	-	430,520	-	430,520
Total other financing sources (uses)	-	(47,606)	-	430,520	-	382,914
Net change in fund balance	(752,742)	-	-	40,739	(10,336)	(722,339)
Fund balances:						
Beginning of year	3,717,292	-	-	45,054	289,349	4,051,695
End of year	$ 2,964,550	$ -	$ -	$ 85,793	$ 279,013	$ 3,329,356

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2017

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

Net changes in fund balances - total governmental funds	$	(722,339)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(880,339)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities		3,327,329
Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities.		(75,849)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(301,873)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental		
Pension expense		(4,063,531)
Compensated absences		(62,734)
Loss on disposal of capital assets		(32,953)
Total changes in net position of governmental activities	$	(2,812,289)

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

SCOTLAND COUNTY BOARD OF EDUCATION — Exhibit 6
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2017

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ 1,292,612	$ 1,344,611	$ 1,344,611	$ -
Scotland County	10,583,014	10,583,014	10,583,014	-
U.S. Government	306,777	475,374	426,192	(49,182)
Other	751,928	917,790	909,621	(8,169)
Total revenues	12,934,331	13,320,789	13,263,438	(57,351)
Expenditures:				
Current:				
Instructional services	8,007,779	7,560,971	7,658,915	(97,944)
System-wide support services	5,300,908	6,119,455	6,336,053	(216,598)
Ancillary services	-	800	777	23
Non-programmed charges	6,516	20,435	20,435	-
Total expenditures	13,315,203	13,701,661	14,016,180	(314,519)
Revenues over (under) expenditures	(380,872)	(380,872)	(752,742)	(371,870)
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	380,872	380,872	-	(380,872)
Net change in fund balance	$ -	$ -	(752,742)	$ (752,742)
Fund balances:				
Beginning of year			3,717,292	
End of year			$ 2,964,550	

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2017

	State Public School Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ 40,617,251	$ 42,336,310	$ 40,203,296	$ (2,133,014)
Scotland County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	40,617,251	42,336,310	40,203,296	(2,133,014)
Expenditures:				
Current:				
Instructional services	35,612,001	36,566,263	34,710,164	1,856,099
System-wide support services	4,959,091	5,717,772	5,440,857	276,915
Ancillary services	-	4,669	4,669	-
Non-programmed charges	-	-	-	-
Total expenditures	40,571,092	42,288,704	40,155,690	2,133,014
Revenues over (under) expenditures	46,159	47,606	47,606	-
Other financing uses:				
Transfers to other funds	(46,159)	(47,606)	(47,606)	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balances:				
Beginning of year			-	
End of year			$ -	

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2017

	Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ -	$ -	$ -	$ -
Scotland County	-	-	-	-
U.S. Government	5,444,448	5,545,605	4,916,774	(628,831)
Other	-	-	-	-
Total revenues	5,444,448	5,545,605	4,916,774	(628,831)
Expenditures:				
Current:				
Instructional services	3,836,519	3,987,967	3,660,110	327,857
System-wide support services	1,022,419	1,295,870	1,148,705	147,165
Ancillary services	-	-	-	-
Nonprogrammed charges	585,510	261,768	107,959	153,809
Total expenditures	5,444,448	5,545,605	4,916,774	628,831
Revenues over (under) expenditures	-	-	-	-
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balances:				
Beginning of year			-	
End of year			$ -	

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

SCOTLAND COUNTY BOARD OF EDUCATION **_Exhibit 7_**
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPE
June 30, 2017

	Enterprise Fund
	Major Fund
	School Food Service
Assets	
Current assets:	
Cash and cash equivalents	$ 1,496,204
Due from other governments	149,367
Inventories	91,590
Total current assets	1,737,161
Noncurrent assets:	
Capital assets:	
Furniture and office equipment, net	231,099
Total assets	1,968,260
Deferred Outflows of Resources	471,863
Liabilities	
Current liabilities:	
Accrued salaries and wages payable	77,797
Due to other funds	142,974
Compensated absences	52,468
Unearned revenue	7,698
Total current liabilities	280,937
Noncurrent liabilities:	
Net pension liability	724,081
Compensated absences	13,295
Total noncurrent liabilities	737,376
Total liabilities	1,018,313
Deferred Inflows of Resources	49,852
Net position	
Net investment in capital assets	231,099
Unrestricted	1,140,859
Total net position	$ 1,371,958

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

SCOTLAND COUNTY BOARD OF EDUCATION ***Exhibit 8***

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND TYPE

For the Fiscal Year Ended June 30, 2017

	Enterprise Fund Major Fund School Food Service
Operating revenues:	
Food sales	$ 271,168
Other	4,748
Total operating revenues	275,916
Operating expenses:	
Food cost:	
Purchase of food	1,206,568
Donated commodities	254,062
Salaries and benefits	1,995,081
Indirect costs	261,641
Materials and supplies	129,223
Repairs and maintenance	21,991
Depreciation	57,801
Contracted services	8,369
Other	23,567
Total operating expenses	3,958,303
Operating loss	(3,682,387)
Nonoperating revenues:	
Federal reimbursements	3,532,807
Federal commodities	254,062
Interest earned	5,281
Gain on disposal of capital assets	587
Total nonoperating revenues	3,792,737
Income before transfers	110,350
Transfers from other funds	47,606
Change in net position	157,956
Net position, beginning of year	1,214,002
Net position, end of year	$ 1,371,958

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
For the Fiscal Year Ended June 30, 2017

	Enterprise Fund Major Fund School Food Service
Cash flows from operating activities:	
Cash received from customers	$ 281,768
Cash paid for goods and services	(1,692,608)
Cash paid to employees for services	(1,926,914)
Other operating revenue	4,748
Net cash used by operating activities	(3,333,006)
Cash flows from noncapital financing activities:	
Due to other funds	99,230
Federal and State reimbursements	3,479,890
Net cash provided by noncapital financing activities	3,579,120
Cash flows from capital and related financing activities:	
Purchase of capital assets	(24,997)
Proceeds from sale of capital assets	1,052
Net cash used by capital and related financing activities	(23,945)
Cash flows from investing activities:	
Interest earned on investments	5,281
Net increase in cash and cash equivalents	227,450
Cash and cash equivalents, beginning of year	1,268,754
Cash and cash equivalents, end of year	$ 1,496,204
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (3,682,387)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	57,801
Donated commodities	254,062
Salaries paid by other funds	47,606
Changes in assets and liabilities:	
Decrease in accounts receivable	12,056
Increase in inventories	(25,163)
Decrease in accounts payable and accrued liabilities	(16,086)
Decrease in accrued salaries and wages payable	6,516
Decrease in unearned revenue	(1,456)
Increase in net pension liability	445,887
Increase in deferred outflows	(379,311)
Decrease in deferred inflows	(45,320)
Decrease in compensated absences payable	(7,211)
Total adjustments	349,381
Net cash used by operating activities	$ (3,333,006)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of $254,062 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

The State Public School Fund paid salaries and benefits of $47,606 to administrative personnel of the School Food Service Fund during the fiscal year. The payments are reflected as a transfer in and an operating expense on Exhibit 8.

The School Food Service Fund reported a gain on disposal of capital assets of $587.

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

SCOTLAND COUNTY BOARD OF EDUCATION ***Exhibit 10***
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2017

	Private Purpose Trust Fund
Assets	
Cash and cash equivalents	$ 186,315
Liabilities	
Accounts payable and accrued liabilities	$ -
Net position	
Assets held in trust for private purpose	$ 186,315

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

SCOTLAND COUNTY BOARD OF EDUCATION **_Exhibit 11_**
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust Fund
Additions:	
Contributions and other revenue	$ 1,861
Deductions:	
Instructional costs	4,000
Change in net position	(2,139)
Beginning net position	188,454
Ending net position	$ 186,315

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Scotland 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 Scotland 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 Scotland County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity. The Board has no component units.

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, including its fiduciary fund. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The fiduciary fund is presented separately. Interfund services provided and used are not eliminated in the process of consolidation.

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. All expenses are considered to be operating expenses.

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.

Federal Grants Fund. The Federal Grants Fund includes appropriations from the U.S. Government for the current operating expenditures of the public school system.

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

The Board reports the following nonmajor governmental fund:

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

The Board reports the following major enterprise fund:

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

The Board reports the following fiduciary fund:

Private Purpose Trust Fund. The Private Purpose Trust Fund is used to account for scholarship money under the control of the Board for the benefit of students in the County.

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences 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 is 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 administrative fiduciary fund and 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 level for all annually budgeted funds. The Board has authorized the Superintendent to transfer amounts within a purpose code within a fund with proper justification. The Superintendent may not transfer any amounts between funds or from any contingency appropriation within a fund. Amendments are required for any revisions that alter total expenditures of any fund or that change purpose appropriations. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer’s Short Term Investment Fund (STIF). The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with State laws and regulations. It is not registered with the SEC. The STIF consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

The Board’s investments are reported at amortized cost or at fair value determined by either quoted market prices or a matrix pricing model. Bank deposits and the NCCMT are measured at amortized cost, which is the NCCMT’s share price. Ownership interest of the STIF is determined on a fair value basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

2. Cash and Cash Equivalents

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

3. Inventories

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

4. Capital Assets

Donated assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities, it is the policy of the Board to capitalize those assets costing more than $5,000 with an estimated useful life of two or more years, while for capital assets utilized in business-type activities, the Board's policy is to capitalize those assets costing more than $500 with an estimated useful life of two or more years. The cost of normal repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

Scotland 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 and improvements	15 - 50
Equipment and furniture	3 - 10
Vehicles	6 - 12

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

5. Deferred outflows and inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has one item that meets this criterion – pension related deferrals. 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 one item that meets this criterion – 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. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2017 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

8. Net Position/Fund Balances

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

The governmental fund types classify fund balances as follows:

Restricted fund balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

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

Restricted for school capital outlay - portion of fund balance that can only be used for school capital outlay. [G.S. 159-18 through 22]

Restricted for individual schools – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

Assigned fund balance – portion of fund balance that the Board of Education intends to use for specific purposes. The Board of Education is authorized to approve appropriations of fund balance in accordance with restrictions established by NC General Statutes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted. The Board of Education approves the appropriation in accordance with State laws.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. A negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will pay expenditures from restricted revenue sources first and then from general unrestricted revenues. 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

a. 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 - total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. The net adjustment of $18,230,368 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)	$ 65,897,089
Less accumulated depreciation	(34,482,788)
Net capital assets	31,414,301
Pension related deferred outflows of resources:	
Contributions made to the pension plan in the current fiscal year	3,327,329
Change of assumptions	3,325,361
Difference between projected and actual earnings on plan investments	8,041,529
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	(364,924)
Compensated absences	(3,412,249)
Net pension liability	(22,548,534)
Deferred inflows of resources related to pensions:	
Differences between contributions and proportional share of contributions and changes in proportion	(486,770)
Differences between expected and actual experience	(1,065,675)
Total adjustment	$ 18,230,368

b. 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 $(2,089,950) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	$ 500,179
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	(1,380,518)
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 only affects the government-wide statement of net position	(430,520)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements	128,647
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	3,327,329
Proceeds from the sale of capital assets are recorded as revenues in the fund Statements but not in the Statement of Activities	(75,849)
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	(4,063,531)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(62,734)
Loss on disposal of capital assets	(32,953)
Total adjustment	$ (2,089,950)

10. Defined Benefit Pension Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' and State Employees' Retirement System (TSERS) and additions to/deductions from TSERS' fiduciary net position have been determined on the same basis as they are reported 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2017, the Board reported expenditures that violated State law [G.S. 115C-441] because they exceeded the amount appropriated in the budget ordinance within the General Fund by $97,944 for instructional services and 216,598 for system-wide support services. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2017, the Board had deposits with banks and savings and loans with a carrying amount of $3,769,435 and with the State Treasurer of $-0-. The bank balances with the financial institutions and the State Treasurer were $4,107,684 and ($16,075), respectively. Of these balances, $561,154 was covered by federal depository insurance and $3,530,455 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2017, the Board had $1,482,664 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.6 years at June 30, 2017. The Board has no investment balances in the NCCMT as of June 30, 2017. The Board has no policy for managing interest rate, credit, concentration or foreign currency risks. All investments are measured using the market approach. The STIF is classified in Level 2 of the fair value hierarchy and valued using prices that are either directly or indirectly observable for an asset or liability.

3. Accounts Receivable

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

	Due from (to) other funds (Internal Balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	$ 142,974	$ 31,984	$ 132,223	$ 307,181
Other governmental activities	-	1,871,334	-	1,871,334
Total governmental activities	$ 142,974	$ 1,903,318	$ 132,223	$ 2,178,515
Business-type activities:				
School Food Service Fund	$ (142,974)	$ 149,367	$ -	$ 6,393

Due from other governments consists of the following:

Governmental activities:		
General Fund	$ 31,984	Federal and State grant funds
State Public School Fund	1,633,654	Operating funds from DPI
Federal Grants Fund	137,680	Federal grants funds
Capital Outlay Fund	100,000	Amounts due from County
Total	$ 1,903,318	
Business-type activities:		
School Food Service Fund	$ 149,367	Federal funds

4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 453,601	$ -	$ 5,850	$ 447,751
Capital assets being depreciated:				
Buildings and improvements	56,152,149	-	604,590	55,547,559
Equipment and furniture	2,511,134	39,659	-	2,550,793
Vehicles	6,890,466	460,520	-	7,350,986
Total capital assets being depreciated	65,553,749	500,179	604,590	65,449,338
Less accumulated depreciation for:				
Buildings and improvements	25,046,615	1,146,142	501,638	25,691,119
Equipment and furniture	2,123,834	38,347	-	2,162,181
Vehicles	6,433,459	196,029	-	6,629,488
Total accumulated depreciation	33,603,908	1,380,518	501,638	34,482,788
Total capital assets being depreciated, net	31,949,841			30,966,550
Governmental activity capital assets, net	$32,403,442			$31,414,301

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment, furniture and vehicles	$ 1,196,958	$ 24,997	$ 9,607	$ 1,212,348
Less accumulated depreciation for:				
Equipment, furniture and vehicles	932,590	57,801	9,142	981,249
School Food Service capital assets, net	$ 264,368			$ 231,099

Depreciation was charged to governmental functions as follows:

Instructional services	$ 1,146,142
System-wide support services	196,029
Unallocated depreciation	38,347
Total	$ 1,380,518

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 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 $3,434,177 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 $23,272,615 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At both June 30, 2016 and June 30, 2015, the Board's proportion was .25%.

For the year ended June 30, 2017, the Board recognized pension expense of $4,191,634. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,099,896
Changes of assumptions	3,432,145	-
Net difference between projected and actual earnings on pension plan investments	8,299,760	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	502,401
Board contributions subsequent to the measurement date	3,434,177	-
Total	$ 15,166,082	$ 1,602,297

$3,434,177 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	$ 1,508,728
2019	1,596,424
2020	4,496,217
2021	2,528,239
2022	-
Thereafter	-
Total	$ 10,129,608

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 8.1 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%
Total	100%	

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)	$ 43,771,291	$ 23,272,615	$ 6,036,038

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

b. Other Postemployment Benefits

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 $1,995,879, $1,896,762 and $1,918,237, respectively. These contributions represented 5.81%, 5.60% and 5.49% of covered payroll, respectively.

Long-term Disability Benefits

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

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

Funding Policy. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 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.

For members with five or more years of membership service as of July 31, 2007, 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 the member might be entitled should the member 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 is 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 $130,539, $138,870 and $143,256, respectively. These contributions represented 0.38%, 0.41% and 0.41% of covered payroll, respectively.

2. Accounts Payable

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

	Vendors and Other	Salaries and Benefits	Total
Governmental activities:			
General Fund	$ 373,234	$ 229,058	$ 602,292
Other governmental activities	45,113	1,771,334	1,816,447
Total governmental activities	$ 418,347	$ 2,000,392	$ 2,418,739
Business-type activities:			
School Food Service Fund	$ -	$ 77,797	$ 77,797

3. Unearned Revenues

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

Business-type activities:	
Prepayments of meals (School Food Service Fund)	$ 7,698

4. Deferred Outflows and Inflows of Resources

The balances in deferred outflows and inflows of resources at year-end are composed of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,099,896
Changes of assumptions	3,432,145	-
Net difference between projected and actual earnings on pension plan investments	8,299,760	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	502,401
Board contributions subsequent to the measurement date	3,434,177	-
Total	$ 15,166,082	$ 1,602,297

5. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of $1 million per claim. The Trust has an annual aggregate limit for both general liability and errors and omissions of $3,150,000 each. The Trust is reinsured through commercial companies for losses in excess of $150,000 per claim for errors and omissions and general liability coverage. Statutory workers' compensation coverage is purchased through a private insurer for employees to the extent they are paid from Federal and local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction. The Fund insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of $10 million. Excess reinsurance is purchased through commercial insurers. A limit of $5 million per occurrence is provided on flood, earthquake, business interruption and extra expense. $10 million per occurrence is provided on increased cost of construction.

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for $100,000. The remaining employees that have access to funds are bonded under a blanket bond for $100,000.

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

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through special third party financing arrangements. During the current and prior fiscal years, the Board entered into two such contracts for the purchase of a school bus. The financing contracts each require four equal principal-only payments with the first payment due within 10 days of receipt of the bus and the following 3 payments due on the next 3 immediately following November 15th dates. The future minimum payments of the installment purchases as of June 30, 2017 are as follows:

Year Ending June 30,	Governmental Activities Principal
2018	$ 128,647
2019	128,647
2020	107,630
Total	$ 364,924

b. Long-Term Obligation Activity

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

	July 1, 2016	Increases	Decreases	June 30, 2017	Current Portion
Governmental activities:					
Installment purchases	$ 63,051	$ 430,520	$ 128,647	$ 364,924	$ 128,647
Net pension liability	9,020,666	13,527,868	-	22,548,534	-
Compensated absences	3,349,515	2,370,068	2,307,334	3,412,249	1,736,269
Total	$ 12,433,232	$ 16,328,456	$ 2,435,981	$ 26,325,707	$ 1,864,916
Business-type activities:					
Net pension liability	$ 278,194	$ 445,887	$ -	$ 724,081	$ -
Compensated absences	72,974	84,863	92,074	65,763	52,468
Total	$ 351,168	$ 530,750	$ 92,074	$ 789,844	$ 52,468

Compensated absences and the net pension liability related to governmental activities are typically liquidated by the General and other governmental funds.

C. Interfund Balances and Activity

1. Transfers to/from other Funds

From the State Public School Fund to the School Food Service Fund for administrative costs	$ 47,606

2. Interfund Balances

The composition of interfund balances as of June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	School Food Service Fund	$ 142,974

The amount due to the General Fund from the School Food Service Fund is for workers compensation insurance, employer health insurance premiums and salary reimbursements owed at year end. All of these amounts are expected to be paid prior to June 30, 2018.

D. Fund Balance

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	$	2,964,550
Less:		
Stabilization by State statute		(307,181)
Appropriated fund balance in 2017-2018 budget		(379,239)
Remaining fund balance	$	2,278,130

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE 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*

	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.253%	0.252%	0.253%	0.272%
Board's proportionate share of the net pension liability (asset)	$ 23,272,615	$ 9,298,860	$ 2,968,687	$ 16,494,959
Board's covered-employee payroll	$ 33,809,978	$ 35,063,051	$ 33,761,157	$ 36,618,454
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	68.83%	26.52%	8.79%	45.05%
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.

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only four years of data presented.

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 3,434,177	$ 3,093,613	$ 3,208,269	$ 2,933,845
Contributions in relation to the contractually required contribution	3,434,177	3,093,613	3,208,269	2,933,845
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Board's covered-employee payroll	$ 34,410,591	$ 33,809,978	$ 35,063,051	$ 33,761,157
Contributions as a percentage of covered-employee payroll	9.98%	9.15%	9.15%	8.69%

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only four years of data presented.

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
NC Pre- Kindergarten Program	$ 1,344,611	$ 1,344,611	$ -
Scotland County:			
County appropriation	10,583,014	10,583,014	-
U.S. Government:			
Gear Up NC Grant	168,597	113,744	(54,853)
Indian Education	224,601	211,573	(13,028)
Workforce Investment Act	82,176	58,656	(23,520)
ROTC	-	42,219	42,219
Total U.S. Government	475,374	426,192	(49,182)
Other:			
Fines and forfeitures	-	78,468	78,468
Interest earned on investment	15,000	8,381	(6,619)
Indirect costs allocated	350,000	376,326	26,326
Private grants and programs	-	1,250	1,250
Rental of school property	9,300	9,510	210
Medicaid and other reimbursements	479,875	410,887	(68,988)
Miscellaneous	63,615	24,799	(38,816)
Total other	917,790	909,621	(8,169)
Total revenues	13,320,789	13,263,438	(57,351)
Expenditures:			
Current:			
Instructional services:			
Regular instructional	-	3,653,441	-
Special populations	-	682,567	-
Alternative programs	-	1,670,749	-
School leadership	-	918,806	-
Co-curricular	-	280,696	-
School-based support	-	452,656	-
Total instructional services	7,560,971	7,658,915	(97,944)

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)
GENERAL FUND
For the Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Expenditures: (Continued)			
Current:			
System-wide support services:			
Support and development	-	463,944	-
Special population support and development	-	284,312	-
Alternative programs and services support and development	-	5,103	-
Technology support	-	90,053	-
Operational support	-	3,730,908	-
Financial and human resource services	-	816,771	-
Accountability	-	125,131	-
Policy, leadership and public relations	-	819,831	-
Total system-wide support services	6,119,455	6,336,053	(216,598)
Ancillary services:			
Community	800	777	23
Non-programmed charges			
Payments to other governments	20,435	20,435	-
Total expenditures	13,701,661	14,016,180	(314,519)
Revenues over (under) expenditures	(380,872)	(752,742)	(371,870)
Fund balance appropriated	380,872	-	(380,872)
Net change in fund balance	$ -	(752,742)	$ (752,742)
Fund balance:			
Beginning of year		3,717,292	
End of year		$ 2,964,550	

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS FUND
For the Fiscal Year Ended June 30, 2017

	Revenues	Expenditures	Net change in fund balance	Fund balances June 30, 2016	Fund balances June 30, 2017
Scotland High	$ 633,932	$ 612,227	$ 21,705	$ 130,793	$ 152,498
Carver Middle	119,940	114,223	5,717	25,635	31,352
Spring Hill Middle	99,574	115,625	(16,051)	27,310	11,259
Sycamore Lane Middle	33,792	32,271	1,521	4,432	5,953
I. Ellis Johnson Elementary	20,483	20,184	299	14,152	14,451
Covington Street Primary	20,180	27,875	(7,695)	16,791	9,096
Laurel Hill Elementary	47,570	54,483	(6,913)	7,105	192
North Laurinburg Elementary	23,038	24,063	(1,025)	5,226	4,201
South Scotland Elementary	66,510	81,189	(14,679)	28,112	13,433
Wagram Elementary	52,837	52,358	479	7,421	7,900
Shaw Academy	1,965	1,493	472	429	901
Scotland Early College	18,358	12,524	5,834	21,943	27,777
Totals	$ 1,138,179	$ 1,148,515	$ (10,336)	$ 289,349	$ 279,013

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	$ 128,647	$ 128,647	$ -
Public School Capital Fund - Lottery	375,000	100,000	(275,000)
Total State of North Carolina	503,647	228,647	(275,000)
Scotland County:			
County appropriations	300,000	300,000	-
Other:			
Fines and forfeitures	188,500	64,028	(124,472)
Proceeds from disposal of capital assets	-	75,849	75,849
Activity bus replacement revenue	-	22,209	22,209
Miscellaneous	-	24	24
Total other	188,500	162,110	(26,390)
Total revenues	992,147	690,757	(301,390)
Expenditures:			
Current:			
Instructional services:			
Regular instructional	25,500	8,006	17,494
System-wide support services:			
Operational support	533,520	533,082	438
Debt service:			
Principal retirement	128,647	128,647	-
Capital outlay:			
Buildings and improvements:			
Scotland High - Lottery	-	100,000	-
Other real property and buildings	-	285,349	-
Total buildings and improvements	-	385,349	-
Buses and motor vehicles	-	25,454	-
Total capital outlay	785,000	410,803	374,197
Total expenditures	1,472,667	1,080,538	374,197
Revenues under expenditures	(480,520)	(389,781)	90,739
Other financing sources:			
Installment purchase obligations issued	480,520	430,520	(50,000)
Net change in fund balance	$ -	40,739	$ 40,739
Fund balance:			
Beginning of year		45,054	
End of year		$ 85,793	

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Food sales	$ 228,000	$ 271,168	$ 43,168
Other	300	4,748	4,448
Total operating revenues	228,300	275,916	47,616
Operating expenditures:			
Business support services:			
Purchase of food	-	1,231,731	-
Donated commodities	-	254,062	-
Salaries and benefits	-	1,981,036	-
Indirect costs	-	261,641	-
Materials and supplies	-	129,223	-
Repairs and maintenance	-	21,991	-
Contracted services	-	8,369	-
Other	-	23,567	-
Capital outlay	-	24,997	-
Total operating expenditures	4,209,800	3,936,617	273,183
Operating loss	(3,981,500)	(3,660,701)	320,799
Nonoperating revenues:			
Federal reimbursements	3,679,000	3,532,807	(146,193)
Federal commodities	300,000	254,062	(45,938)
Interest earned	2,500	5,281	2,781
Total nonoperating revenues	3,981,500	3,792,150	(189,350)
Excess of revenues over expenditures before other financing sources	-	131,449	131,449
Other financing sources:			
Transfers from other funds	-	47,606	47,606
Net change in fund balance	$ -	179,055	$ 179,055
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(57,801)	
Net pension liability		(445,887)	
Deferred outflows - pension		379,311	
Deferred inflows - pension		45,320	
Equipment purchases		24,997	
Gain on disposal of capital assets		587	
Decrease in compensated absences payable		7,211	
Increase in inventories		25,163	
Change in net position (full accrual)		$ 157,956	

ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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*

To the Scotland County Board of Education
Laurinburg, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scotland County Board of Education, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Scotland County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 9, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 internal control over financial reporting 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. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 17-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scotland County 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 17-01.

Scotland County Board of Education's Response to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Anderson Smith & Wike PLLC

October 9, 2017
Rockingham, North Carolina

ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

To the Scotland County Board of Education
Laurinburg, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Scotland County Board of Education, North Carolina'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 the Board's major federal programs for the year ended June 30, 2017. The Scotland 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 Scotland 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; 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 Scotland 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 on the Scotland County Board of Education's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Scotland 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, we considered the Scotland County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Scotland County Board of Education'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 deficiencies, 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.

Anderson Smith & Wike PLLC

October 9, 2017
Rockingham, North Carolina

INDEPENDENT AUDITORS' REPORT

Report On Compliance with Requirements Applicable to Each Major State
Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the
State Single Audit Implementation Act

To the Scotland County Board of Education
Laurinburg, North Carolina

Report on Compliance for Each Major State Program

We have audited Scotland County Board of Education, North Carolina'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 Board's major State programs for the year ended June 30, 2017. The Scotland 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 requirements 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 Scotland 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 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Scotland 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 state program. However, our audit does not provide a legal determination of the Scotland County Board of Education's compliance.

Opinion on Each Major State Program

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

Report on Internal Control Over Compliance

Management of the Scotland 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 Scotland 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 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 Scotland County Board of Education's internal control over compliance.

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

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

Anderson Smith & Wike PLLC

October 9, 2017
Rockingham, North Carolina

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance to GAAP:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	*No*
• Significant deficiency(ies) identified?	*Yes*
Noncompliance material to financial statements noted?	*No*

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	*No*
• Significant deficiency(ies) identified?	*None Identified for Reporting*
Type of auditors' report issued on compliance for major federal programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	*No*

Identification of major federal programs:

CFDA Numbers	Names of Federal Programs or Clusters
	Special Education Cluster:
84.027	Grants to States - IDEA, part B (611)
84.027	Coordinated Early Intervening Services
84.027	Special Needs Targeted Assistance
84.173	Preschool Grants - IDEA, Part B (619)
84.367	Supporting Effective Instruction State Grant

Dollar threshold used to distinguish between Type A and Type B Programs	*$ 750,000*
Auditee qualified as low-risk auditee?	*Yes*

SCOTLAND COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017

State Awards

Internal control over major State programs:

• Material weakness(es) identified?	*No*
• Significant deficiency(ies) identified?	*None Identified for Reporting*
Type of auditors' report issued on compliance for major State programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	*No*

Identification of major State programs:

Program Name

State Public School Fund

Section II - Financial Statement Findings

Finding 17-01

SIGNIFICANT DEFICIENCY
Budget Violation

Criteria:	North Carolina General Statute 115C-441 states that all monies expended should be included in the budget resolution.
Condition:	Instructional services expenditures and system-wide support services expenditures within the Board's General Fund exceeded appropriations by $97,944 and $216,598, respectively.
Effect:	The Board was in violation of State law.
Cause:	Budget amendments were not prepared when needed due to lack of timely recording of employer insurance costs in instructional services expenditures. System-wide support services expenditures exceeded budget due to unexpected delays in funding from the County.
Recommendation:	We recommend that budget amendments be prepared as needed.

Views of responsible officials and planned corrective actions:
The Board of Education agrees with this finding and will ensure that adequate oversight exists over the budgetary process.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

Finding 17-01

Name of Contact Person:	Jay Toland, Chief Financial Officer
Corrective Action Plan:	Budgets will be reviewed on a monthly basis and any necessary budget amendments will be presented to the Board for approval in a timely manner.
Proposed Completion Date:	Immediately

There were no audit findings reported in the prior year.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Fiscal Year Ended June 30, 2017

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Federal Grants:			
U.S. Department of Agriculture			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555	PRC 035	$ 254,062
Cash Assistance:			
School Breakfast Program	10.553	PRC 035	911,840
National School Lunch Program	10.555	PRC 035	2,537,761
Seamless Summer Program	10.555	PRC 035	83,206
Cash Assistance Subtotal			3,532,807
Total Child Nutrition Cluster			3,786,869
Total School Nutrition Program (Note 3)			3,786,869
Total U.S. Department of Agriculture			3,786,869
U.S. Department of Labor			
Passed-through the Lumber River Council of Governments:			
Workforce Investment Act	17.259	PRC 303	58,656
U.S. Department of Education			
Office of Elementary and Secondary Education			
Direct Programs:			
Indian Education	84.060	PRC 310	211,573
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	2,658,579
Supporting Effective Instruction State Grant	84.367	PRC 103	337,815
Education for Homeless Children and Youth	84.196	PRC 026	5,273
Rural and Low Income Schools	84.358	PRC 109	154,479
Passed-through the University of North Carolina - Chapel Hill:			
Gear Up NC Grant	84.334	PRC 311	113,744

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Passed-through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Grants to States - IDEA, part B (611)	84.027	PRC 060	1,416,801
Coordinated Early Intervening Services	84.027	PRC 070	3,175
Special Needs Targeted Assistance	84.027	PRC 118	155,763
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	64,860
Total Special Education Cluster			1,640,599
Special Education - State Personnel Development	84.323	PRC 082	3,891
Career and Technical Education - Basic Grants to States			
Program Development	84.048	PRC 017	102,914
Total U.S. Department of Education			5,228,867
U.S. Department of Health and Human Services			
Health Resources and Services Administration:			
Passed-through the N.C. Department of Public Instruction:			
Abstinence Education	93.235	PRC 101	13,224
U.S. Department of Defense			
Direct Program:			
ROTC	None	PRC 301	42,219
Total Federal Assistance			**9,129,835**
State Grants:			
N.C. Department of Public Instruction			
Cash Assistance:			
State Public School Fund		Various	37,911,050
Vocational Education:			
State Months of Employment		PRC 013	1,912,669
Program Support Funds		PRC 014	97,332
Driver Training		PRC 012	103,391
School Technology Fund		PRC 015	178,854
Passed-through Scotland County:			
Public School Capital Fund - Lottery		PRC 076	100,000
Cash assistance subtotal			40,303,296

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Non-Cash Assistance:			
State Buses Appropriation		PRC 120	128,647
Total NC Department of Public Instruction			40,431,943
N.C. Department of Health and Human Services			
Division of Child Development:			
NC Pre-Kindergarten Program		PRC 413	1,344,611
Total State Assistance			**41,776,554**
Total Federal and State Assistance			**$ 50,906,389**

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

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Scotland 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 Scotland County Board of Education, it is not intended to and does not present the financial position, changes in net assets or cash flows of Scotland County Board of Education.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Scotland County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Cluster of Programs

The School Nutrition Program is clustered by the NC Department of Public Instruction and is treated separately for state audit requirement purposes.