

# Annual Financial Report

For the Year Ended

June 30, 2018





**Annual Financial Report**  
**of the**  
**Transylvania County Schools**  
Brevard, North Carolina  
For the Fiscal Year Ended June 30, 2018



Prepared by Business Services Department  
Norris Barger, Director of Business Services

# Transylvania County Schools

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# CARLAND & ANDERSEN, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER - AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER - NORTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Transylvania County, 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 Transylvania County Board of Education, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Transylvania County Board of Education's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of

the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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 Transylvania County Board of Education, North Carolina as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, the State Public School Fund, the Restricted Grants Fund, and the Federal Grants Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages four through eight, and the Schedules of the Proportionate Share of the Net Pension and OPEB Liabilities (Assets) and the Schedules of Board Contributions on pages fifty through fifty-two, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transylvania County Board of Education's basic financial statements. The individual fund financial statements and budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the Transylvania County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transylvania County Board of Education's internal control over financial reporting and compliance.

*Carroll & Aderson, Inc.*

Brevard, North Carolina  
December 20, 2018

### Annual Financial Report

#### Management's Discussion and Analysis

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

#### Financial and Economic Highlights

County funding is a major source of income for the Board; therefore the county's economic outlook directly affects that of the Board. The following factors have positively affected the economic outlook of Transylvania County.

The county's economic situation mirrored that of the state and country in 2018. The unemployment rate decreased to 4.0% as of June 2018, compared to the state average of 4.2%. The county continues to enjoy an influx of retirees, which has supported the tax base through rough economic times. Because of conservative financial practices, the county was able continue its financial support of the school system with relatively minor harm to instructional programs.

The Board has absorbed the negative financial impact of the slow state and local economies through budget cuts and re-direction of resources. The Board anticipates a leveling of enrollment over the next several years but will need continued funding support to implement federal and state mandates.

#### Overview of the Financial Statements

The audited financial statements of the Transylvania County Schools 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 statements for capital outlay 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, liabilities, and deferred outflows and 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 and 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.

### Annual Financial Report

The second type of statement included in the basic financial statements are the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary fund, and fiduciary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, a reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of the Board's major funds.

### Government-wide Statements

The government-wide statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Board's assets, deferred outflows 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 – the difference between the Board's assets and deferred outflows of resources, and the total of liabilities and deferred inflows of resources – is one way to measure the Board's financial health or position. Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating. To assess the Board's overall health, one must consider additional non-financial factors such as changes in the county's property tax base and the condition of its school buildings and other physical assets.

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

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

### Fund Financial Statements

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs.

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

## Annual Financial Report

Transylvania County Schools 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 – how cash and other assets can readily be converted to cash flow in and out, and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation following the governmental funds statements, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Capital Outlay Fund, the Restricted Grants Fund, the Federal Grants Fund, and the Individual Schools Fund.
- ◆ *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. Transylvania County Schools has one proprietary fund – an enterprise fund – the School Food Service Fund.
- ◆ *Fiduciary fund:* The fiduciary fund is used to account for resources held for the benefit of parties outside the government. Transylvania County Schools has one fiduciary fund that accounts for five activities. The Bjerg Scholarship, Lollis Scholarship, New Century Scholarship, and Connestee Scholarship are funds managed for the benefit of graduating Transylvania County Schools students. The Wenzlick Trust is used to enrich Career and Technical Education programs.

## Financial Analysis of the Schools as a Whole

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 3,605,729	\$ 3,223,510	\$ 404,619	\$ 475,613	\$ 4,010,348	\$ 3,699,123
Capital assets	<u>37,986,412</u>	<u>37,972,443</u>	<u>60,019</u>	<u>84,818</u>	<u>38,046,431</u>	<u>38,057,261</u>
Total assets	<u>41,592,141</u>	<u>41,195,953</u>	<u>464,638</u>	<u>560,431</u>	<u>42,056,779</u>	<u>41,756,384</u>
Deferred outflows of resources	<u>8,249,931</u>	<u>9,248,553</u>	<u>261,815</u>	<u>300,076</u>	<u>8,511,746</u>	<u>9,548,629</u>
Current liabilities	3,235,159	2,809,578	62,310	79,454	3,297,469	2,889,032
Long-term liabilities	<u>56,808,735</u>	<u>14,614,597</u>	<u>2,076,421</u>	<u>459,194</u>	<u>58,885,156</u>	<u>15,073,791</u>
Total liabilities	<u>60,043,894</u>	<u>17,424,175</u>	<u>2,138,731</u>	<u>538,648</u>	<u>62,182,625</u>	<u>17,962,823</u>
Deferred inflows of resources	<u>15,920,516</u>	<u>655,189</u>	<u>664,246</u>	<u>79,000</u>	<u>16,584,762</u>	<u>734,189</u>
Net investment in capital assets	37,818,975	37,638,372	60,019	84,818	37,878,994	37,723,190
Restricted net position	1,082,848	910,329	3,065	-	1,085,913	910,329
Unrestricted net position (deficit)	<u>(65,024,161)</u>	<u>(6,183,559)</u>	<u>(2,139,608)</u>	<u>158,041</u>	<u>(67,163,769)</u>	<u>(6,025,518)</u>
Total net position	\$ (26,122,338)	\$ 32,365,142	\$ (2,076,524)	\$ 242,859	\$ (28,198,862)	\$ 32,608,001

## Annual Financial Report

Net position is an indicator of the fiscal health of the Board. Liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by \$28,198,862 as of June 30, 2018. This change from the prior year is largely attributable to the required implementation of Governmental Accounting Standards statement number 75 resulting in a restatement, decreasing net position by \$58,439,485. The largest component of net position is net investment in capital assets of \$37,878,994.

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

<b>Table II - Condensed Statement of Revenues, Expenses, and Changes in Net Position</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,445,352	\$ 1,452,501	\$ 395,042	\$ 508,433	\$ 1,840,394	\$ 1,960,934
Operating grants and contributions	24,205,670	23,477,113	1,590,052	1,574,687	25,795,722	25,051,800
Capital grants and contributions	596,686	305,907	-	-	596,686	305,907
General revenues:						
Other revenues	<u>13,625,028</u>	<u>13,265,050</u>	<u>276,161</u>	<u>272,036</u>	<u>13,901,189</u>	<u>13,537,086</u>
Total revenues	39,872,736	38,500,571	2,261,255	2,355,156	42,133,991	40,855,727
<b>EXPENDITURES</b>						
Governmental activities:						
Instructional services	33,435,887	31,537,765	-	-	33,435,887	31,537,765
System-wide support services	7,400,476	8,149,276	-	-	7,400,476	8,149,276
Ancillary services	77,805	80,069	-	-	77,805	80,069
Non-programmed charges	1,147,898	948,707	-	-	1,147,898	948,707
Business-type activities:						
Food service	<u>-</u>	<u>-</u>	<u>2,521,928</u>	<u>2,444,039</u>	<u>2,521,928</u>	<u>2,444,039</u>
Total expenses	42,062,066	40,715,817	2,521,928	2,444,039	44,583,994	43,159,856
Transfers in (out)	<u>(97,706)</u>	<u>(96,072)</u>	<u>97,706</u>	<u>96,072</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(2,287,036)	(2,311,318)	(162,967)	7,189	(2,450,003)	(2,304,129)
Net position - beginning	32,365,142	30,870,605	242,859	235,670	32,608,001	31,106,275
Net position - restatement	<u>(56,200,444)</u>	<u>3,805,855</u>	<u>(2,156,416)</u>	<u>-</u>	<u>(58,356,860)</u>	<u>3,805,855</u>
Net position - ending	\$ (26,122,338)	\$ 32,365,142	\$ (2,076,524)	\$ 242,859	\$ (28,198,862)	\$ 32,608,001

**Annual Financial Report**

Total governmental activities generated revenues of \$39.9 million while expenses and transfers out in this category totaled \$42.1 million for the year ended June 30, 2018. Comparatively, revenues were \$38.5 million and expenses totaled \$40.8 million for the year ended June 30, 2017. After transfers to the business-type activities, net position decreased by \$2.3 million at June 30, 2018, compared to a decrease of \$2.3 million in 2017. Instructional expenses comprised 79.5% of total governmental-type expenses while support services made up 17.6% of those expenses for 2018. County funding comprised 33.6% of total governmental revenue. Most of the remaining governmental revenue for 2018 consisted of restricted state and federal money. Business-type activities generated revenue of \$2.3 million and had expenses of \$2.5 million. Net position decreased in the business-type activities by \$162,970, after transfers in from the governmental activities of \$97,706.

**Capital Assets**

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

<b>Table III - Summary of Capital Assets as of June 30, 2018</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land and improvements	\$ 12,212,646	\$ 12,212,646	\$ -	\$ -	\$ 12,212,646	\$ 12,212,646
Buildings	51,745,669	50,531,568	-	-	51,745,669	50,531,568
Furniture and equipment	572,793	625,742	678,415	678,415	1,251,208	1,304,157
Vehicles	4,233,297	4,412,762	104,130	104,130	4,337,427	4,516,892
Accumulated depreciation	(30,777,993)	(29,727,653)	(722,526)	(697,727)	(31,500,519)	(30,425,380)
<b>Total</b>	<b>\$ 37,986,412</b>	<b>\$ 38,055,065</b>	<b>\$ 60,019</b>	<b>\$ 84,818</b>	<b>\$ 38,046,431</b>	<b>\$ 38,139,883</b>

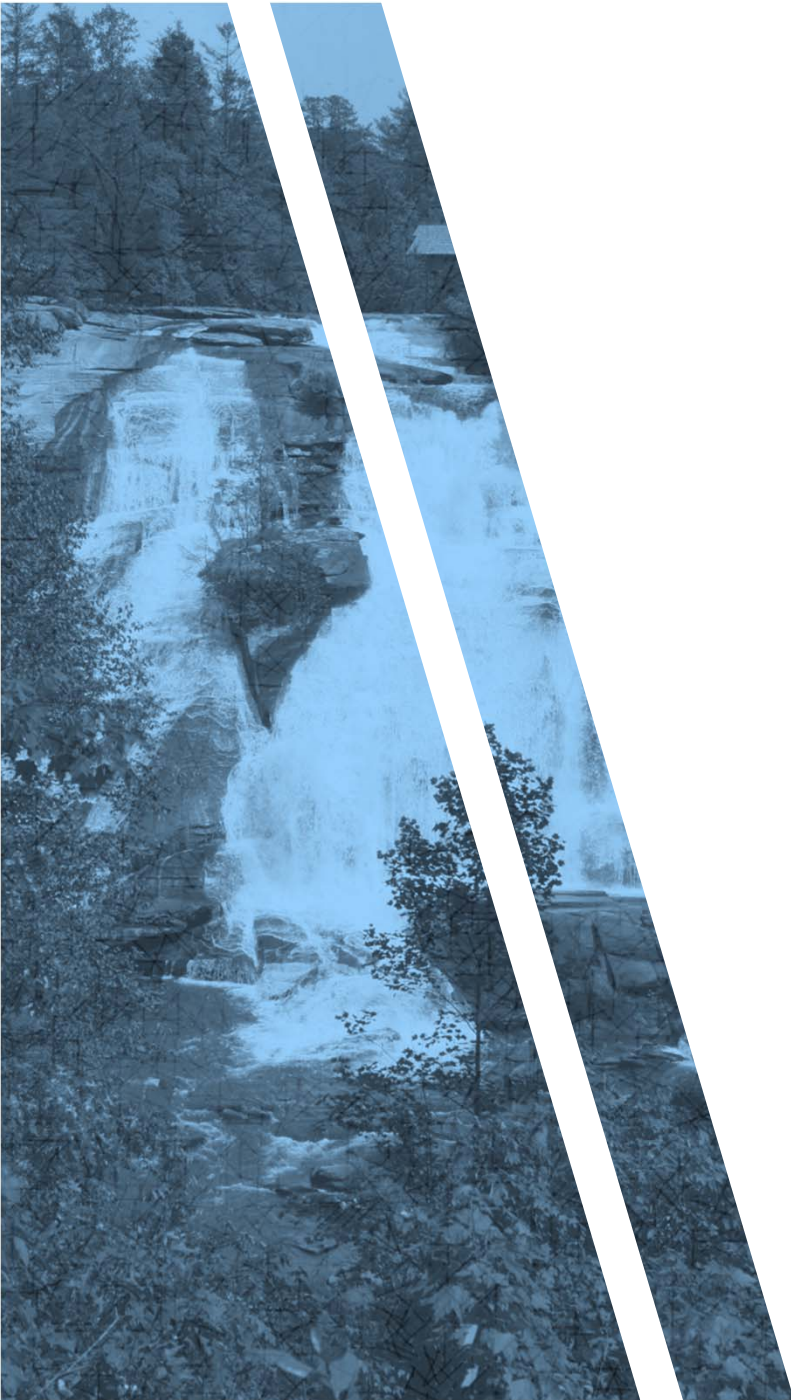
**Debt Outstanding**

During the year the Board’s outstanding debt decreased by \$166,634 reflecting payments made on installment purchases for school buses.

*Requests for Information*

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

Norris Barger, Director of Business Services  
 Transylvania County Schools  
 225 Rosenwald Lane  
 Brevard, NC 28712



# Basic Financial Statements





# Transylvania County Schools

Exhibit 1

## Statement of Net Position

As of June 30, 2018

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,288,918	\$ 204,133	\$ 2,493,051
Due from other governments	1,025,215	58,876	1,084,091
Accounts receivable (net)	211,611	10,424	222,035
Net OPEB asset	79,985	3,065	83,050
Inventories	-	128,121	128,121
Capital assets (Note 1)			
Land, improvements, and construction in progress	12,212,646		12,212,646
Other capital assets, net of depreciation	25,773,766	60,019	25,833,785
Total capital assets	37,986,412	60,019	38,046,431
Total assets	41,592,141	464,638	42,056,779
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	8,249,931	261,815	8,511,746
<b>LIABILITIES</b>			
Accounts payable	323,041	13,676	336,717
Accrued salaries and wages payable	1,155,207		1,155,207
Long-term liabilities:			
Due in less than one year	1,756,911	48,634	1,805,545
Net pension liability	11,853,573	363,083	12,216,656
Net OPEB liability	44,221,605	1,694,297	45,915,902
Due in more than one year	733,557	19,041	752,598
Total liabilities	60,043,894	2,138,731	62,182,625
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	15,920,516	664,246	16,584,762
<b>NET POSITION</b>			
Net investment in capital assets	\$ 37,818,975	60,019	37,878,994
Restricted:			
Individual schools	580,039	-	580,039
Stabilization by state statute	9,776	-	9,776
School capital outlay	413,048	-	413,048
DIPNC OPEB plan	79,985	3,065	83,050
Unrestricted	(65,024,161)	(2,139,608)	(67,163,769)
Total net position	\$ (26,122,338)	\$ (2,076,524)	\$ (28,198,862)

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

# Transylvania County Schools

Exhibit 2

## Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
Instructional programs:							
Regular instructional	\$ 20,295,146	\$ -	\$ 12,740,449	\$ -	\$ (7,554,697)	\$ -	\$ (7,554,697)
Special populations	4,391,313	-	3,750,664	-	(640,649)	-	(640,649)
Alternative programs	2,423,441	-	2,077,351	-	(346,090)	-	(346,090)
School leadership	2,722,660	-	1,358,353	-	(1,364,307)	-	(1,364,307)
Co-curricular	503,411	-	-	-	(503,411)	-	(503,411)
School-based support	3,099,916	1,388,309	1,544,305	-	(167,302)	-	(167,302)
Support services:							
Support and development	511,987	-	79,469	-	(432,518)	-	(432,518)
Special populations support and development	85,514	-	59,461	-	(26,053)	-	(26,053)
Alternative programs and services support and development	29,779	-	26,186	-	(3,593)	-	(3,593)
Technology support	183,262	-	110,271	-	(72,991)	-	(72,991)
Operational support	5,295,422	57,043	1,926,396	596,686	(2,715,297)	-	(2,715,297)
Financial and human resources	727,566	-	166,450	-	(561,116)	-	(561,116)
Accountability	2,406	-	-	-	(2,406)	-	(2,406)
Policy, leadership, and public relations	564,540	-	174,374	-	(390,166)	-	(390,166)
Ancillary services:	77,805	-	-	-	(77,805)	-	(77,805)
Community services	-	-	37,946	-	37,946	-	37,946
Non-programmed charges	1,147,898	-	153,995	-	(993,903)	-	(993,903)
Total governmental activities	\$ 42,062,066	1,445,352	24,205,670	596,686	(15,814,358)	-	(15,814,358)

(continued)

Business-type Activities:

School food service	2,521,928	395,042	1,590,052	-	-	(536,834)	(536,834)
Total business-type activities	2,521,928	395,042	1,590,052	-	-	(536,834)	(536,834)
Total primary government	\$ 44,583,994	\$ 1,840,394	\$ 25,795,722	\$ 596,686	(15,814,358)	(536,834)	(16,351,192)

General revenues:

Unrestricted county appropriations - operating	11,592,443	250,000	11,842,443
Unrestricted county appropriations - capital	1,800,000	-	1,800,000
Unrestricted state appropriation - capital	166,634	-	166,634
Investment earnings, unrestricted	2,990	203	3,193
Miscellaneous, unrestricted	62,961	25,958	88,919
Transfers	(97,706)	97,706	-
Total general revenues and transfers	13,527,322	373,867	13,901,189
Change in net position	(2,287,036)	(162,967)	(2,450,003)
Net position-beginning, previously reported	32,365,142	242,859	32,608,001
Net position - restatement	(56,200,444)	(2,156,416)	(58,356,860)
Net position-ending	\$ (26,122,338)	\$ (2,076,524)	\$ (28,198,862)

**Transylvania  
County Schools**

**Exhibit 3**

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

	Major Funds						Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Restricted Grants Fund	Federal Grants Fund	Individual Schools	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 736,423	\$ 5,595	\$ 598,738	\$ 368,123	\$ -	\$ 580,039	\$ 2,288,918
Accounts receivable	9,776	-	-	201,835	-	-	211,611
Due from other governments	-	912,540	-	-	112,675	-	1,025,215
Total assets	<u>\$ 746,199</u>	<u>\$ 918,135</u>	<u>\$ 598,738</u>	<u>\$ 569,958</u>	<u>\$ 112,675</u>	<u>\$ 580,039</u>	<u>\$ 3,525,744</u>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 137,351	\$ -	\$ 185,690	\$ -	\$ -	\$ -	\$ 323,041
Accrued salaries and benefits payable	125,508	912,540	-	10,304	106,855	-	1,155,207
Total liabilities	<u>262,859</u>	<u>912,540</u>	<u>185,690</u>	<u>10,304</u>	<u>106,855</u>	<u>-</u>	<u>1,478,248</u>
Deferred inflows of resources	-	5,595	-	-	5,820	-	11,415
Fund balances:							
Restricted:							
Stabilization by state statute	9,776	-	-	201,835	-	-	211,611
School capital outlay	-	-	188,838	-	-	-	188,838
Individual schools	-	-	-	-	-	580,039	580,039
Assigned:							
Medicaid reimbursement	-	-	-	147,066	-	-	147,066
Bike team				1,000			1,000
Supplies				6,152			6,152
Subsequent year's expenditures		-	224,210	195,941	-	-	420,151
Unassigned	473,564	-	-	7,660	-	-	481,224
Total fund balances	<u>483,340</u>	<u>-</u>	<u>413,048</u>	<u>559,654</u>	<u>-</u>	<u>580,039</u>	<u>2,036,081</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 746,199</u>	<u>\$ 918,135</u>	<u>\$ 598,738</u>	<u>\$ 569,958</u>	<u>\$ 112,675</u>	<u>\$ 580,039</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Net OPEB asset	79,985
Capital assets used in governmental activities are not financial resources and thus not reported in the funds.	37,986,412
Deferred outflows of resources related to pensions	6,112,368
Deferred outflows of resources related to OPEB	2,137,563
Long-term debt is not due and payable in the current period and therefore are not reported in the funds.	(2,490,468)
Net pension liability	(11,853,573)
Net OPEB liability	(44,221,605)
Deferred inflows of resources related to pensions	(543,431)
Deferred inflows of resources related to OPEB	(15,365,670)
Net position of governmental activities	<u>\$ (26,122,338)</u>

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

# Transylvania County Schools

Exhibit 4

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Governmental Funds

For the Fiscal Year Ended June 30, 2018

	Major Funds						Total Governmental Funds
	General	State Public School Fund	Capital Outlay	Restricted Grants Fund	Federal Grants Fund	Individual Schools	
<b>REVENUES</b>							
State of North Carolina	\$ -	\$ 21,343,220	\$ 724,412	\$ 50,039	\$ -	\$ -	\$ 22,117,671
U.S. Government	-	-	-	264,926	2,455,053	-	2,719,979
Transylvania County	11,592,443	-	1,800,000	-	-	-	13,392,443
Other	98,846	-	57,347	169,637	-	1,388,227	1,714,057
Total revenues	11,691,289	21,343,220	2,581,759	484,602	2,455,053	1,388,227	39,944,150
<b>EXPENDITURES</b>							
Current:							
Instructional services	6,808,633	18,781,434	725,340	282,296	2,320,155	1,293,845	30,211,703
System-wide support services	3,771,321	2,464,080	1,819,923	80,414	78,609	-	8,214,347
Ancillary services	7,582	-	-	59,308	-	-	66,890
Non-programmed charges	1,054,911	-	-	-	56,289	-	1,111,200
Debt service:							
Principal	-	-	166,634	-	-	-	166,634
Total expenditures	11,642,447	21,245,514	2,711,897	422,018	2,455,053	1,293,845	39,770,774
Excess of revenues over (under) expenditures	48,842	97,706	(130,138)	62,584	-	94,382	173,376
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers to other funds	-	(97,706)	-	-	-	-	(97,706)
Sale of surplus property			1,012				1,012
Total other financing sources (uses)	-	(97,706)	1,012	-	-	-	(96,694)
Net change in fund balance	48,842	-	(129,126)	62,584	-	94,382	76,682
Fund balances-beginning	434,498	-	542,174	497,070	-	485,657	1,959,399
Fund balances-ending	\$ 483,340	\$ -	\$ 413,048	\$ 559,654	\$ -	\$ 580,039	\$ 2,036,081

(continued)

# Transylvania County Schools

Exhibit 4

## Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Fiscal Year Ended June 30, 2018

Net changes in fund balances - total governmental funds \$ 76,682

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

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 capital outlays exceeded depreciation in the current period.

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 3,772

Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities 2,275,409

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,306,567

166,634

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension expense (3,146,077)

Net OPEB expense (2,393,226)

Net change in compensated absences (504,371)

Loss on disposal of assets (72,426)

Total changes in net position of governmental activities \$ (2,287,036)

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual General Fund and Annually Budgeted Major Special Revenue Funds For the Fiscal Year Ended June 30, 2018

	General Fund				State Public School Fund			
	Original Budget	Final Budget	Actual Amounts	Variance	Original Budget	Final Budget	Actual Amounts	Variance
<b>Revenues:</b>								
State of North Carolina	\$ -	\$ -	\$ -	\$ -	\$ 21,488,306	\$ 21,962,783	\$ 21,343,220	\$ (619,563)
Transylvania County	11,592,443	11,592,443	11,592,443	-	-	-	-	-
Other	110,000	110,000	98,846	(11,154)	-	-	-	-
Total revenues	11,702,443	11,702,443	11,691,289	(11,154)	21,488,306	21,962,783	21,343,220	(619,563)
<b>Expenditures:</b>								
Current:								
Instructional programs:								
Regular	3,778,962	4,103,811	4,086,964	16,847	13,350,556	12,878,546	12,493,344	385,202
Special	412,569	328,401	315,998	12,403	2,342,876	2,740,596	2,720,621	19,975
Alternative	22,232	114,787	114,000	787	497,956	780,324	745,215	35,109
School-based leadership	1,173,612	1,062,638	1,056,386	6,252	1,345,308	1,386,890	1,358,353	28,537
Co-curricular	375,588	382,250	370,480	11,770	-	-	-	-
School-based support	993,088	871,934	864,805	7,129	1,470,622	1,473,575	1,463,901	9,674
Total instructional programs	6,756,051	6,863,821	6,808,633	55,188	19,007,318	19,259,931	18,781,434	478,497
Support and development:								
Regular	300,346	334,101	331,113	2,988	83,196	83,196	79,469	3,727
Special	53,702	52,629	46,595	6,034	32,000	32,000	8,257	23,743
Technology	88,209	55,445	53,671	1,774	93,468	113,520	110,271	3,249
Operational	2,759,783	2,474,849	2,465,938	8,911	1,770,551	1,972,363	1,925,259	47,104
Financial and human resources	508,022	519,624	517,674	1,950	218,942	218,942	166,450	52,492
Accountability	9,132	3,949	2,329	1,620	-	-	-	-
Policy and leadership	329,141	365,130	354,001	11,129	184,659	184,659	174,374	10,285
Total support and development	4,048,335	3,805,727	3,771,321	34,406	2,382,816	2,604,680	2,464,080	140,600

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued)

### General Fund and Annually Budgeted Major Special Revenue Funds

For the Fiscal Year Ended June 30, 2018

Ancillary services	8,057	7,895	7,582	313	-	-	-	-
Non-programmed charges	890,000	1,057,000	1,054,911	2,089	-	-	-	-
Total expenditures	<u>11,702,443</u>	<u>11,734,443</u>	<u>11,642,447</u>	<u>91,996</u>	<u>21,390,134</u>	<u>21,864,611</u>	<u>21,245,514</u>	<u>619,097</u>
Revenues over (under) expenditures	-	(32,000)	48,842	80,842	98,172	98,172	97,706	(466)
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	(98,172)	(98,172)	(97,706)	466
Appropriated fund balance		32,000	-	(32,000)	-	-	-	-
Total other financing sources (uses)	-	32,000	-	(32,000)	(98,172)	(98,172)	(97,706)	466
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>48,842</u>	<u>\$ 48,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			434,498				-	
Fund balances, end of year			<u>\$ 483,340</u>				<u>\$ -</u>	

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



# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual General Fund and Annually Budgeted Major Special Revenue Funds For the Fiscal Year Ended June 30, 2018

	Restricted Grants Fund				Federal Grants Fund			
	Original Budget	Final Budget	Actual Amounts	Variance	Original Budget	Final Budget	Actual Amounts	Variance
<b>Revenues:</b>								
State of North Carolina	\$ 84,000	\$ 126,850	\$ 50,039	\$ (76,811)	\$ -	\$ -	\$ -	\$ -
Federal government	155,000	155,000	264,926	109,926	2,461,599	2,541,793	2,455,053	(86,740)
Other	169,901	267,717	169,637	(98,080)	-	-	-	-
Total revenues	408,901	549,567	484,602	(64,965)	2,461,599	2,541,793	2,455,053	(86,740)
<b>Expenditures:</b>								
Current:								
Instructional programs:								
Regular	69,850	69,850	33,007	36,843	199,062	200,390	181,498	18,892
Special	159,000	195,666	191,543	4,123	734,730	767,588	765,117	2,471
Alternative	41,000	39,000	39,000	-	1,347,337	1,306,226	1,293,136	13,090
Co-curricular	600	600	-	600	-	-	-	-
School-based support	160,700	209,700	18,746	190,954	13,331	82,835	80,404	2,431
Total instructional programs	431,150	514,816	282,296	232,520	2,294,460	2,357,039	2,320,155	36,884
Support and development:								
Special	24,000	24,000	23,165	835	60,148	55,748	51,204	4,544
Alternative	-	-	-	-	28,250	28,250	26,186	2,064
Technology	15,000	15,000	-	15,000	-	-	-	-
Operational	6,000	63,000	57,249	5,751	2,153	3,014	1,219	1,795
Total support and development	45,000	102,000	80,414	21,586	90,551	87,012	78,609	8,403

# Transylvania County Schools

Exhibit 5

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (continued)

### General Fund and Annually Budgeted Major Special Revenue Funds

For the Fiscal Year Ended June 30, 2018

Ancillary services	82,451	82,451	59,308	23,143	-	-	-	-
Non-programmed charges	-	-	-	-	76,588	97,742	56,289	41,453
Total expenditures	<u>558,601</u>	<u>699,267</u>	<u>422,018</u>	<u>277,249</u>	<u>2,461,599</u>	<u>2,541,793</u>	<u>2,455,053</u>	<u>86,740</u>
Revenues over (under) expenditures	<u>(149,700)</u>	<u>(149,700)</u>	<u>62,584</u>	<u>212,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):								
Transfers to other funds	-	-	-	-	-	-	-	-
Appropriated fund balance	<u>149,700</u>	<u>149,700</u>	-	<u>(149,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>149,700</u>	<u>149,700</u>	-	<u>(149,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>62,584</u>	<u>\$ 62,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>497,070</u>				<u>-</u>	
Fund balances, end of year			<u>\$ 559,654</u>				<u>\$ -</u>	

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

# Transylvania County Schools

Exhibit 6

## Statement of Net Position

### Proprietary Fund

As of June 30, 2018

	<u>Major Fund</u> <u>School Food</u> <u>Service</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 204,133
Due from other governments	58,876
Receivables (net)	10,424
OPEB asset	3,065
Inventories	128,121
Total current assets	<u>404,619</u>
Noncurrent assets:	
Capital assets, net of depreciation	60,019
Total assets	<u>464,638</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>261,815</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	13,676
Total current liabilities	<u>13,676</u>
Noncurrent liabilities:	
Net pension liability	363,083
Net OPEB liability	1,694,297
Compensated absences	67,675
Total liabilities	<u>2,138,731</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>664,246</u>
<b>NET POSITION</b>	
Net investment in capital assets	60,019
DIPNC OPEB plan	3,065
Unrestricted	<u>(2,139,608)</u>
Total net position	<u>\$ (2,076,524)</u>

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

# Transylvania County Schools

Exhibit 7

## Statement of Revenues, Expenses, and Changes in Fund Net Position

### Proprietary Fund

For the Fiscal Year Ended June 30, 2018

	<u>Major Fund</u> <u>School Food</u> <u>Service</u>
<b>OPERATING REVENUES</b>	
Food sales	\$ 395,042
Other	25,958
Total operating revenues	<u>421,000</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	1,339,321
Contracted services	30,579
Materials and supplies	128,868
Food cost:	
Purchase of food	712,313
Donated commodities	136,680
Indirect costs	149,368
Depreciation	24,799
Total operating expenses	<u>2,521,928</u>
Operating income (loss)	<u>(2,100,928)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Federal reimbursements	1,296,937
Federal commodities	136,680
State reimbursements	7,067
County appropriation	250,000
Interest earned	203
Indirect costs not paid	149,368
Total nonoperating revenue (expenses)	<u>1,840,255</u>
Income (loss) before contributions and transfers	(260,673)
Transfers from other funds	97,706
Change in net position	<u>(162,967)</u>
Total net position - beginning	242,859
Net position - restated	(2,156,416)
Total net position - ending	<u>\$ (2,076,524)</u>

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

# Transylvania County Schools

Exhibit 8

## Statement of Cash Flows

### Proprietary Fund

For the Fiscal Year Ended June 30, 2018

	<u>Major Fund</u> <u>School Food</u> <u>Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 433,775
Cash paid for goods and services	(883,999)
Cash paid to employees for services	<u>(1,158,156)</u>
Net cash provided (used) by operating activities	<u>(1,608,380)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal, state, and local grants and reimbursements	<u>1,554,004</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>203</u>
Net increase (decrease) in cash and cash equivalents	(54,173)
Balance - beginning	258,306
Balance - ending	<u>\$ 204,133</u>

(continued)

# Transylvania County Schools

Exhibit 8

## Statement of Cash Flows

### Proprietary Fund

For the Fiscal Year Ended June 30, 2018

#### Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$ (2,100,928)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	24,799
Donated commodities consumed	136,680
Salaries paid by special revenue fund	97,706
Indirect costs not paid	149,368
Changes in assets and liabilities:	
Decrease in due from other governments	12,809
(Increase) in accounts receivable	(572)
Decrease in net OPEB asset	3,138
Decrease in inventory	7,650
(Decrease) in net pension liability	(82,789)
(Decrease) in net OPEB liability	(468,323)
Decrease in deferred outflows	38,261
Increase in deferred inflows	585,246
(Decrease) in accounts payable and accrued liabilities	(19,889)
Increase in long-term liabilities	8,464
Total adjustments	\$ 492,548
Net cash provided by operating activities	\$ (1,608,380)

#### Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$97,706 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected by a transfer in and an operating expense on Exhibit 7.

Indirect costs of \$149,368 that would be due to the General Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 7.

The School Food Service Fund received donated commodities with a value of \$136,680 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$136,680 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 7.

# Transylvania County Schools

Exhibit 9

## Statement of Fiduciary Net Position

As of June 30, 2018

<b>Assets</b>	<b>Private-Purpose Trust Fund</b>
Cash and cash equivalents	\$ 343,700
Total Assets	<u>343,700</u>
 <b>Net Position</b>	 <u><u>\$ 343,700</u></u>

## Statement of Change in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2018

	<b>Private-Purpose Trust Fund</b>
Additions:	
Contributions and other revenue	\$ 34,066
Deductions:	
Scholarships	<u>(32,525)</u>
Change in net position	1,541
Beginning net position	<u>342,159</u>
Ending net position	<u><u>\$ 343,700</u></u>

## Annual Financial Report

## Summary of Significant Accounting Policies

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

### A. Reporting Entity

The Transylvania County Schools (Board) is a Local Education Agency empowered by State law [Chapter 115C of the NC General Statutes] with the responsibility to oversee and control all activities related to public school education in Transylvania County, NC. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

### B. Basis of Presentation

**Government-wide Statements:** The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

**Fund Financial Statements:** The fund financial statements provide information about the Board's funds, including its fiduciary funds. 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. The fiduciary funds are presented separately.

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



### Annual Financial Report

Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The Board reports the following major governmental funds:

- ◆ *General Fund.* The General Fund is the local current expense fund mandated by state law. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.
- ◆ *State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.
- ◆ *Capital Outlay Fund.* The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by Transylvania County appropriations, restricted sales tax moneys, proceeds of Transylvania County bonds issued for public school construction, and lottery proceeds, as well as certain State assistance.
- ◆ *Restricted Grants Fund.* The Restricted Grants Fund accounts for all revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax revenues distributed using the ad valorem method pursuant to G.S. 105-472(b)(2), sales tax refunds, gifts and grants restricted as to use, trust funds, federal grants restricted as to use, federal appropriations made directly to local school administrative units, funds received for prekindergarten programs, and special programs.
- ◆ *Federal Grants Fund.* The Federal Grants Fund includes appropriations from the federal Department of Education for the current operating expenditures of the public school system.
- ◆ *Individual Schools Fund.* The Individual Schools Fund includes revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds held on the behalf of various clubs and organizations, receipts from athletic events, and proceeds from various fund raising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs.

The Board reports no nonmajor governmental funds:

The Board reports the following major enterprise fund:

- ◆ *School Food Service.* The School Food Service Fund is used to account for the food service program within the school system and is reported as an enterprise fund.

The Board reports the following fiduciary fund:

- ◆ *Private-purpose Trust Fund* – The Connestee, Lollis, New Century Scholars, and Bjerg scholarships provide college tuition funds for the benefit of graduating students in the district. The Wenzlick Fund is used to account for endowment money under the control of the board for the enrichment of vocational education students in the district.

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**Annual Financial Report****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 are both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

**D. Budgetary Data**

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue fund, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

##### Deposits and Investments:

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

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

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

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

##### 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 with original maturities of three months or less are considered cash and cash equivalents.

##### 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.

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#### Capital Assets:

Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items 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.

The Board capitalizes all expenditures for equipment costing \$5,000 or more with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Transylvania County holds title to certain properties, which are not 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	40
Equipment and furniture	12
Vehicles	7
Computer equipment	5

#### Deferred outflows and inflows of resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has several items that meet this criterion – pension related deferrals and contributions made to the plans subsequent to the measurement date. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has several items that meet this criterion - unearned grant revenues in the Special Revenue Funds,

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prepaid items in the Enterprise Fund, and pension and OPEB related deferrals.

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.

Compensated Absences:

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2018 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate of the current portion of compensated absences based on prior years' records have been made.

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.

Net position/Fund Balances:

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

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

The governmental fund types classify fund balances as follows:

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

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

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

- ◆ Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 115C-425(a)].
- ◆ Restricted for School Capital Outlay- portion of fund balance that can only be used for School Capital Outlay. [G.S. 159-18 through 22]
- ◆ Restricted for Individual Schools – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

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

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

- ◆ Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified as restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

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

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Defined Benefit Pension Plan and OPEB Plans:

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

## **Detail Notes on All Funds**

### **A. Assets**

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.

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At June 30, 2018, the Board had deposits with financial institutions with a carrying amount of \$2,427,369 and with the State Treasurer of \$5,595. The bank balances with the financial institutions and the State Treasurer were \$2,666,544 and \$329,298, respectively. Of these balances, \$500,000 was covered by federal depository insurance and \$2,495,842 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. At June 30, 2018 the Board had \$255 cash on hand.

Investments:

At June 30, 2018, the Board of Education had \$403,532 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.4 years at June 30, 2018. The Board has no policy for managing interest rate risk or credit risk.

Capital Assets:

Table I is a summary of changes in the Board's governmental capital assets.

<b>Table I - Changes in Governmental Capital Assets</b>				
	<u>7/1/2017</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2018</u> <u>Balance</u>
Land and improvements	\$ 12,212,646	\$ -	\$ -	\$ 12,212,646
Buildings	50,531,569	1,214,100	-	51,745,669
Furniture and equipment	625,742	-	(52,949)	572,793
Vehicles	4,412,762	89,198	(268,663)	4,233,297
Accumulated depreciation	(29,727,653)	(1,299,526)	249,186	(30,777,993)
TOTAL	\$ 38,055,066	\$ 3,772	\$ (72,426)	\$ 37,986,412



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Table II is a summary of changes in the Board’s Proprietary Fund capital assets.

<b>Table II - Changes in Proprietary Capital Assets</b>				
	7/1/2017 Balance	Additions	Retirements	6/30/2018 Balance
Furniture and equipment	\$ 678,415	\$ -	\$ -	\$ 678,415
Vehicles	104,130	-	-	104,130
Accumulated depreciation	(697,727)	(24,799)	-	(722,526)
TOTAL	\$ 84,818	\$ (24,799)	\$ -	\$ 60,019

Financing Commitments:

Recent legislation permits the State Board of Education to finance the purchase of replacement school buses through installment purchases. The Board has entered into an agreement to purchase 7 buses in this manner. The term of the financing cannot exceed three years and the Board must purchase the buses from vendors approved by the Department of Public Instruction. The Department of Public Instruction will make the payments to the lender on behalf of the Board out of funds allocated. Because future resources will be used to fund the payments under the installment agreement, no encumbrance of fund balance at June 30, 2018, has been recorded.

**B. Liabilities**

Pension Plan and Other Postemployment Obligations:

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

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plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives; and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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 an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2018, was 10.78% 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 \$2,362,589 for the year ended June 30, 2018.

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

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

At June 30, 2018, the Board reported a liability of \$12,216,656 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board’s proportion of the net pension liability was based on a projection of the Board’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the Board’s proportion was 0.15397% and 0.15733% respectively.

For the year ended June 30, 2018, the Board recognized pension expense of \$3,266,614. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 264,835	\$ 399,671
Changes of assumptions	1,930,048	
Net difference between projected and actual earnings on pension plan investments	1,653,328	
Changes in proportion and differences between Board contributions and proportionate share of contributions	81,485	197,726
Board contributions subsequent to the measurement date	2,362,589	
TOTAL	\$ 6,292,285	\$ 597,397

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\$2,362,589 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	
2019	\$ 647,650
2020	2,289,897
2021	1,056,435
2022	(661,683)
<b>TOTAL</b>	<b>\$ 3,332,299</b>

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

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed

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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, 2017 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	100.0%	

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

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

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

	<b>1% Decrease (6.20%)</b>	<b>Discount Rate (7.20%)</b>	<b>1% Increase (8.20%)</b>
Board's proportionate share of the net pension liability (asset)	\$ 25,146,941	\$ 12,216,656	\$ 1,382,731

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

Other Postemployment Benefits:

Healthcare Benefits

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

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

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

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

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

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

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

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*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 6.05% of covered payroll which amounted to \$1,325,943.

At June 30, 2018, Board reported a liability of \$45,915,902 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2017, the Board's proportion was 0.14004%.

\$1,325,943 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended June 30:</b>	
2019	\$ (3,027,351)
2020	(3,027,351)
2021	(3,027,351)
2022	(3,027,351)
2023	(3,023,085)
<b>TOTAL</b>	<b>\$ (15,132,489)</b>



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

Inflation	2.75 percent
Salary increases	3.5 to 8.10 percent, including 3.5 percent inflation and productivity factor
Investment rate of return	7.20 percent, net of OPEB investment expense, including inflation
Healthcare cost trend rate - medical	5.0 to 6.5 percent
Healthcare cost trend rate – prescription drug	5.0 to 7.25 percent
Healthcare cost trend rate –Medicare advantage	4.0 to 5.0 percent
Healthcare cost trend rate –administrative	3.0 percent

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

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

	<b>1% Decrease (2.58%)</b>	<b>Discount Rate (3.58%)</b>	<b>1% Increase (4.58%)</b>
Net OPEB liability	\$ 54,775,034	\$ 45,915,902	\$ 38,889,353

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

	<b>1% Decrease</b>	<b>Current Trend Rates (6.5% Medical 7.25% Prescription, 3.0%Administrative)</b>	<b>1% Increase</b>
Net OPEB liability	\$ 37,509,063	\$ 45,915,902	\$ 57,089,665

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

Disability Benefits

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

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

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

*Benefits Provided.* Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly

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**Annual Financial Report**

payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing 5 years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of service at any age.

*Contributions.* Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$30,683 for the year ended June 30, 2018.

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

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

At June 30, 2018, Board reported an asset of \$83,050 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB asset was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2017, the Board's proportion was 0.13588%.

**Annual Financial Report**

\$30,683 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended June 30:</b>	
2019	\$ 12,131
2020	12,131
2021	12,127
2022	4,549
<b>TOTAL</b>	<b>\$ 40,938</b>

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

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	3.75 percent, net of OPEB plan investment expense, including inflation

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

	<b>1% Decrease (2.75%)</b>	<b>Discount Rate (3.75%)</b>	<b>1% Increase (4.75%)</b>
Net OPEB asset	\$ 70,605	\$ 83,050	\$ 95,524

### Annual Financial Report

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

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Opportunistic Fixed Income	7.0%	6.0%
Inflation Sensitive	6.0%	4.0%
Total	100.0%	

### Annual Financial Report

#### **Total OPEB Expense, OPEB Liabilities (Assets), and Deferred Outflows and Inflows of Resources of Related to OPEB**

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

	RHBF	DIPNC	Total
OPEB Expense	\$ 2,440,807	\$ 44,111	\$ 2,484,918
OPEB Liability (Asset)	45,915,902	(83,050)	45,832,852
Proportionate share of the net OPEB liability (asset)	0.14004%	0.13588%	
<b>Deferred Outflow of Resources</b>			
Differences between expected and actual experience	-	22,771	22,771
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on plan investments	-	18,204	18,204
Changes in proportion and differences between Board contributions and proportionate share of contributions	821,860	-	821,860
Board contributions subsequent to the measurement date	1,325,943	30,683	1,356,626
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	3,292,255	-	3,292,255
Changes of assumptions	12,645,030	-	12,645,030
Net difference between projected and actual earnings on plan investments	17,064	-	17,064
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	37	37

### Annual Financial Report

Deferred Outflows and Inflows of Resources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ 903,345	\$ 197,760
Changes of assumptions	1,930,048	12,645,030
Difference between projected and actual earnings on plan investments	1,671,532	17,067
Difference between expected and actual experience	287,606	3,691,926
Contributions subsequent to the measurement date	3,719,215	
Grants not yet earned (Governmental Activities)		11,415
Revenues not yet earned (Business-type Activities)		21,564
<b>TOTAL</b>	<b>\$ 8,511,746</b>	<b>\$ 16,584,762</b>

### Risk Management:

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

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The Board 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 at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000. The Board has not obtained separate flood insurance coverage due to the limited likelihood of Board property sustaining flood damage. The Board has determined that other property coverage is adequate. 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.

**C. Financing Commitments**

Long-Term Obligations:

Table III is a summary of changes in the Board's outstanding debt for the year ended June 30, 2018.

<b>Table III - Changes in Long-term Debt</b>					
Governmental Activities:	<u>7/1/2017 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2018 Balance</u>	<u>Current Portion</u>
Installment purchase	\$ 334,071	\$ -	\$ (166,634)	\$ 167,437	\$ 167,437
Net pension liability	14,014,377		(2,160,804)	11,853,573	
Net OPEB liability	57,639,514		(13,417,909)	44,221,605	
Compensated absences	1,818,660	1,724,489	(1,220,118)	2,323,031	1,589,474
Total	\$ 73,806,622	\$ 1,724,489	\$ (16,965,465)	\$ 58,565,646	\$ 1,756,911
<b>Business-type Activities:</b>					
Net pension liability	\$ 445,872		\$ (82,789)	\$ 363,083	
Net OPEB liability	2,208,388		(514,091)	1,694,297	
Compensated absences	59,211	\$ 35,874	(27,410)	67,675	\$ 48,634
Total	\$ 2,713,471	\$ 35,874	\$ (624,290)	\$ 2,125,055	\$ 48,634



## Annual Financial Report

Interfund Balances and Activity:

Transfers of \$97,709 were made from the State Public School Fund to the Child Nutrition Fund for administrative costs as of June 30, 2018.

## Significant Contingencies

### A. Federal and State Assisted Programs

The Board receives 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 refund of grant monies.

### B. Restatement / Change in Accounting Principles

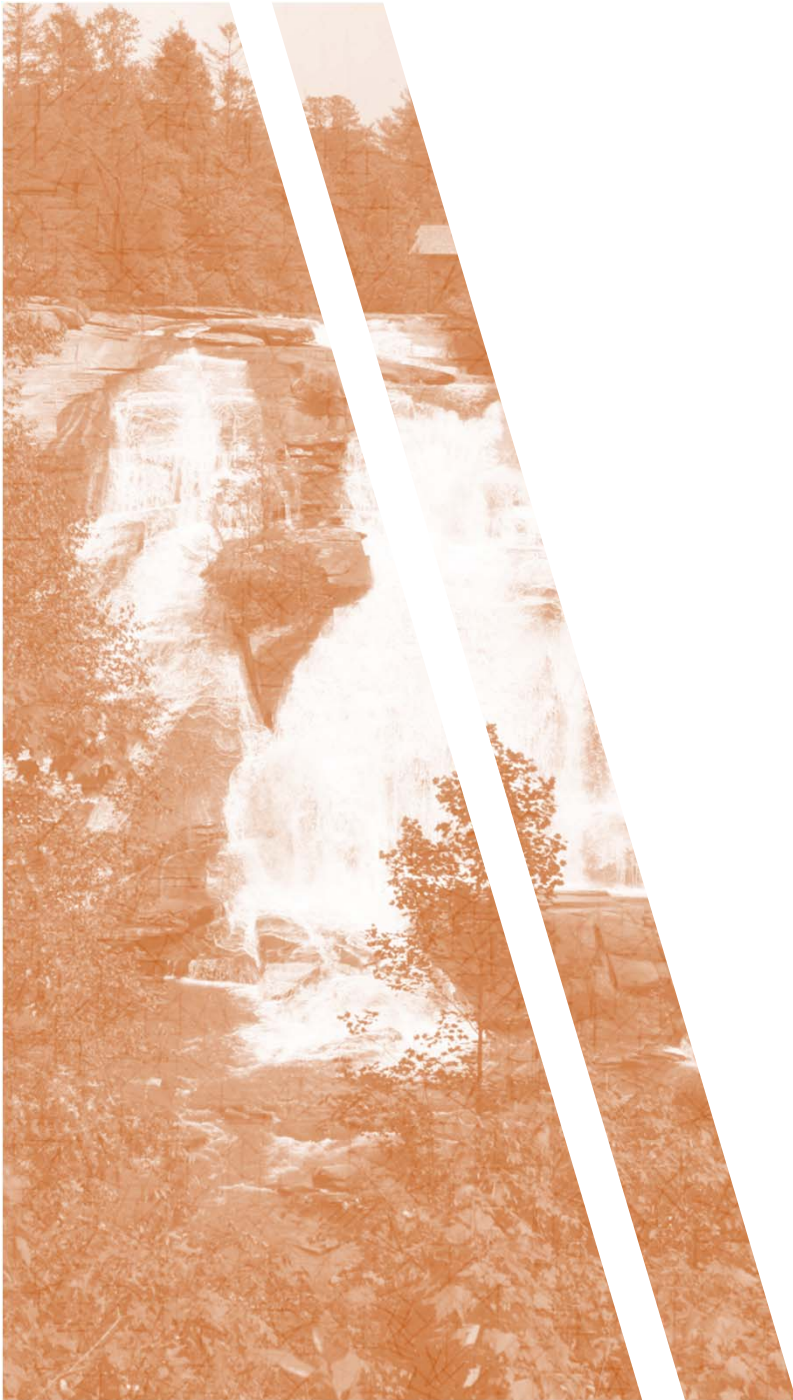
The Board implemented Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liability and net OPEB asset and the effects on the net position from contributions made by the Board during the measurement period (fiscal year ended June 30, 2017). As a result, net position for the governmental and business-type activities decreased by \$56,283,067 and \$2,156,416, respectively.

In addition, during the fiscal year management determined that a capital asset item acquired in a prior reporting period had not been properly recorded. As a result, beginning net position for governmental activities increased by \$82,623.

### C. Subsequent Events

Subsequent events have been evaluated through December 20, 2018, which is the date the financial statements were available to be issued.





# Individual Statements and Schedules



# Transylvania County Schools

## Required Supplementary Information Schedule of the Proportionate Share of the Net Pension Liability Teachers' and State Employees' Retirement System Last Five Fiscal Years

	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.15397%	0.15733%	0.15524%	0.15125%	0.15230%
Board's proportionate share of the net pension liability (asset)	\$ 12,216,656	\$ 14,460,249	\$ 5,720,900	\$ 1,773,286	\$ 9,246,162
Board's covered payroll	\$ 21,342,353	\$ 21,136,984	\$ 21,213,316	\$ 20,330,813	\$ 19,974,710
Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	57.24%	68.41%	26.97%	8.72%	46.29%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

## Schedule of Board Contributions Teachers' and State Employees' Retirement System Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 2,362,589	\$ 2,129,967	\$ 1,934,034	\$ 1,941,018	\$ 1,773,286
Contributions in relation to the contractually required contribution	2,362,589	2,129,967	1,934,034	1,941,018	1,773,286
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$ 21,916,412	\$ 21,342,353	\$ 21,136,984	\$ 21,213,316	\$ 20,330,813
Contributions as a percentage of covered payroll	10.78%	9.98%	9.15%	9.15%	8.72%

# Transylvania County Schools

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## Required Supplementary Information Schedule of the Proportionate Share of the Net OPEB Liability Retiree Health Benefit Fund Last Two Fiscal Years

	2018	2017
Board's proportion of the net pension liability (asset)	0.14004%	0.13757%
Board's proportionate share of the net OPEB liability (asset)	\$ 45,915,902	\$ 59,847,902
Board's covered payroll	\$ 21,342,353	\$ 21,136,984
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	215.14%	283.14%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

## Schedule of Board Contributions Retiree Health Benefit Fund Last Two Fiscal Years

	2018	2017
Contractually required contribution	\$ 1,325,943	\$ 1,239,991
Contributions in relation to the contractually required contribution	1,325,943	1,239,991
Contribution deficiency (excess)	\$ -	\$ -
Board's covered payroll	\$ 21,916,412	\$ 21,342,353
Contributions as a percentage of covered payroll	6.05%	5.81%

# Transylvania County Schools

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## Required Supplementary Information Schedule of the Proportionate Share of the Net OPEB Asset Disability Income Plan of North Carolina Last Two Fiscal Years

	2018	2017
Board's proportion of the net OPEB asset	0.13588%	0.14008%
Board's proportionate share of the net OPEB asset	\$ 83,050	\$ 86,990
Board's covered payroll	\$ 21,342,353	\$ 21,136,984
Board's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.39%	0.41%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%	116.06%

## Schedule of Board Contributions Disability Income Plan of North Carolina Last Two Fiscal Years

	2018	2017
Contractually required contribution	\$ 30,683	\$ 81,101
Contributions in relation to the contractually required contribution	30,683	81,101
Contribution deficiency (excess)	\$ -	\$ -
Board's covered payroll	\$ 21,916,412	\$ 21,342,353
Contributions as a percentage of covered payroll	0.14%	0.38%

# Transylvania County Schools

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Capital Outlay Fund

For the Fiscal Year Ended June 30, 2018

	2018		
	Budget	Actual	Variance
Revenues:			
State of North Carolina:			
Lottery proceeds	\$ 428,183	\$ 539,876	\$ 111,693
Sales taxes and grants	9,000	17,902	8,902
State appropriations-buses	166,634	166,634	-
Total State of North Carolina	603,817	724,412	120,595
Transylvania County:			
County appropriations	1,800,000	1,800,000	-
Total Transylvania County	1,800,000	1,800,000	-
Other:			
Donations	500	56,783	56,283
Miscellaneous	100	564	464
Total Other	600	57,347	56,747
Total Revenues	2,404,417	2,581,759	177,342
Expenditures:			
Instructional programs:			
Regular	236,694	234,943	1,751
Co-curricular	129,895	90,476	39,419
School-based support	405,101	399,921	5,180
Total instructional programs	771,690	725,340	46,350
Support services:			
Operational	1,937,012	1,817,512	119,500
Policy and leadership	3,000	2,411	589
Total support services	1,940,012	1,819,923	120,089
Debt Service:			
Principal	166,634	166,634	-

(continued)



# Transylvania County Schools

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Capital Outlay Fund

For the Fiscal Year Ended June 30, 2018

Total expenditures	2,878,336	2,711,897	166,439
Excess of revenues over expenditures	<u>(473,919)</u>	<u>(130,138)</u>	<u>343,781</u>
Other financing sources (uses):			
Sale of surplus property	-	1,012	1,012
Installment purchase obligations issued	-	-	-
Fund balance appropriated	<u>473,919</u>	<u>-</u>	<u>(473,919)</u>
Total other financing sources	<u>473,919</u>	<u>1,012</u>	<u>(472,907)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>(129,126)</u>	<u>\$ (129,126)</u>
Fund balance - beginning		<u>542,174</u>	
Fund balance - ending		<u>\$ 413,048</u>	

# Transylvania County Schools

## Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

### School Food Service Fund

For the Fiscal Year Ended June 30, 2018

	2018		
	Budget	Actual	Variance
Operating revenues, food sales		\$ 395,042	
Other		25,958	
Total operating revenues	\$ 577,191	421,000	\$ (156,191)
Operating expenditures:			
Salaries and benefits		1,258,892	
Contracted services		30,579	
Materials and supplies		128,868	
Purchase of food		704,663	
Donated commodities		136,680	
Indirect costs		149,368	
Total operating expenditures	2,475,621	2,409,050	66,571
Nonoperating revenues (expenditures):			
Federal reimbursements		1,296,937	
Federal commodities		136,680	
State reimbursements		7,067	
County appropriation		250,000	
Interest earned		203	
Total nonoperating revenues (expenditures)	1,898,430	1,690,887	(207,543)
Excess of revenues over (under) expenditures before other financing sources	-	(297,163)	(297,163)
Other financing sources (uses):			
Transfers from other funds	-	97,706	97,706
Excess of revenues and other sources over (under) expenditures	\$ -	\$ (199,457)	\$ (199,457)

# Transylvania County Schools

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## Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

### School Food Service Fund

For the Fiscal Year Ended June 30, 2018

Reconciliation of modified accrual to full accrual basis:

Excess of revenues and other sources over (under) expenditures	\$ (199,457)
Reconciling items:	
Depreciation	(24,799)
Net OPEB asset	(495)
Net pension liability	82,789
Net OPEB liability	(41,139)
Deferred outflows	(120,159)
Deferred inflows	4,012
Indirect cost not paid	149,368
(Increase) in compensated absences	(5,437)
(Decrease) in inventory	<u>(7,650)</u>
Change in net position (full accrual)	<u>\$ (162,967)</u>